



STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
201 MERCHANT STREET, SUITE 1700
HONOLULU, HAWAII 96813
Oahu (808) 586-7390
Toll Free 1(800) 295-0089
www.eutf.hawaii.gov

BOARD OF TRUSTEES
RODERICK BECKER, *CHAIRPERSON*
DAMIEN ELEFANTE, *VICE-CHAIRPERSON*
CHRISTIAN FERN, *SECRETARY-TREASURER*
JACQUELINE FERGUSON-MIYAMOTO
AUDREY HIDANO
LAUREL JOHNSTON
CELESTE Y.K. NIP
OSA TUI
RYKER WADA
JAMES WATARU

ADMINISTRATOR
DEREK M. MIZUNO

ASSISTANT ADMINISTRATOR
DONNA A. TONAKI

TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON LABOR, CULTURE, AND THE ARTS
ON SENATE BILL NO. 1087

February 10, 2021
3:00 p.m.
Room 225
(Via Videoconference)

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Chair Taniguchi, Vice Chair Ihara, and Members of the Committee:

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not taken a position on this bill. The Board's next meeting is on February 16, 2021. EUTF staff would like to provide estimates of the impact.

The bill suspends prefunding of retiree health benefits (Act 268, Session Laws of Hawaii 2013) under Hawaii Revised Statutes 87A for fiscal years ending June 30, 2022, 2023, 2024 and 2025 reducing the State (\$1.4 billion) and counties annual payment requirements for these four years. Fiscal year 2021 prefunding contributions were suspended by the Governor's 10th emergency proclamation (State portion \$408 million). For these five years, the State and counties are still required to pay for actual retiree health benefit premiums. The downside to the suspension is an increase in future payments (State net increase in payments of \$4.1 billion for fiscal years 2026 – 2055).

Passage of this bill is not expected to change the actuary's use of the 7% investment expected rate of return for purposes of valuing the long-term liability.

Act 268 was enacted to begin the process of prefunding retiree health care liabilities, similar to state and county pensions, instead of continuing to pay only retiree premiums. Prefunding today would result in investment earnings being used in the future to pay for retiree premiums. Act 268 required that State and counties contribute an annual required contribution (ARC) comprised of the cost of the benefit for the current employees' year of service (normal cost) and a payment to amortize the unfunded liability over a period of 30-years.

The Legislature should also be aware that the results of the State's actuarial valuation for July 1, 2020 was an actuarial gain of \$733 million resulting in lower projected future ARC amounts of \$3.4 billion for years through 2055 as compared to the July 1, 2019 actuarial valuation. Additionally, HB468, if passed, is projected to reduce future ARC amounts (\$1.2 billion for fiscal years through 2055). HB468 would eliminate State and county reimbursements of Medicare Part B premiums for spouses of retirees hired on or after July 1, 2021.

Thank you for the opportunity to testify.

Attachment

State of Hawaii - Projected Employer Contributions (in thousands)

Fiscal Year	7/1/19 Valuation ARC	7/1/20 Valuation ARC	7/1/20 Difference from 2019 Valuation	7/1/20		Est. Decrease in Spousal Med Part B Reimb Eliminated
				Valuation ARC with 5-year Act 268 Suspension	Difference from 2020 Valuation	
2021	842,456	842,456	-	434,226	(408,230)	-
2022	877,193	877,193	-	464,088	(413,105)	-
2023	907,124	839,445	(67,679)	504,377	(335,068)	-
2024	940,028	867,037	(72,991)	544,518	(322,519)	-
2025	974,488	897,449	(77,039)	586,587	(310,862)	-
2026	1,010,507	930,262	(80,245)	1,006,558	76,296	6,453
2027	1,048,136	964,554	(83,582)	1,065,641	101,087	8,271
2028	1,087,484	1,000,417	(87,067)	1,128,149	127,732	9,869
2029	1,128,586	1,037,887	(90,699)	1,170,089	132,202	11,531
2030	1,171,364	1,077,030	(94,334)	1,213,859	136,829	13,258
2031	1,216,014	1,117,755	(98,259)	1,259,373	141,618	15,071
2032	1,262,629	1,160,273	(102,356)	1,306,848	146,575	16,934
2033	1,311,343	1,204,706	(106,637)	1,356,411	151,705	18,840
2034	1,362,199	1,251,076	(111,123)	1,408,091	157,015	20,808
2035	1,415,269	1,299,449	(115,820)	1,461,960	162,511	22,842
2036	1,470,659	1,349,922	(120,737)	1,518,120	168,198	24,952
2037	1,528,431	1,402,537	(125,894)	1,576,622	174,085	27,141
2038	1,588,665	1,457,375	(131,290)	1,637,553	180,178	29,406
2039	1,651,434	1,514,489	(136,945)	1,700,973	186,484	31,759
2040	1,716,817	1,573,942	(142,875)	1,766,953	193,011	34,202
2041	1,784,874	1,635,793	(149,081)	1,835,560	199,767	36,741
2042	1,855,719	1,700,128	(155,591)	1,906,887	206,759	39,377
2043	1,929,408	1,766,997	(162,411)	1,980,992	213,995	42,105
2044	2,005,989	1,836,457	(169,532)	2,057,942	221,485	44,925
2045	742,842	682,225	(60,617)	911,462	229,237	47,847
2046	778,535	714,201	(64,334)	951,461	237,260	50,873
2047	815,868	747,566	(68,302)	993,130	245,564	54,001
2048	854,933	782,420	(72,513)	1,036,579	254,159	57,232
2049	892,461	815,496	(76,965)	1,078,550	263,054	60,569
2050	935,021	853,451	(81,570)	1,125,713	272,262	64,029
2051	979,712	897,192	(82,520)	1,174,860	277,668	67,612
2052	1,017,349	930,229	(87,120)	1,217,616	287,387	69,840
2053	1,066,193	973,529	(92,664)	1,270,974	297,445	73,632
2054	1,117,398	1,018,845	(98,553)	1,255,899	237,054	77,579
2055	1,171,110	1,066,283	(104,827)	1,240,418	174,135	81,690
Total	42,458,238	39,086,066	(3,372,172)	43,149,039	4,062,973	1,159,389

Change in ARC payments through 2055	
Increase due to 5-year suspension of the ARC	4,062,973
Decrease due to elimination of spousal Medicare Part B premium reimbursements	(1,159,389)
	<hr/>
	2,903,584
Decrease due to 7/1/20 actuarial gain	(3,372,172)
	<hr/>
Decrease from 7/1/19 valuation	(468,588)

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON LABOR, CULTURE AND THE ARTS
ON
SENATE BILL NO. 1087**

**February 10, 2021
3:00 p.m.
Room 225**

**RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST
FUND**

The Department of Budget and Finance strongly supports Senate Bill (S.B.) No. 1087.

S.B. No. 1087 is an Administration bill that amends Sections 87A-42, 87A-43, 237-31, and 237D-6.5, HRS, to temporarily suspend the requirement for public employers to make annual required contributions to the Hawai'i Employer-Union Health Benefits Trust Fund through FY 25.

Temporary suspension of annual required contributions is one of the cornerstones of the Administration's approach to balancing the general fund financial plan. It will provide the State and other public employers flexibility to address budgetary shortfalls while the economy recovers. Although pre-funding other post-employment benefits (OPEB) is a sound, long-term budget policy to hedge against the risk of annual current benefits payments outpacing the growth of State revenues, addressing current budget shortfalls is an immediate concern that should take priority. Based on the most recent actuarial valuation report for the State's OPEB as of July 1, 2020, suspending OPEB pre-funding payments for all four years will reduce fixed costs by \$1,434,439,000 over the same period.

Thank you for your consideration of our comments.

SB-1087

Submitted on: 2/6/2021 2:56:22 PM

Testimony for LCA on 2/10/2021 3:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Thomas Brandt	Individual	Support	No

Comments:

Support



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS		MAILING ADDRESS
John Bickel, President	Melodie Aduja	John Miller	P.O. Box 23404 Honolulu Hawaii 96823
Alan Burdick, Vice President	Juliet Begley	Jenny Nomura	
Dave Nagajji, Treasurer	Stephanie Fitzpatrick	Stephen O'Harrow	
Doug Pyle, Secretary	Jan Lubin	Lyn Pyle	

February 9, 2021

TO: Chair Taniguchi and members of LCA Committee

RE: SB 1087 Relating to the Hawaii Employer-Union Health Benefits Trust Fund

Comments for hearing on February 10

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We don't have a position on this bill per se. However we expect that if this bill passes, the bond rating of Hawaii would decline. We see the budgetary need to suspend the payment to EUTF, but think a more prudent plan would be to adopt the bill proposed by Rep. Romy Cachola in the last session to self-fund the system. This would save money in the short and long term. It would be a reform that could begin other needed reforms to eliminate bureaucratic waste in the health care system.

Thank you for your favorable consideration.

Sincerely,
John Bickel, President



SB-1087

Submitted on: 2/9/2021 1:43:09 PM

Testimony for LCA on 2/10/2021 3:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Deanna Sako	Testifying for County of Hawai'i	Support	No

Comments:

Dear Senator Brian T. Taniguchi, Chair, Senator Les Ihara, Jr., Vice Chair and Committee Members:

The County of Hawai'i strongly supports SB 1087. In these challenging economic times where a significant portion of our consumption-based tax revenue sources, such as GET and TAT, have been either reduced or suspended altogether, meeting our retiree prefunding commitments has become increasingly difficult. Incremental step-ups in both OPEB and ERS contributions have overlapped for the past eight years, which in turn has impacted our ability to fund other critical needs. While we recognize the importance of building an investment fund capable of covering the lion's share of our retiree's health benefit costs, we also must be pragmatic about what we can reasonably afford to pay when revenues sharply decline.

Our County is in a challenging financial situation for a number of reasons, most of which are related to personnel costs. For example, employer contribution rates to the Employee Retirement System for Police and Fire have increased 64% between FY17 and FY21 (going from 25% to 41% of employee salaries). Actual payments to ERS will be even higher when we account for the cumulative effect of collective bargaining wage increases and our annual spiking bills, the latter of which we have little control over nor any means to accurately forecast.

The temporary loss of TAT monies received by Hawai'i County has contributed to our inability to fully fund our retirement health fund. We humbly ask that SB1087 be passed and the counties be allowed to continue to make only the "pay-as-you-go" payments to our individually established EUTF funds, and that the prefunding portion of the Annual Required Contribution be suspended until a more robust economy emerges statewide.

We ask for your favorable vote on SB 1087.

Thank you for your consideration.



February 9, 2021

To: Senate Committee on Labor, Culture and the Arts
Senator Brian T. Taniguchi , Chair
Senator Les Ihara, Jr., Vice Chair, and
Members of the Committee on Labor, Culture and the Arts

Re: SB 1087 – RELATING TO THE HAWAII EMPLOYER-UNION HEALTH
BENEFITS TRUST FUND

Meeting: Wednesday, February 10, 2021, 3:00 p.m., Room 225 via videoconference

Position: **OPPOSITION**

Aloha, Chair Taniguchi, Vice Chair Ihara, and Members of the Committee on Labor, Culture and the Arts:

The Health Committee of the Democratic Party of Hawai‘i submits its opposition to SB 1087, as it temporarily suspends the requirement for public employers to make annual required contributions to the Hawaii Employer—Union Health Benefits Trust Fund through fiscal year 2024—2025.

The fund, which pays out health benefits to current and retired state and county employees and their dependents, currently has unfunded liabilities of \$11.5 billion. As proposed under SB 1087, suspending payments for five years may increase the total by at least \$2 billion, to over \$13.5 billion, based its estimates on a 2020 report released by Gabriel, Roeder, Smith & Company.[1]

Under Act 268 (2013), the State and Counties are required to make annual payments to pay down the unfunded liability by 2044. However, Governor Ige waived this requirement for fiscal year 2021 by Emergency Order and this bill, SB 1087, would suspend further annual payments until 2025. This suspension would make available up to \$1.78 billion for the State and \$537 million for the Counties during fiscal year 2021 to fiscal year 2025. Maui County is the exception as it intends to fulfill its obligation under Act 268 of approximately \$13 million per year. [2]

By suspending these payments, interest and payroll growth costs of \$4.2 billion for the state, and \$1.3 billion for the counties would accumulate in the end as these deferred payments must be paid back with interest and payroll costs totaling up to \$7.8 billion over the next 30 years.[3] This would increase the amount of unfunded liabilities to be paid down by Hawaii taxpayers, and destabilize the health benefits plan of 68,000 active government employee, their 60,000 dependents, and 47,000 retirees and their 20,000 dependents.[4]

In addition to this enormous increase on the amount of unfunded liabilities considering interest and payroll growth, the State's bond rating will have the corollary effect of being downgraded based on the increase in the State's unfunded liabilities.

The better alternative would be to do away with the Act 268 mandate and transitioning away from a "manage-care organization" (MCO) managing healthcare under its current EUTF system to a "Administrative Services Only" (ASO) organization. This will eliminate excessive administrative loss and channel more funding to improving health care services just as 29 other states in the Union have done which has saved them hundreds of millions of dollars per year in excessive administrative costs. This is the health care plan proposed in HB164 (Hawaii State Association of Counties (HSAC) Package); HB192 (Maui County Council Package); HB 276; SB 437 (Hawaii State Association of Counties (HSAC) Package); SB 444 (Maui County Council Package); and SB 887.

With the exception of HB 276 and SB 887, all of these bills authorize the Hawaii Health Authority to continue planning for the adoption of a universal, publicly administered health-care-for-all insurance model with a single payout agency. The establishes a rate stabilization reserve fund for the Hawaii Employer-Union Health Benefits Trust Fund and transfers funds from the other post-employment benefits trust fund to the rate stabilization reserve fund.

We strongly urge you to defer SB 1087. While SB 1087 temporarily suspends the requirement for public employers to make annual required contributions to the Hawaii Employer—Union Health Benefits Trust Fund through fiscal year 2024—2025, the consequences would increase the amount of unfunded liabilities to be paid down by Hawaii taxpayers, and destabilize the health benefits plan for 68,000 active government employees, their 60,000 dependents and 47,000 retirees and their 20,000 dependents in addition to down-grading the State's bond ratings. The better alternative would be to effectuate and empower the Hawaii Health Authority in planning and designing the transition away from managed-care organizations to a more efficient system via "Administration Services Only" organization which will eliminate prefunding under Act 268, eliminate excessive administration costs, decrease the medical loss ratio, increase the level of health care services to the EUTF beneficiaries and their dependents, and importantly, will not have an adverse effect on the State's bond rating.

Thank you very much for this opportunity to testify on this key issue.

Respectfully yours,

Melodie R. Aduja

Chair, Health Committee, Democratic Party of Hawai'i

Email: legislativepriorities@gmail.com

[1] [3] [Draft Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2020,](#) Gabriel, Roeder, Smith & Company, Jan. 11, 2021, Section A, p. 2.

[2] Joe Kent, [Ige's EUTF Funding Dodge Will Come Back To Haunt Us,](#) Honolulu Civil Beat, Sept. 21, 2020

[4] [Who we are,](#) Hawaii Employer-Union Health Benefits Trust Fund, 2021.