

JAN 26 2009

A BILL FOR AN ACT

RELATING TO VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION TRUSTS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Act 245, Session Laws of Hawaii 2005, as
2 amended by section 2 of Act 294, Session Laws of Hawaii 2007, as
3 amended by section 1 of Act 5, Special Session Laws of Hawaii
4 2008, is amended by amending section 8 to read as follows:

5 "SECTION 8. This Act shall take effect upon its approval,
6 for the purpose of establishing a voluntary employees'
7 beneficiary association trust pilot program in March, 2006 and
8 shall be repealed on July 1, [~~2010,~~] 2009; provided that
9 sections 89-2, 89-3, 89-6, and 89-9, Hawaii Revised Statutes,
10 are reenacted in the form in which they read on the day before
11 the effective date of this Act."

12 SECTION 2. Act 5, Special Session Laws of Hawaii 2008, is
13 amended by repealing sections 2 and 3:

14 "~~SECTION 2. (a) The board of trustees of the Hawaii~~
15 ~~employer union health benefits trust fund shall conduct a~~
16 ~~certified independent financial audit of the Hawaii employer-~~
17 ~~union health benefits trust fund, pursuant to section 87A-24(7),~~
18 ~~Hawaii Revised Statutes, to cover the Hawaii State Teachers~~

1 ~~Association, retirees, employees, and employee beneficiaries who~~
2 ~~have remained with the Hawaii employer union health benefits~~
3 ~~trust fund whether in a bargaining unit or excluded from one,~~
4 ~~including the State and counties as the employer. The~~
5 ~~independent auditor shall consult with the state auditor for~~
6 ~~purposes of the audit to obtain the necessary information for~~
7 ~~purposes of subsection (b). The audit shall be completed no~~
8 ~~later than twenty days prior to the convening of the regular~~
9 ~~session of 2010. The findings and recommendations, including but~~
10 ~~not limited to methodology and actuarial assumptions, shall be~~
11 ~~presented to the State auditor for review.~~

12 ~~(b) Based upon the independent financial audit under~~
13 ~~subsection (a), the state auditor shall make findings and~~
14 ~~recommendations concerning:~~

15 ~~(1) The benefit cost for each benefit plan, including~~
16 ~~medical, drug, dental, and vision coverage; and~~

17 ~~(2) Administrative cost for the Hawaii employer union~~
18 ~~health benefits trust fund for the plan years July 1,~~
19 ~~2006 to June 30, 2007, July 1, 2007 to June 30, 2008,~~
20 ~~and July 1, 2008 to June 30, 2009.~~

21 ~~(c) The audit shall include an actuarial certification, to~~
22 ~~be made by the independent auditor contracted under subsection~~

1 ~~(a), of the benefit cost for each benefit plan, including~~
2 ~~medical, drug, dental, and vision, and administrative costs.~~

3 ~~(d) Based upon the independent financial audit conducted~~
4 ~~under subsection (a), the state auditor shall make separate~~
5 ~~findings and recommendations for the Hawaii State Teachers~~
6 ~~Association voluntary employees' beneficiary association trust~~
7 ~~for the plan years July 1, 2006 to June 30, 2007, July 1, 2007 to~~
8 ~~June 30, 2008, and July 1, 2008 to June 30, 2009, in the same~~
9 ~~manner as set forth under subsections (a), (b), and (c).~~

10 ~~(e) The state auditor shall submit a report of findings and~~
11 ~~recommendations to the legislature no later than twenty days~~
12 ~~prior to the convening of the regular session of 2010.~~

13 ~~SECTION 3. The board of trustees of the Hawaii employer-~~
14 ~~union health benefits trust fund and the board of trustees of the~~
15 ~~Hawaii State Teachers Association voluntary employees'~~
16 ~~beneficiary association trust shall take all necessary and~~
17 ~~appropriate actions to assist the state auditor for purposes of~~
18 ~~this Act.] "~~

19 SECTION 3. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.

S.B. NO. 881

1 SECTION 4. This Act shall take effect upon its approval.

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INTRODUCED BY:

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4

BY REQUEST

Report Title:

VEBA Trusts; Pilot Program; Sunset Amendment

Description:

Lowers the cost of health benefits for public employers and public employees by ensuring all health benefits are administered under one system through the repeal of Voluntary Employees' Beneficiary Association Trusts.

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION TRUSTS.

PURPOSE: The purposes of this bill are to: (1) amend the sunset date (from July 1, 2010 to July 1, 2009) of Act 245, Session Laws of Hawaii (SLH) 2005, which permits employee organizations to establish Voluntary Employees' Beneficiary Association Trusts (VEBA) to provide health benefits plans to their members; and (2) repeal sections 2 and 3 of Act 5, Special Session Laws of Hawaii 2008, which requires a certified independent financial audit of the EUTF and the Hawaii State Teachers Association (HSTA) VEBA trust.

MEANS: Amend section 8, Act 245, SLH 2005, as amended by section 2, Act 294, SLH 2007, as amended by section 1, Act 5, Special Session Laws of Hawaii (SSLH) 2008; and repeal sections 2 and 3, Act 5, SSLH 2008.

JUSTIFICATION: In Act 245, SLH 2005, the Legislature permitted employee organizations to establish VEBA trusts to provide health benefits plans for their members. Act 245 states that this was to be a three-year pilot program during which "a thorough analysis of the costs and benefits of a VEBA trust can be evaluated against the Hawaii employer-union health benefits trust fund to determine what actual savings could be realized by the State through this mechanism." Act 245 was to be repealed on July 1, 2008. However, Act 245 has twice been extended, first to July 1, 2009, and then again to July 1, 2010.

The Legislature passed Act 88, SLH 2001, which established the EUTF as a single health benefit delivery system that brought

all state and county participants under a single group. Creation of the EUTF provided employers and employees with better leverage in negotiating benefit contracts, eliminated the effects of "adverse selection," duplicative administrative costs, and the possible use of excess contributions for other than the beneficiaries. The establishment and renewal of the HSTA VEBA trust essentially negated the intent of Act 88, SLH 2001. If the VEBA trust's pilot program is allowed to continue, employees and employers in the EUTF will continue to pay higher than necessary premium contributions for the benefit of a select group of individuals. Last year, the EUTF calculated that its budget for the health plan would have been lowered by about 4.3 percent (amounting to an overall premium reduction of \$8,600,000) if bargaining unit 5 members had remained in the EUTF rather than transferring to the HSTA VEBA trust.

Consequently, this bill amends the repeal date from July 1, 2010 to July 1, 2009 for Act 245, and repeals section 2 (requiring the certified independent financial audit of the EUTF and the HSTA VEBA trust) and section 3 (requiring the State Auditor to make findings and recommendations regarding the benefit and administration costs of the EUTF and HSTA VEBA trust based upon the certified financial audit) of Act 5, SSLH 2008.

Impact on the public: There will be a positive impact on employees and taxpayers in terms of lower employer and employee contributions to the EUTF for health premiums.

Impact on the department and other agencies: There will be a positive impact on departments and the State in terms of lower employer contributions to the EUTF for employees' health premiums.

GENERAL FUND: Approximately \$5,160,000 in savings per fiscal year for employers' portion of the premiums.

OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: BUF-943.

OTHER AFFECTED
AGENCIES: EUTF, HSTA VEBA trust, and State Auditor.

EFFECTIVE DATE: . Upon approval.