

**HB1287 HD2**

TESTIMONY BY GEORGINA K. KAWAMURA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEES ON EDUCATION AND HOUSING, AND LABOR  
ON  
HOUSE BILL NO. 1287, H.D. 2

March 15, 2010

RELATING TO PUBLIC EMPLOYMENT

House Bill No. 1287, H.D. 2, extends the enabling law for the Voluntary Employees' Beneficiary Association Trust from July 1, 2010 to December 31, 2010 to allow for an orderly transition to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF). The bill also appropriates unspecified trust funds for five temporary positions to assist with the transition and five permanent positions to perform other duties to facilitate EUTF operations.

The Department of Budget and Finance strongly supports this bill. House Bill No. 1287, H.D. 2, will provide adequate time for Voluntary Employees' Beneficiary Association participants to transition to the Hawaii Employer-Union Health Benefits Trust Fund benefit plans and the necessary funding and staffing for EUTF to be able to service the increased membership.

The department has long held that a single health benefit delivery system provides State and county government employers, employee-beneficiaries and ultimately the taxpayer with the most cost effective and long-term sustainable alternative for providing public employees and retirees health benefits. This is especially crucial given current financial conditions.

In addition, the Legislative Auditor, in her summary of findings and recommendations to the Legislature dated December 2, 2009, in regards to the requested analysis to determine the effects of the Hawaii State Teachers Association's Voluntary Employees' Beneficiary Association Trust pilot program on the Hawaii Employer-Union Health Benefits, stated that the Voluntary Employees' Beneficiary Association Trust pilot program: 1) promotes adverse selection and increases premium costs for the Hawaii Employer-Union Health Benefits Trust Fund enrollees; 2) duplicates administrative costs borne by the State employer (totaling over \$2.4 million paid to the Hawaii State Teachers Association's Voluntary Employees Beneficiary Association Trust instead of the Hawaii Employer-Union Health Benefits Trust Fund); and 3) cannot ensure transparency and accountability in providing health benefits for teachers and teacher retirees.

We ask that the appropriation include funds for operating expenses and equipment for the five temporary and five permanent positions being authorized in this bill. The amount for the operating expenses and equipment will be forthcoming.

It should also be noted that contribution amounts for the Hawaii State Teachers Association for FY 11 still need to be negotiated.



**TESTIMONY OF MARION M. HIGA, STATE AUDITOR,  
ON HOUSE BILL NO. 1287, HOUSE DRAFT 2,  
RELATING TO PUBLIC EMPLOYMENT**

**Senate Committee on Education and Housing  
Senate Committee on Labor**

**March 15, 2010**

Chairs Sakamoto and Takamine and Members of the Committees:

Thank you for this opportunity to testify in support of the intent of House Bill No. 1287, House Draft 2. This bill extends the sunset date of voluntary employees' beneficiary association (VEBA) trust pilot program from July 1, 2010 to December 31, 2010 to provide a smoother transition for public school teachers and their dependents in transferring to the Hawai'i Employer-Union Health Benefits Trust Fund (EUTF). This bill also appropriates funds for more EUTF staff.

The bill's intent conforms with our recommendation to sunset the VEBA trust pilot program as explained in our letter submitted pursuant to Act 5, Special Session Laws of Hawai'i 2008. A copy of our letter regarding Act 5 is attached to this testimony. We could not perform the analysis requested in Act 5 because the EUTF does not segregate teacher retirees from other retirees to generate a benefit costs analysis. In addition, key utilization reports for plan year 2006 are missing from the Hawai'i State Teachers' Association (HSTA) VEBA Trust's First Annual Report. These reports are necessary to generate an impact analysis of insurance rates to determine the differences in EUTF's annual costs with and without teacher members/retirees and their beneficiaries.

Nevertheless, through meetings and interviews with staff and officials from the Department of Budget and Finance and EUTF, as well as HSTA VEBA Trust's administrator and benefits consultant, we gathered sufficient information and data and reviewed the financial statements and annual reports to conduct analyses of premium costs, administrative costs, and assess the transparency and accountability.

First, the HSTA VEBA trust pilot program promotes adverse selection and increases premium costs for EUTF enrollees. The EUTF participants, not VEBA participants, are experiencing the negative effects of adverse selection in higher cost for older teacher retirees who remain with the EUTF and higher premium rates. Based on January 2007 EUTF enrollment data, Garner Consulting estimated that the EUTF budget for the HMSA PPO plan would have been lowered by 4.3 percent to amount to an overall premium reduction of \$8.6 million if all HSTA members were included in the EUTF. While we recognize that the VEBA Trust refunded to the State experience refunds totaling \$5,258,543 from its First Annual Report for a 16-month period (3/06 to 6/07) realized from the active primary health plans and life insurance, we question if the State could have saved more if these active employees remained with the EUTF. We note a significant drop in experience refunds of \$1,386,463 reported in the HSTA VEBA Trust's Second Annual Report released subsequent to our review.

Second, the HSTA VEBA trust pilot program duplicates administrative costs borne by the State employer. Administrative fees are being paid for the State to operate two separate administrative offices – one for the EUTF and another for the HTSA VEBA trust, regardless of identical administrative fee rates. This is unnecessary, costly, and duplicative. From March 1, 2006 to June 30, 2009, over \$2.4 million in administrative fees was paid by the State to the HSTA VEBA trust. However, unlike the EUTF, the VEBA trust incurred nearly \$1 more in administrative expenses than what it received from the State.

Lastly, the HSTA VEBA trust pilot program cannot ensure transparency and accountability in providing health benefits for teachers and teacher retirees. Unlike the EUTF, which is a state agency, the VEBA trust is not required to follow laws that ensure transparency and accountability, such public meetings; accessible government records; and legislative,

administrative rulemaking, and state budgeting processes that monitor budgeting and administrative expenses. For example, the administrators of the HSTA VEBA trust filed for bankruptcy in March 2009; however, a bankruptcy or similar event could not happen to the EUTF. The VEBA trust's compliance with federal and state financial reporting requirements does not equate to transparency and accountability.

Overall, the HSTA VEBA trust breaks up the EUTF health plan and negatively impacts the EUTF. House Bill No. 1287, HD 2, implements our recommendation to sunset the VEBA trust pilot program.

I would be pleased to answer any questions you may have.

William P. Kenoi  
Mayor



Nancy E. Crawford  
Director

Deanna S. Sako  
Deputy Director

## County of Hawaii

### Finance Department

25 Aupuni Street, Room 118 • Hilo, Hawaii 96720  
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March 11, 2010

The Honorable Norman Sakamoto, Chair  
and Members of the Senate Committee on Education and Housing  
Hawai'i State Capitol  
415 South Beretania Street  
Honolulu, Hawai'i 96813

The Honorable Dwight Y. Takamine, Chair  
and Members of the Senate Committee on Labor  
Hawai'i State Capitol  
415 South Beretania Street  
Honolulu, Hawai'i 96813

RE: Testimony in Support of House Bill No. 1287, HD2  
Hearing Monday, March 15, 2010, at 1:15 p.m., Conference Room 225

Honorable Chair Sakamoto and Honorable Chair Takamine and Members of the Committees:


Hawai'i County supports H.B. 1287, which seeks to extend the sunset date of the voluntary employees' beneficiary association trust from July 1, 2010 to December 31, 2010 in order to provide for a better transition to the Hawaii employer-union health benefits trust fund. We support this bill as it will lower the cost of health benefits for public employers and public employees, as a whole, by ensuring all health benefits are administered under one system. As health care costs continue to rise, we support this measure to help keep our costs down.

Fringe benefits for our employees, which includes health benefits, is one of our largest expenditures each year. We incurred a 23.7% increase in health care costs for active employees this fiscal year. We concur that every effort should be made to consolidate plans to ensure the lowest possible premiums for not only the State and Counties, but for all employees as well.

During these tough economic conditions, every effort should be made to keep costs down whenever possible.

Thank you for your attention to our concerns.

Sincerely,

  
Nancy Crawford  
Director of Finance



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Vice President

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Interim Executive Director

TESTIMONY BEFORE THE SENATE COMMITTEES ON  
EDUCATION & HOUSING AND LABOR

RE: HB 1287, HD2 – RELATING TO PUBLIC EMPLOYMENT.

Monday, March 15, 2010

WIL OKABE, PRESIDENT  
HAWAII STATE TEACHERS ASSOCIATION

Chair Sakamoto, Chair Takamine, and Members of the Committees:

The Hawaii State Teachers Association supports HB 1287, HD2, but strongly suggests the bill be amended to provide for a two-year extension of the HSTA VEBA.

The HSTA VEBA Trust has provided medical benefits for Bargaining Unit 5 employees (teachers) and retired teachers since March 1, 2006 under a pilot program that is scheduled to expire on July 1, 2010. As noted in our first and second annual reports submitted to the legislature, the combined savings to the employer and the State of Hawaii has amounted to \$6,645,006 for the 40-month period beginning March 1, 2006 through June 30, 2009. This is based on lower employer contributions and experience refunds to the State of Hawaii. As of June 30, 2009, the Trust had 13,081 active employees participating in one or more benefit plans and 1,995 retirees participating in one or more benefit plans.

HSTA has reviewed State Auditor Marion Higa's report dated December 2, 2009 and does not concur with her conclusions. HSTA has responded with a letter to Senate President Hanabusa and House Speaker Say with a copy to the State Auditor Marion Higa.

In addition, a six-month extension creates a problem for collectively bargained rates since there is a difference between the HSTA VEBA Trust and EUTF premium rates, with the EUTF rates being higher.

The Hawaii State Teachers Association has demonstrated that the VEBA trust provides an effective means of containing healthcare costs for its members and the State of Hawaii. HSTA respectfully requests your favorable consideration of amending HB 1287, HD2, to allow for a two-year extension of the HSTA VEBA.

Thank you for this opportunity to testify



TO: Senate Education and Housing Committee  
Senator Norman Sakamoto, chair  
Senate Labor Committee  
Senator Dwight Takamine, chair

DATE: Monday, March 15, 2010  
TIME: 1:15pm  
PLACE: Conference Room 225  
State Capitol  
415 South Beretania Street

Re: HB1287 HD2 relating to Public Employment - Extends the enabling law for the VEBA from 7/1/10 to 12/31/10...

FROM: Donna Higashi, Vice President  
HSTA - Retired

My name is Donna Higashi, HSTA - Retired Vice President and a member of the Legislative Action Team of HSTA - Retired. I am in opposition of this bill. I firmly believe VEBA can make a difference and save the state money and should be extended beyond 6/30/10 and not for a mere 6 months which is what this bill is designed to do. However, I do support additional funds and positions being allocated to EUTF.

Last year, I testified encouraging the State Auditor to complete her report comparing the benefit plans and although her recommendations are all not positive towards VEBA, I still offer support to VEBA and include some of the following reasons:

1. Teachers (actives and newer retirees) will continue to have an undisruptive health benefit program since 2006.
2. A strong health benefit program helps to attract and retain public school teachers.
3. VEBA has saved the Employer as well as its members money.
4. The State of Hawaii has received close to \$5.2 million from VEBA savings for the period 3/06 - 6/07
4. Competition between health providers (EUTF/VEBA) and health carriers, such as HMSA, HMA, Kaiser, etc. is "healthy"
5. HSTA-R members are generally satisfied with their respective health providers, especially if they are on Medicare. However, the non-medicare retiree indicates a difference between VEBA (more positive) and EUTF (less positive) (Internal survey conducted in December 2009)

Again, allow VEBA to remain and demonstrate that it can save the state money which is most critical during these hard economic times. I would strongly urge an amendment to this bill by extending the cutoff date from 6/30/10 to two years and beyond. It will pay in the long run. Thank you for this opportunity to testify.

Beverly A. Gotelli  
6286 Opaekaa Road  
Kapaa, HI 96746

Senate Education and Housing  
and Senate Labor Committee

HB 1287 HD 2: Relating to Public Employment  
Monday, March 15, 2010  
Conference Room 225 1:15 PM

Testimony in support of HB 1287 HD 2

Chairs Sakamoto, Takamine and members of the Committee:

My name is Beverly Gotelli and retired public school teacher speaking in support of HB 1287 HD 2 which would allow for a six month transition to the EUTF from VEBA.

I agree the EUTF does need additional personnel in its daily operations as was noted in articles recently published in the daily papers. There are various reasons as to why the EUTF is in the state it currently is. I will not focus on those issues.

The purpose of this legislation is to extend for six months the VEBA pilot program to provide for a smoother transition to the EUTF. I do agree that the EUTF would not be able to handle such a large change over adequately. However, there is no mention of retirees who are currently in VEBA as to what their status will be if not included in this bill.

I urge the Committee to amend the legislation to include retirees who are currently in VEBA and any future retiree from bargaining unit 05. I would further suggest instead of an extension six months the VEBA program have an extension of two years. During this time period the EUTF will have the additional personnel to take care of the current work load and help in facilitating the transfer of the teachers and retirees.

Thank you for the opportunity to testify.

**sakamoto2 - Erin**

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**From:** Lorraine Hora [lorrainehora@yahoo.com]  
**Sent:** Saturday, March 13, 2010 11:02 PM  
**To:** EDH Testimony  
**Subject:** HB 1287 HD 2

Committee on Education and Housing  
Senator Norman Sakamoto, Chair  
Senator Michelle Kidani, Vice Chair

Committee on Labor  
Senator Dwight Takamine, Chair  
Senator Brian Taniguchi, Vice Chair

Monday, March 15, 2010  
1:15 PM  
Conference Room 225  
State Capitol  
415 South Beretania

RE: HB 1287 HD 2 Relating to Public Employment

I support the intent of this bill but ask that HB 1287 HD 2 NOT be passed out of committee.

I do have grave concerns about the EUTF being able to transition over 15,000 VEBA members to the EUTF system. I agree that hiring additional positions within EUTF to do the paperwork is a reasonable intention. However, I feel that a six month period is too short a time span to do so. Considering the major restructuring needs of EUTF, a 1 - 2 year transition period is more realistic.

Thank you for the opportunity to testify.

Sincerely,  
Lorraine M. Hora  
HSTA-Retired  
648 Hinano Street  
Hilo, HI 96720

TESTIMONY OF BRIAN KAU  
BEFORE THE SENATE COMMITTEES ON  
EDUCATION AND HOUSING, AND LABOR

MARCH 15, 2010  
1:15 P.M.  
ROOM 225

HOUSE BILL NO. 1287, HD2

RELATING TO PUBLIC EMPLOYMENT

Chairpersons Sakamoto and Takamine, and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 1287, HD2. The purpose of this bill is to extend the voluntary employees' beneficiary association (VEBA) trust until December 12, 2010. In place of the language contained in this bill, I respectfully request that the original, un-amended language from Senate Bill 2797 be inserted which makes the VEBA trust permanent.

My wife and I have two young children and are both employees of the State of Hawaii. She is a teacher and I am an engineer. Until December 31, 2009, my family's health insurance was under my EUTF plan. Due to poorly explained reasons, in July of 2009, my family premium went from \$371.66 per month to \$587.74 per month, an increase of over 58%! Two months later, my wife was furloughed. Shortly after that, I was furloughed. When calculating in the \$2,593 per year increase in health care premiums, our overall gross income dropped by over 10%. We had to pull our children out of morning care and after school activities. We also halted discretionary expenditures, and had a very lean holiday season. We have never lived "above our means" as our cars are sixteen and twenty-six years old and our mortgage is reasonable. As public workers, we acknowledge the state of the economy and that we must "do our part". We are also grateful that neither of us have lost our jobs and understand that many in the public (and private) sector were not so lucky. Comparing the health costs under the EUTF and the Hawaii State Teachers Association VEBA trust revealed that if we switched to the VEBA plan, our family's health care costs would

revert to almost the same level it was back in July of 2009 prior to the increase. In addition, the drug plan seems to be significantly better and all of our doctors participate with the new provider. This has been a tremendous help to our household finances and we hope to utilize the savings to reenroll our children in one or two of their after school activities. If the VEBA trust were to sunset, we would be forced to go back on the EUTF system with the unexplainably high premiums.

My family and I sincerely appreciate your hearing of this bill and respectfully urge you to make the VEBA trust permanent. Conversations with several other families and individuals under VEBA indicate similar feelings of a better managed program and significant cost savings. Thank you for the opportunity to testify.