



## HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

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The Twenty-Sixth Legislature, State of Hawaii  
Hawaii State Senate  
Committee on Judiciary and Labor

Testimony by  
Hawaii Government Employees Association  
February 2, 2011

### S.B. 1066 – RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of S.B. 1066, which makes fundamental changes to the structure and operating principles of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF). There is widespread agreement that the EUTF is not operating as originally intended and has become a serious concern for both employees and employers.

The current system needs fundamental change. S.B. 1066, in conjunction with S.B. 1078 which would permit the negotiation of health care benefits in addition to contributions, contains several significant reforms that will eliminate many of the problems that currently make the EUTF ineffective and expensive.

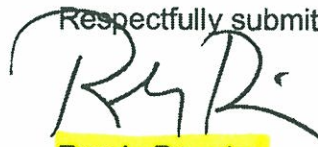
We believe that benefits are an integral part of employee compensation and should be negotiated between unions and employers, as is the practice in the private sector. Other reform efforts can be achieved through negotiations and must include effective mechanisms for controlling costs, encouraging preventive care, implementing wellness programs, requiring information on provider performance and enhancing efficiency. S.B. 1066 contains the following reforms to the EUTF:

1. It changes the method of selecting benefit plan carriers, third party administrators, consultants and actuaries by exempting the process from Chapter 103-D, HRS. This will provide the necessary flexibility to respond to problems faster.
2. Board members must act as a fiduciary of the trust. As fiduciaries, board members are required to make decisions based solely on the interest of the participants and beneficiaries. Board members who willfully violate their fiduciary responsibilities may be liable for any loss suffered by the plan, increasing the accountability of the trustees.

3. The composition of the board and the method of selecting them are also changed. Six trustees representing employee-beneficiaries will be appointed by the various exclusive representatives instead of the Governor. The six trustees representing the employer will be better distributed among the different jurisdictions, with one trustee appointed by the Governor representing retirees. All trustees serve at the pleasure of their appointing authority.
4. It allows individual unions and employers to establish a sub-trust and sub-board of trustees to administer that bargaining unit's contributions and benefits if they negotiate a specific contribution to apply only to that unit.
5. The board can appoint or retain legal counsel who is independent of the Attorney General.
6. Health plans shall be provided based on the collectively bargained contributions from both the employers and employees, not "at a cost affordable to both the public employers and employees."
7. For administrative purposes the fund controlled by the board is placed under the Department of Human Resources Development, not the Department of Budget and Finance.

We appreciate the opportunity to testify in support of S.B. 1066, as the measure will make much needed changes to the EUTF.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'RyR', is written over a yellow rectangular highlight.

Randy Perreira  
Executive Director

# LATE TESTIMONY

TESTIMONY BY KALBERT K. YOUNG  
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR  
ON  
SENATE BILL NO. 1066

February 2, 2011

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

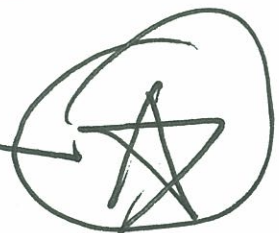
Senate Bill No. 1066 makes the following amendments to Chapter 87A, Hawaii Revised Statutes, which governs the Hawaii Employer-Union Health Benefits Trust Fund:

- Exempts the Hawaii Employer-Union Health Benefits Trust Fund from the procurement code in procuring benefit plan carriers, consultants, auditors and an administrator.
- Adds two new sections on fiduciary duties and prohibited transactions, and liability for breach of fiduciary duties.
- Allows the Hawaii Employer-Union Health Benefits Trust Fund to retain an attorney who is independent of the Department of the Attorney General as legal advisor.
- Increases the members of the Hawaii Employer-Union Health Benefits Trust Fund Board of Trustees from 10 to 12 and changes the Hawaii Employer-Union Health Benefits Trust Fund Board membership and terms.
- Allows the creation of sub-boards should a bargaining unit negotiate a specific contribution to apply only to that bargaining unit.
- Requires active employee benefit plans to be based on collectively bargained contributions and retiree benefit plans to be based on legislative appropriations.

- Transfers the Hawaii Employer-Union Health Benefits Trust Fund from the Department of Budget and Finance to the Department of Human Resources Development.

We are **opposed** to this bill. First, the department has serious concerns with the modifications to the composition of the Hawaii Employer-Union Health Benefits Trust Fund Board. Placing the retiree beneficiary board member as part of the employer group for voting is inappropriate as the retiree beneficiary member represents retiree interests and, as such, should be part of the employee group (as is currently the case), which represents beneficiaries, for voting. Specifying that the five other employer board members represent five different jurisdictions severely dilutes the Governor's ability to look out for the State's interest and results in each employer trustee representing a disproportionate share of the employer group. While we are not specifically opposed to adding county representation to the board, allowing the Mayor of the City and County of Honolulu to appoint an employer board member and the mayors of the County of Hawaii, Kauai and Maui to appoint another employer board member is not reflective of the Hawaii Employer-Union Health Benefits Trust Fund membership. Currently, State employees make up approximately 77% of the Hawaii Employer-Union Health Benefits Trust Fund members.

Given the Governor's overall responsibilities for managing State government and State finances, the Governor should appoint the majority of employer board members without regard to specific employer jurisdictions. However, if board members are to be added, we strongly suggest a neutral member. A neutral eleventh member would facilitate working through the Hawaii Employer-Union Health Benefits Trust Fund Board deadlocks and balance the needs of both employer and employee interests.



Second, we believe the creation of the Hawaii Employer-Union Health Benefits Trust Fund Board sub-boards will create administrative complexities and inefficiencies and result in substantially higher rates for employees who are not members of sub-groups with favorable demographics. We believe a uniform benefit package will promote fairness and consistency among employees in the workplace.

Third, we strongly believe that the Department of the Attorney General is better suited to ensure that long-term State interests are protected rather than an outside attorney. The staff of the Department of the Attorney General can bring a broad background of familiarity with the Hawaii Employer-Union Health Benefits Trust Fund and other State statutes at a lower cost than an outside legal firm. Cost of an outside attorney will have to be borne by the public employers and plan participants.

Fourth, requiring benefit plans to be based on collectively bargained amounts rather than determining collectively bargained amounts based on plan designs established by the Hawaii Employer-Union Health Benefits Trust Fund is problematic. Such an approach could result in material fluctuations in plan benefits from year to year and could make it difficult to design benefit plans that meet the needs of beneficiaries. This change may also cause administrative difficulties such as completing plan design and negotiating with vendors in sufficient time for open enrollment periods, especially given the history of completing negotiations very late in plan delivery cycle. Similarly, for retirees, requiring that the plans be based on approved appropriations may also cause difficulties in completing plan design and bidding/negotiating with vendors in sufficient time for open enrollment periods.

Finally, given the fiscal complexities involved and the size of the Hawaii Employer-Union Health Benefits Trust Fund expenditures in relation to the total State budget, transferring the Hawaii Employer-Union Health Benefits Trust Fund to the Department of Human Resources Development would not be in the best interest of the State.

We are not opposed to exempting the Hawaii Employer-Union Health Benefits Trust Fund from Chapter 103D, Hawaii Revised Statutes. We defer to the Department of the Attorney General regarding provisions relating to fiduciary duties.