

**TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
AND PUBLIC SAFETY AND MILITARY AFFAIRS
ON
HOUSE BILL NO.1802**

February 10, 2012

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

House Bill No. 1802 requires investment and other earnings and reserves of the Hawaii-Union Health Benefits Trust Fund (EUTF) to be maintained in a fund and used to amortize the unfunded post-employment benefits (OPEB) liability and, when authorized by legislative appropriation, pay for administrative expenses.

The Department of Budget and Finance strongly supports the intent of HB 1802 to establish a separate irrevocable trust for OPEB and to address the growing unfunded liability of the State, with respect to OPEB. However, we prefer the language in House Bill No. 2491, an Administration proposal, which also allows the EUTF to establish a separate irrevocable trust for the OPEB obligation and for employers to appropriately account for their contribution in their respective financial statements that would meet the Government Accounting Standards Board (GASB) definition of an OPEB irrevocable trust.

The GASB requirements for a qualified OPEB trust are: 1) it must have the specific criteria of irrevocability of contributions; 2) dedication of plan assets to paying benefits in accordance with the plan; and 3) legal protection of the plan assets from creditors. Several counties have made pre-funded contributions toward their OPEB liabilities but have not been able to properly account for the contributions because there is no trust established that meets the GASB requirements. We believe that the

language used in House Bill No. 2491, meets all of the GASB requirements and will ensure that public employers who make these contributions receive the proper credit for the OPEB contributions on their financial statements.

In regards to using all of the EUTF's reserves for funding the OPEB liability, we are concerned that this may have an undesired impact to the EUTF's operations in the future. The prescription drug plan is still self-funded and will experience fluctuations based upon enrollment and usage. Future increases in the cost of fully insured plans may also occur before the EUTF can make the needed adjustments in the membership rates and employer contributions. In these instances the EUTF needs cash reserves to cover its costs until the necessary adjustments in the premium rates can be made.

TESTIMONY BY BARBARA CORIELL
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST
FUND, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE JOINT HOUSE COMMITTEES ON LABOR AND PUBLIC
EMPLOYMENT AND PUBLIC SAFETY & MILITARY AFFAIRS
ON
HOUSE BILL NO. 1802

February 10, 2012, 9:30 a.m.

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

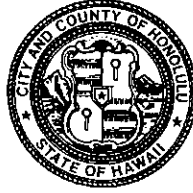
Chairpersons Rhoads, Aquino and Members of the Committee:

The unallocated reserves of the EUTF are primarily generated by surplus premium when the plan has had a good year and premium paid in is more than claims paid out. The reserves are an accumulation of surplus from all plans, active and retired, State and county; and from all sources, employer and employee. Funds which come from all parties should not be mandated to benefit only one group - retirees. Also, it is very difficult to determine whose OPEB fund should benefit. Since the reserves are State and county funds, they cannot all be applied to the State's liability.

We support the concept of some funding toward the OPEB costs. However, it should come directly from the employers. If reserves stay with the EUTF, they are available to reduce future rate increases. Through this mechanism all benefit proportionately from the reserves as costs are reduced for all. Each employer can then decide whether to use their rate reduction savings as a contribution toward the OPEB costs.

Thank you for the opportunity to testify on this matter.

PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
DIRECTOR

NELSON H. KOYANAGI, JR.
DEPUTY DIRECTOR

**Testimony of
MICHAEL R. HANSEN
Director of Budget and Fiscal Services
City and County of Honolulu**

**Before the House Committee on
LABOR AND PUBLIC EMPLOYMENT**

**Friday, February 10, 2012
9:30 a.m.
State Capitol, Conference Room 309**

**In consideration of
HOUSE BILL 1802
RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND.**

The City and County of Honolulu (City) submits the following testimony in support of House Bill 1802. The bill would require the EUTF Board to keep certain earnings of the EUTF within the fund or re-invest the earnings to amortize the unfunded actuarial accrued liability (UAAL) of the fund.

The City believes that pre-funding of Other Post-Employment Benefit (OPEB) obligations is necessary. We have contributed \$40 million in FY 2009, will contribute another \$37.7 million this fiscal year, and plan to continue pre-funding our OPEB obligation in future years. Other counties have also begun to pre-fund their OPEB obligations. Because of this, it is important for the EUTF to ensure that each entity's OPEB contributions are held in trust for the benefit of that entity.

The City supports the requirement that the EUTF set aside or re-invest certain earnings to amortize the UAAL of the fund, but would like assurance of the following:

- The EUTF should take a pooled investment approach to managing OPEB funding and allocate all investment earnings to the respective county or state account in proportion to each entity's investment balance. Each entity's OPEB funding and investment earnings should be maintained in separate trust accounts.

- The cost of administering the OPEB investments should be allocated in proportion to the respective entity's share of the overall gross OPEB liability. This would be an equitable way to apportion administrative costs.
- Earnings on non-OPEB EUTF funds should be used to amortize the total UAAL in an equitable manner, based on each entity's share of the total UAAL. OPEB contributions should not be subtracted from the total UAAL to determine each entity's share of the remaining UAAL.

The City is committed to working with the Legislature, the State, the EUTF Board, and the other counties to address the unfunded actuarial accrued liability of the EUTF. We look forward to further discussions on this bill and other measures to address this issue. Thank you for the opportunity to testify on House Bill 1802.