

**TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
HOUSE BILL NO. 2491, H.D. 1**

March 28, 2012

RELATING TO THE HAWAII EMPLOYER-UNION TRUST FUND

House Bill No. 2491, House Draft 1, authorizes the board of the Employer-Union Health Benefits Trust Fund (EUTF) to create a trust fund for the explicit purpose of receiving employer contributions for post-employment health and other benefit costs for retiree and their beneficiaries.

The Department of Budget and Finance strongly supports this Administration bill which will enable the establishment of a separate irrevocable trust for the other post-Employment benefits (OPEB).

The bill is to ensure that the EUTF meets the Government Accounting Standards Board (GASB) definition of an irrevocable trust for the purpose of meeting its OPEB obligation and participants of a multi-employer plan are able to appropriately account for the contribution in their respective financial statements. 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 account for the contributions because there is no trust established that meets the GASB requirements.

The Administration believes that this measure is necessary to ensure that pre-funded contributions which are made by the public employers are used for its intended purpose and also to ensure that public employers who make these contributions receive the proper credit for the OPEB contributions on their financial statements.

Furthermore, the creation of an irrevocable sub-trust fund is an expected accommodation to demonstrate financial accountability for any pre-funding contributions from government employers.

TESTIMONY BY BARBARA CORIELL
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST
FUND, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 2491, H.D. 1

March 28, 2012, 9:30 a.m.

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST
FUND

Chairperson Ige and Members of the Committee:

As the Administrator of the Hawaii Employer-Union Health Benefits Trust Fund I am testifying in support of House Bill 2491, HD1, which was recommended by the Board of the EUTF.

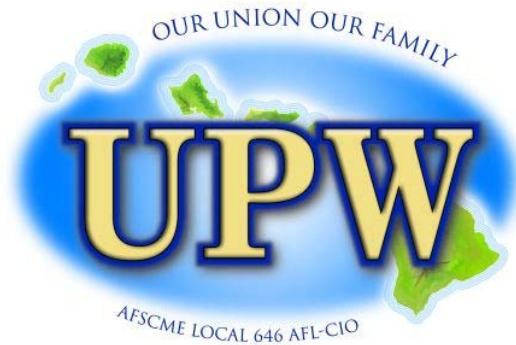
House Bill 2491, H.D. 1, creates a separate irrevocable Trust for employer funding of the retiree health care liability referred to as the Other Post Employment Benefits or OPEB liability. A separate Trust is a requirement of GASB 43 for funds to be considered OPEB contributions for employers' financial statements.

The Government Accounting Standards Board (GASB) 43 which addresses the issue of funding the OPEB liability requires the entity holding the funds to be an irrevocable trust set up specifically for OPEB contributions. In this way OPEB funding can only be used for its stated purpose – funding retiree health care costs. The EUTF does not currently qualify as a Trust per GASB 43.

Although the EUTF is an irrevocable trust itself, and OPEB contributions are accounted for separately and invested in their own investment accounts,

there is nothing that certifies that these funds cannot be used for active employee plan expenses. Because of this, OPEB funds held by the EUTF are currently being shown in employer financial reports as donations and not as OPEB contributions. The EUTF was made aware of this in our June 30, 2010 financial report which was issued in April 2011.

We need to create a specific irrevocable OPEB trust within the EUTF Trust to correct this situation. This change should have a positive financial impact for employers who fund their OPEB liability allowing them to realize the full benefit of that funding in their financial statements.



THE HAWAII STATE HOUSE OF REPRESENTATIVES
The Twenty-Sixth Legislature
Regular Session of 2012

COMMITTEE ON WAYS AND MEANS
The Honorable Sen. David Y. Ige, Chair
The Honorable Sen. Michelle N. Kidani, Vice Chair

DATE OF HEARING: Wednesday, March 28, 2012
TIME OF HEARING: 9:30 a.m.
PLACE OF HEARING: Conference Room 211

**TESTIMONY ON HB 2491 HD1 RELATING TO THE HAWAII EMPLOYER-
UNION HEALTH BENEFITS TRUST FUND**

By DAYTON M. NAKANELUA,
State Director of the United Public Workers,
AFSCME Local 646, AFL-CIO ("UPW")

My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive representative for approximately 11,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 01 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

The UPW supports HB 2491 HD1, which authorizes the board of the Employer-Union Health Benefits Trust Fund (EUTF) to create a trust fund for the purpose of receiving employer contributions that will prefund post-employment health and other benefit costs for retirees and their beneficiaries.

This bill will help ensure that the EUTF meets the requirements of the Government Accounting Standards Board. Doing so will, in turn, allow the State and counties to use a higher discount when calculating their unfunded liabilities. In the long run, creating this trust fund will help improve the fiscal strength and longevity of the EUTF.

Thank you for opportunity to testify on this measure.