

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 2661

February 10, 2012

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST
FUND

House Bill No. 2661 requires the Department of Budget and Finance (B&F) to conduct a study to reform the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) in order to: 1) moderate annual contribution costs of public employers for active and retiree health benefits while maintaining sufficient benefit coverage for active and retiree members; and 2) amortize the unfunded actuarial accrued liability of the EUTF over thirty years from July 1, 2014. The bill authorizes B&F to conduct the study in-house or to contract out the study.

Further, the bill contains two specific considerations for the study: 1) it specifically prohibits B&F from including "in the study any recommendation to diminish the health benefits or public employers' contributions for employees who retired from public service before July 1, 2014"; and 2) it states that recommendations may include a proposal to restructure the EUTF Board of Trustees or change the voting procedure. The bill appropriates \$100,000 in general funds for FY 13 to conduct the study. The study is due to the Governor, Legislature and EUTF Board of Trustees before the convening of the 2014 regular session.

B&F supports the concept of conducting a study to examine ways to better control active employee and retiree health benefits costs and reduce the unfunded actuarial accrued liability of retiree health benefits. However, we believe that the specific prohibition against considering “any recommendation to diminish the health benefits or public employers’ contributions for employees who retired from public service before July 1, 2014” contained in this draft of the bill is counterproductive to the objective of developing realistic options to control EUTF costs and reduce the EUTF’s unfunded liability.

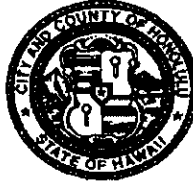
It should be noted that benefits are the key cost drivers of any health benefit plan, and retiree costs represent 63% (\$314.8 million) of the State’s FY 12 budget for health benefit contributions (\$502.7 million). If the study is prohibited from examining retiree benefit level or contribution changes then, in our opinion, the study would be of limited utility. Focusing on reforms that could possibly make the EUTF more efficient may provide some potential savings, but material cost savings and reductions in the EUTF’s unfunded liability, we believe, can only be obtained by taking the difficult step of looking at retiree benefits. In the end, a realistic balance must be struck between providing a reasonable level of health benefits for active employees and retirees, and the State’s (and taxpayers’) ability to support and sustain those benefit levels over the long term.

For these reasons, we strongly recommend that Section 4 (prohibition to recommend retiree benefit level changes) of the current draft be deleted.

We look forward to working with the Legislature on this important matter and would welcome the opportunity to further explore the parameters for the study.

DEPARTMENT OF BUDGET & FISCAL SERVICES
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PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
DIRECTOR

February 10, 2012

The Honorable Karl Rhoads, Chair
and Members of the Committee on Labor and
Public Employment
The House of Representative
State Capitol
Honolulu, Hawaii 96813

Dear Chair Rhoads and Members of the Committee:

Subject: House Bill 2661
Relating to the Hawaii Employer-Union Health Benefits Trust Fund

The City and County of Honolulu is generally supportive of House Bill 2661, which will require the State Department of Budget and Finance to conduct a study to reform the Employer-Union Trust Fund (EUTF) to moderate costs and amortize the unfunded liability, but respectfully requests two amendments be made to the bill.

We note that the measure requires that the study result in reforms that may be implemented to accomplish two objectives. The first is to moderate the employer contributions while maintaining sufficient health coverage for employees and retirees. The City is, of course, very supportive of this objective. We are, however, concerned about the second objective to amortize the unfunded liability over a 30 year period. Given the size of the unfunded liability, we suggest that the objective or study requirements be changed to allow alternatives to be added to the report.

The City understands that the EUTF costs and unfunded liability are a significant concern to the State. The City shares this concern. Accordingly, we ask that the bill be amended to require consultation with the counties and to require that any findings and recommendations, or any interim reports, also be submitted to the counties. As we have stated in other testimony to the Legislature, the City wants to be part of the solution.

Thank you for the opportunity to testify on House Bill 2661.

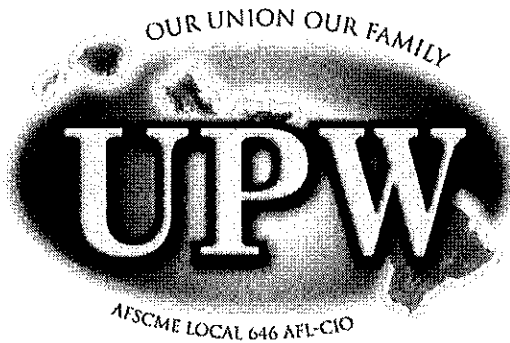
Yours truly,

Handwritten signature of Michael R. Hansen in black ink.

Michael R. Hansen, Director
Department of Budget & Fiscal Services

Handwritten signature of Noel T. Ono in black ink.

Noel T. Ono, Director
Department of Human Resources



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

COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
The Honorable Rep. Karl Rhoads, Chair
The Honorable Rep. Kyle T. Yamashita, Vice Chair

DATE OF HEARING: Friday, February 10, 2012
TIME OF HEARING: 9:30 a.m.
PLACE OF HEARING: Conference Room 309

**TESTIMONY ON HB 2661 RELATING TO THE HAWAII EMPLOYER-UNION
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.

UPW is opposed to HB 2661, which requires the Department of Budget and Finance (BUF) to conduct a study to reform the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and that the department submit it to the Governor, the Legislature, and EUTF Board of Trustees prior to the convening of the 2014 regular legislative session. The bill also appropriates \$100,000 in FY 2012-2013 to conduct the study.

While the state economy is still recovering from the recent recession, it is imprudent to expend funds for this purpose.

Thank you for the opportunity to testify on this measure.