

**TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2753, S.D. 1**

February 28, 2012

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Senate Bill No. 2753, Senate Draft 1, 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 retiree and their beneficiaries.

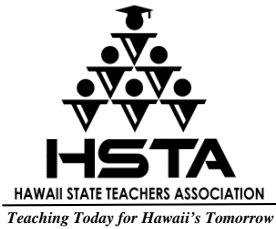
The Department of Budget and Finance strongly supports this Administration bill which will enable the establishment of a separate irrevocable trust for the other post-employment benefits (OPEB).

OPEB benefits include various non-pension benefits, such as health care, which are provided to retirees. There is no obligation to pre-fund OPEB benefits; however, pre-funding OPEB benefits through a trust that meets the Government Accounting Standards Board (GASB) requirements allows a public employer to use a higher discount rate in calculating its unfunded liability which reduces the OPEB liability reported in its financial statements.

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 receive the full benefit 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.



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SENATE COMMITTEE ON
WAYS AND MEANS

RE: SB 2753, SD1 - RELATING TO THE HAWAII EMPLOYER-UNION
HEALTH BENEFITS TRUST FUND

February 28, 2012

WIL OKABE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Ige and Members of the Committee:

The Hawaii State Teachers Association supports SB 2753, SD1, which authorizes the board of the Employer-Union Health Benefits Trust Fund to create a trust fund for the purpose of receiving employer contributions that will pre-fund post-employment health and other benefit costs for retirees and their beneficiaries.

In recent years, Hawaii has experienced a teacher shortage numbering in the thousands. In fact, the problem has grown so severe that, in 2008, the Department of Education sought to bring 1,500 teachers from the mainland into island classrooms, particularly to fill vacancies in districts on the Leeward coast and the Big Island. At the same time, the spike in baby-boomer retirees is driving up the cost of healthcare benefits, while simultaneously increasing the gap between hard-to-staff positions in local schools and highly qualified teachers available to fill those positions.

A recent audit of EUTF revealed that the trust fund is not bolstered by a separate fund that meets the post-employment benefit requirements of the Government Accounting Standards Board, which include irrevocability of contributions, dedicated plan assets to subsidize planned benefits, and legal protection of planned assets from creditors. Though a number of counties have made pre-funded contributions toward post-employment benefits, reception of credit for contributions has not been forthcoming because of the lack of an established trust fund that meets the GASB's requirements.

We believe that any attempt to boost and safeguard retirement benefits for teachers increases the state's ability to not only recruit highly qualified teachers, but retain them for extended periods of time. Teacher retention is crucial to the success of our education system, allowing schools to plan long-term and develop professional expertise commensurate with classroom mastery. As our teachers' skills are honed, our children's achievement level will concurrently improve. Thus, if raising student achievement remains a primary goal of lawmakers—and a benchmark against which the professional status of our educators may be evaluated, in the near future—then it is incumbent upon our state to protect accrued benefits, as well as all other entitlements that assuage the anxiety of our overworked, underpaid teacher force.

Thank you for the opportunity to testify in support of this bill.

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
SENATE BILL NO. 2753, S.D. 1

February 28, 2012, 9:00 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 testify in support of Senate Bill 2753, S.D. 1 which was recommended by the EUTF.

Senate Bill 2753, S.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.

DEPARTMENT OF BUDGET & FISCAL SERVICES
CITY AND COUNTY OF HONOLULU

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PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
DIRECTOR

February 28, 2012

The Honorable, David Y. Ige, Chair
and Members of the Committee on
Ways and Means
The Senate
State Capitol
Honolulu, Hawaii 96813

Dear Chair Ige and Members:

Subject: Senate Bill 2753, Senate Draft 1
Relating to the Hawaii Employer-Union Health Benefits Trust Fund

The City and County of Honolulu strongly supports Senate Bill 2753, Senate Draft 1 which will authorize the Employer-Union Trust Fund (EUTF) Board to create a separate trust fund to receive employer contributions to prefund other post-employment benefits (OPEB).

We understand that the creation of this trust fund will ensure that the City's OPEB contributions will be used exclusively for providing health and other non-pension benefits to City retirees. In addition, the City would be able to receive credit for its OPEB contributions because the trust would meet Government Accounting Standards Board (GASB) requirements for OPEB plans.

The City has already contributed \$40 million in FY 2009, and plans to add another \$40 million this fiscal year to EUTF for the City's OPEB obligations. We believe it is essential to secure these funds for the purpose in which they were intended and ask for your favorable consideration of Senate Bill 2753.

Thank you for the opportunity to comment on this matter.

Yours truly,


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


Noel T. Ono, Director
Department of Human Resources

COUNTY COUNCIL
Jay Furfaro, Chair
JoAnn A. Yukimura, Vice Chair
Tim Bynum
Dickie Chang
KipuKai Kualif'i
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Council Services Division
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Lihu'e, Kaua'i, Hawai'i 96766

February 24, 2012

**TESTIMONY OF JAY FURFARO
COUNCIL CHAIR, KAUAI COUNTY COUNCIL
ON**

S.B. NO. 2753, S.D. 1

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Committee on Ways And Means

Tuesday, February 28, 2012

9:00 A.M.

Conference Room 211

Dear Chair Ige and Committee Members:

Thank you for this opportunity to submit testimony in strong support of S.B. No. 2753, S.D. 1, relating to the Hawai'i Employer-Union Health Benefits Trust Fund (EUTF). My testimony is submitted in my capacity as the Chair of the Kaua'i County Council.

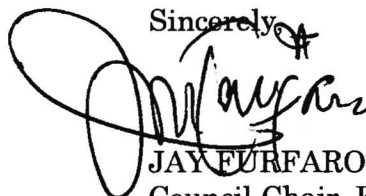
S.B. No. 2753, S.D. 1, authorizes the EUTF Board to establish a trust fund through employer contributions to pre-fund post-employment benefit costs for retirees and their beneficiaries.

The County of Kaua'i currently makes pre-funded contributions towards other post-employment benefits (OPEB), but is unable to receive credit. By having an irrevocable trust fund that ensures OPEB contributions are used solely for providing health and other benefits to retirees and their beneficiaries and also complies with the requirements of the Government Accounting Standards Board (GASB), it creates a safety net and enables the county to receive credit for OPEB costs.

For the reason stated above, the Kaua'i County Council is in strong support of S.B. No. 2753, S.D. 1, and asks for your favorable support.

Thank you for this opportunity to submit testimony.

Sincerely,



JAY FURFARO
Council Chair, Kaua'i County Council

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AN EQUAL OPPORTUNITY EMPLOYER