

DAVID Y. IGE
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STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT
235 S. BERETANIA STREET
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March 30, 2017

**TESTIMONY TO THE
HOUSE COMMITTEE ON FINANCE**

For Hearing on Friday, March 31, 2017
3:00 p.m., Conference Room 308

BY

JAMES K. NISHIMOTO
DIRECTOR

Senate Bill No. 969, H.D. 1
Making An Emergency Appropriation
To The Department Of Human Resources Development

TO CHAIRPERSON LUKE, VICE CHAIR CULLEN, AND MEMBERS OF THE
COMMITTEE:

Thank you for the opportunity to testify in **strong support** of S.B. 969, H.D. 1,
with the requested amendments detailed below.

S.B. 969, H.D. 1, makes an emergency appropriation to the Department of
Human Resources Development (“DHRD”) to pay claims as required by the Hawaii
Workers’ Compensation Law, Chapter 386, Hawaii Revised Statutes (“HRS”).

As noted in Governor’s Message No. 5, our updated projections based on actual
FY17 expenses through January 31, 2017 indicate our original request of \$1,700,000
will not be sufficient to cover the balance of our anticipated expenses for the balance of
FY17. Therefore, we respectfully ask for your committee’s favorable consideration of
our updated emergency appropriation request of \$2,400,000 and amend the bill to
reflect this new amount. We also request that the bill be amended to take effect upon
its approval.

Pursuant to Section 26-5, HRS, DHRD is responsible for administering the
State’s centralized, self-insured workers’ compensation program, which covers all State

Executive Branch agencies (except the Department of Education, University of Hawaii, and Hawaii Health Systems Corporation), the charter schools, the Hawaii Public Housing Authority, and the Legislature. Workers' compensation is a statutorily-mandated benefit which provides wage loss compensation, medical care, and other related benefits to employees who suffer a work-related injury or illness. Chapter 386, HRS, statutorily presumes that a claim for compensation is for a covered work injury unless the employer can show by substantial evidence that the injury is not work-related.

The primary driving force behind our increasing costs are medical care, services, and supplies, which have increased by 27% from FY11 to FY15, mirroring the 27% increase of DHRD's total overall workers' compensation costs in that period. DHRD's increasing costs are consistent with, and comparable to, all other employers in the State. According to the Department of Labor and Industrial Relations ("DLIR") Workers' Compensation Data Books for CY11 and CY15, medical costs for all Hawaii employers increased 21% in those five years and total workers' compensation costs increased at the exact same rate of 21%.

DHRD makes every effort to contain medical costs by carefully reviewing and auditing medical bills to ensure that we pay only for the medical care, services, and supplies that are related to the compensable work injury. We attend administrative hearings at DLIR to contest and adjudicate disputes over liability for controverted claims and/or for ongoing medical care. However, like all other employers in the State, we expect medical costs to continue to increase in light of recent administrative and court decisions, including the 2015 Hawaii Supreme Court decision, Pulawa v. Oahu Construction Co., Ltd., and Seabright Insurance Company, SCWC-11-0001019 (Hawai'i November 4, 2015) which liberalized the standard for medical treatment from "reasonable and necessary" to "reasonably needed" and allows claimants to "receive[] the opportunity for the greatest possible medical rehabilitation."

DHRD is also seeing increased costs for permanent partial disability ("PPD") benefits paid to our injured employees. While our PPD expenses are roughly half that of our medical costs, we also expect such costs to continue to increase because PPD

benefits are statutorily calculated based on the State average weekly wage (“AWW”) in the year of injury. Except for 2011, the State AWW has risen every year since 1973. Between 2000 and 2017, the AWW has increased 59.9% from \$529 to \$846. In terms of PPD benefits, this means that a permanent disability award for the same degree of impairment for a 2017 injury would cost employers 59.9% more than if the injury had occurred in 2000.

Without these additional funds DHRD will not be able to pay for the medical care and other workers’ compensation benefit costs incurred by our State employees who sustain injuries and illnesses while in the course and scope of their employment. If we are unable to pay these benefits, the workers’ compensation law imposes penalties on employers who do not timely pay obligations, i.e., 20% penalty on unpaid TTD when due in addition to the amount owed; and 20% on compensation awarded.

Thank you for allowing DHRD to testify in **strong support** of S.B. 969, with amendments to include our updated emergency appropriation request of \$2,400,000 and making the bill effective upon its approval.

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN COMMENTS
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO
HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 969, HD1

March 31, 2017
3:00 p.m.
Room 308

**MAKING AN EMERGENCY APPROPRIATION TO THE DEPARTMENT OF HUMAN
RESOURCES DEVELOPMENT**

Senate Bill No. 969, HD1 makes an emergency appropriation to provide funds for Department of Human Resources Development to pay claims as required under the Hawaii Workers' Compensation Law, chapter 386, Hawaii Revised Statutes.

The Department of Budget and Finance supports the Department of Human Resources Development (DHRD). While DHRD has made efforts at cost containment, both rising costs of medical care and recent court decisions have resulted in increased expenditures beyond their control. Further, should DHRD not be able to pay these claims, a penalty pursuant to Hawaii worker compensation law is further imposed on the State as the employer, for which DHRD is also responsible to pay.

Thank you for your consideration of our comments.

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 29, 2017 4:37 PM
To: FINTestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for SB969 on Mar 31, 2017 15:00PM*

SB969

Submitted on: 3/29/2017

Testimony for FIN on Mar 31, 2017 15:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

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