
A BILL FOR AN ACT

RELATING TO UNFUNDED LIABILITIES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 PART I

2 SECTION 1. The legislature finds that according to the
3 National Conference of State Legislatures, in 2010, forty-six
4 states self-insured or self-funded at least one of their
5 employee health care plans, and at least twenty-nine states
6 self-funded all of their employee health care offerings.

7 The legislature also finds that self-insured or self-funded
8 plans have a number of potential advantages over fully insured
9 plans. The legislature further finds that many states
10 administering self-insured or self-funded employee health care
11 plans have been able to lower costs while still maintaining a
12 high level of health benefits.

13 Hawaii's employer-union health benefits trust fund is
14 currently fully insured rather than self-insured. However,
15 health care premiums have risen rapidly over the last decade.
16 Therefore, the legislature believes that it is both prudent and
17 essential that the State examine whether converting the



1 employer-union health benefits trust fund to a self-insured
2 model will result in cost savings.

3 The purpose of this part is to require the state auditor to
4 study the feasibility of providing health benefits to state and
5 county employees using a self-insured model.

6 SECTION 2. (a) The state auditor shall study the
7 feasibility of providing health benefits to state and county
8 employees using a self-insured model. In conducting the study,
9 the state auditor shall collect and take into account thorough
10 data on:

- 11 (1) Historical census;
- 12 (2) Health benefit premiums;
- 13 (3) Contributions;
- 14 (4) Plan documents;
- 15 (5) Claims information; and
- 16 (6) Any other information the state auditor deems to be
17 appropriate.

18 (b) In conducting the study under subsection (a), the
19 state auditor shall examine the potential impacts of
20 transitioning health benefits to a fully self-insured model,



- 1 partially self-insured model, or other risk retention model
2 including:
- 3 (1) Risks to the State from acting as its own insurer,
4 including but not limited to:
 - 5 (A) Uncontrolled utilization; and
 - 6 (B) Cost increases from catastrophic claims events;
 - 7 (2) Investment returns on reserves in the employer-union
8 health benefits trust fund;
 - 9 (3) Administrative cost savings, including any federal tax
10 or fee savings;
 - 11 (4) Fiduciary and legal obligations of the State;
 - 12 (5) Benefits available for employees and other insured
13 persons;
 - 14 (6) Changes in provider reimbursement levels, capitation,
15 and care management practices;
 - 16 (7) Any other factors or impacts the state auditor deems
17 to be relevant;
 - 18 (8) Risk assumptions used and analysis of the assumptions;
19 and
 - 20 (9) The funding model proposed under part II, which
21 involves a rate stabilization reserve fund, maximum



1 levels of employer contributions to the other post-
2 employment benefits trust fund, the diversion of the
3 excess in employer contributions to the employees'
4 retirement fund, and the use of transient
5 accommodations tax revenues to supplement deficient
6 county public employer contribution amounts.

7 (c) The state auditor may contract the services of another
8 entity to perform any related services that may be required
9 pursuant to this part.

10 (d) The state auditor shall submit a report of its
11 findings and recommendations, including any proposed
12 legislation, to the legislature no later than twenty days prior
13 to the convening of the regular session of 2020.

14 SECTION 3. There is appropriated out of the general
15 revenues of the State of Hawaii the sum of \$ or so much
16 thereof as may be necessary for fiscal year 2019-2020 for the
17 purposes of this part.

18 The sum appropriated shall be expended by the state auditor
19 for the purposes of this part.



1 PART II

2 SECTION 4. The legislature finds that as of July 2, 2015,
3 the unfunded portion of the actuarial accrued liability of the
4 Hawaii employer-union health benefits trust fund was
5 \$11,772,008,000. This is \$969,745,000 more than the total
6 revenues for the State for fiscal year 2015.

7 To address this unfunded liability, Act 268, Session Laws
8 of Hawaii 2013, requires the State and counties to prefund other
9 post-employment health and other benefit plan costs for retirees
10 and their beneficiaries by making annual contributions to the
11 other post-employment benefits trust fund. State, county, and
12 other public employers' annual contributions to the other post-
13 employment benefits trust fund totals \$427,299,249, while all
14 assets of the trust fund total \$2,370,481,565, for fiscal year
15 2018.

16 Meanwhile, the State, counties, and other public employers
17 are also required to make payments to cover a portion of pay-as-
18 you-go Hawaii employer-union health benefits trust fund costs.
19 Clearly, given current and projected revenues, the State and the
20 counties cannot afford to prefund both health and pension
21 unfunded liabilities, which are projected to total more than



1 \$800,000,000 per year in later years. A more affordable and
2 less painful solution is necessary.

3 Furthermore, the Hawaii employer-union health benefits
4 trust fund projects a seven per cent investment return on funds
5 in the other post-employment benefits trust fund, which amounts
6 to an estimated \$140,000,000 that will be deposited into the
7 rate stabilization reserve fund each year. By not requiring
8 other post-employment benefits prefunding through 2049, this Act
9 will free up moneys for important state, county, and other
10 public employee services, projects, and needs.

11 Accordingly, this part:

- 12 (1) Caps public employer prefunding to the other post-
13 employment benefits trust fund once the separate
14 accounts for each public employer have a combined
15 subaccount balance of at least \$2,000,000,000;
- 16 (2) Thereafter, transfers any investment income and
17 interest from the other post-employment benefits trust
18 fund to a newly established rate stabilization reserve
19 fund, which will provide reserve funding to stabilize
20 the Hawaii employer-union health benefits trust fund
21 at times when that trust fund has insufficient moneys



1 to cover the costs of providing health and other
2 benefits plans for active employees and retirees and
3 their beneficiaries; and

4 (3) Provides for the use of a portion of the transient
5 accommodations tax revenues to supplement deficient
6 county public employer contribution amounts if
7 necessary.

8 SECTION 5. Chapter 87A, Hawaii Revised Statutes, is
9 amended by adding a new section to be appropriately designated
10 and to read as follows:

11 "§87A- Rate stabilization reserve fund; establishment;
12 purpose. (a) There is established a rate stabilization reserve
13 fund to be placed within the employer-union health benefits
14 trust fund for administrative purposes.

15 (b) The rate stabilization reserve fund may cover the
16 increasing costs of providing health and other benefit plans for
17 active employees and retirees and their beneficiaries as
18 required by this chapter. A separate account for each public
19 employer shall be established and maintained to accept and
20 account for each public employer's contributions. Unless
21 otherwise specified by law, the rate stabilization reserve fund



1 shall not be subject to appropriation for any purpose and shall
2 not be subject to claims by creditors of employers or the board.

3 (c) The rate stabilization reserve fund shall consist of:

4 (1) Moneys transferred from the Hawaii employer-union
5 health benefits trust fund established by section 87A-
6 30 and the other post-employment benefits trust fund
7 established by section 87A-42;

8 (2) Interest from the separate trust fund established to
9 prefund other post-employment health and other
10 benefits plan costs for members and their
11 beneficiaries pursuant to section 87A-42 and interest
12 from the rate stabilization reserve fund; and

13 (3) Appropriations from the legislature.

14 (d) The rate stabilization reserve fund shall meet the
15 requirements of the Governmental Accounting Standards Board
16 regarding employment benefits trusts."

17 SECTION 6. Section 87A-31, Hawaii Revised Statutes, is
18 amended by amending subsection (b) to read as follows:

19 " (b) ~~[The fund, including any earnings on investments, and~~
20 ~~rate credits or reimbursements from any carrier or self-insured~~
21 ~~plan and any earning or interest derived therefrom, may be used~~



1 ~~to stabilize health and other benefit plan rates, provided that~~
2 ~~the approval of the governor and the legislature shall be~~
3 ~~necessary to fund administrative and other expenses necessary to~~
4 ~~effectuate these purposes.] All unencumbered and unexpended
5 moneys in excess of \$2,000,000,000 remaining in the fund at the
6 end of each fiscal year shall be transferred to the rate
7 stabilization reserve fund established in section 87A- ."~~

8 SECTION 7. Section 87A-42, Hawaii Revised Statutes, is
9 amended as follows:

10 1. By amending subsection (a) to read:

11 "(a) Notwithstanding sections 87A-31 and 87A-31.5, the
12 board, upon terms and conditions set by the board, shall
13 establish and administer a separate trust fund for the purpose
14 of receiving employer contributions that will prefund other
15 post-employment health and other benefit plan costs for retirees
16 and their beneficiaries. The separate trust fund shall meet the
17 requirements of the [Government] Governmental Accounting
18 Standards Board regarding other post-employment benefits trusts.
19 The board shall establish and maintain a separate account for
20 each public employer within the separate trust fund to accept
21 and account for each public employer's contributions. Employer



1 contributions to the separate trust fund shall be irrevocable,
2 all assets of the fund shall be dedicated exclusively to
3 providing health and other benefits to retirees and their
4 beneficiaries, and assets of the fund shall not be subject to
5 appropriation for any other purpose and shall not be subject to
6 claims by creditors of the employers or the board or plan
7 administrator. The board's powers under section 87A-24 shall
8 also apply to the fund established pursuant to this section.
9 Notwithstanding any law to the contrary, once the separate
10 accounts for each public employer within the separate trust fund
11 have a combined balance of at least \$2,000,000,000, any earnings
12 from the \$2,000,000,000 remaining in the separate trust fund at
13 the end of each fiscal year shall be transferred to the separate
14 public employer accounts within the rate stabilization reserve
15 fund established in section 87A- . Unless otherwise specified
16 by law, the \$2,000,000,000 and the separate trust fund shall not
17 be subject to appropriation for any purpose and shall not be
18 subject to claims by creditors of employers or the board."

19 2. By amending subsection (d) to read:

20 "(d) In any fiscal year [~~subsequent to the 2017-2018~~
21 ~~fiscal year~~] in which a county public employer's contributions



1 into the fund are less than the amount of the annual required
2 contribution, the amount that represents the excess of the
3 annual required contribution over the county public employer's
4 contributions shall be deposited into the applicable fund
5 pursuant to this section from a portion of all transient
6 accommodations tax revenues collected by the department of
7 taxation under section 237D-6.5(b) (4). The director of finance
8 shall deduct the amount necessary to meet the county public
9 employer's annual required contribution from the revenues
10 derived under section 237D-6.5(b) (4) and transfer the amount to
11 the board for deposit into the appropriate account of the
12 separate trust fund."

13 3. By amending subsection (f) to read:

14 "(f) For the purposes of this section, "annual required
15 contribution" means a public employer's required contribution to
16 the trust fund established in this section [~~that is sufficient~~
17 ~~to cover:~~

18 ~~(1) The normal cost, which is the cost of other post-~~
19 ~~employment benefits attributable to the current year~~
20 ~~of service; and~~



Report Title:

Unfunded Liabilities; EUTF; State Auditor; Study; Appropriation

Description:

Requires the State Auditor to study the feasibility of providing health benefits to state and county employees using a self-insured model. Appropriates funds. Establishes the Rate Stabilization Reserve Fund. Caps employer contributions to the Other Post-Employment Benefits Trust Fund. Provides for the use of a portion of TAT revenues to supplement deficient county public employer contribution amounts. (HB1462 HD1)

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