

JAN 23 2020

A BILL FOR AN ACT

RELATING TO UNFUNDED LIABILITIES.

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

1 SECTION 1. The legislature finds that the human-induced
2 global climate crisis requires a thoughtful but bold response on
3 many fronts to make Hawaii communities resilient to the impacts
4 of storms, floods, fire, and sea-level rise that threaten the
5 very survivability of these fragile islands. Lest Hawaii lose
6 its leadership position in meeting the future, and in the arenas
7 of labor, justice, and equity, the legislature embraces aloha
8 'aina to decarbonize Hawaii's systems of food, energy, and
9 transportation, and to sequester carbon through systems of
10 agriculture, waste management, and ecosystem restoration. The
11 good jobs thereby created also expand access to health, housing,
12 and education, ensuring justice and equity for Hawaii's citizens
13 by saving the State at least \$500,000,000 every year that can be
14 used to address the global climate crisis and other statewide
15 concerns like affordable housing and homelessness; teacher and
16 doctor shortages; capital improvement projects, such as funding
17 for a new jail and the development of Aloha Stadium; state and



1 county road repairs; and collective bargaining funding. The
2 following Green New Deal measure represents a step forward in
3 mitigating and adapting to inevitable change.

4 The legislature further finds that according to the
5 National Conference of State Legislatures, in 2010, forty-six
6 states self-insured or self-funded at least one of their
7 employee health care plans, and at least twenty states
8 self-funded all of their employee health care offerings. As of
9 July 1, 2016 or July 1, 2017, depending on the states' most
10 recent plan years, nine more states were added, for a total of
11 twenty-nine states who are self-insured or self-funded.

12 The legislature also finds that self-insured or self-funded
13 plans have a number of potential advantages over fully insured
14 plans. The legislature further finds that many states
15 administering self-insured or self-funded employee health care
16 plans have been able to lower costs while still maintaining a
17 high level of health benefits.

18 Hawaii's employer-union health benefits trust fund is
19 currently fully insured rather than self-insured or self-funded.
20 However, health care premiums have risen rapidly over the last
21 decade. Therefore, the legislature believes that it is prudent



1 and essential that the State consider converting the employer-
2 union health benefits trust fund to a self-insured model or
3 self-funded model that will result in cost savings.

4 The legislature further finds that the unfunded portion of
5 the actuarial accrued liability of the Hawaii employer-union
6 health benefits trust fund is amongst the worst of all fifty
7 states.

8 To address this unfunded liability, Act 268, Session Laws
9 of Hawaii 2013, requires the State and counties to prefund other
10 post-employment health and other benefit plan costs for retirees
11 and their beneficiaries by making annual contributions to the
12 other post-employment benefits trust fund. However, as of July
13 2, 2015, the unfunded portion of the actuarial accrued liability
14 of the Hawaii employer-union health benefits trust fund was
15 \$11,772,008,000. This far exceeded state revenues. Further,
16 state, county, and other public employers' annual contributions
17 to the other post-employment benefits trust fund totalled
18 \$427,299,249 while all assets of the trust fund totalled
19 \$2,370,481,565, for fiscal year 2018.

20 In addition, the State, counties, and other public
21 employers are also required to make payments to cover a portion



1 of pay-as-you-go Hawaii employer-union health benefits trust
2 fund costs. Clearly, given current and projected revenues, the
3 State and the counties cannot afford to prefund health and
4 pension unfunded liabilities, which are projected to total more
5 than \$800,000,000 per year in later years. A more affordable
6 and less painful solution is necessary.

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

15 Accordingly, this Act:

16 (1) Caps public employer prefunding through the Hawaii
17 employer-union health benefits trust fund and other
18 post-employment benefits trust fund once the separate
19 accounts for each public employer have a combined
20 balance of at least \$2,000,000,000;



- 1 (2) Thereafter, transfers any investment income and
2 interest from the Hawaii employer-union health
3 benefits trust fund and other post-employment benefits
4 trust fund to a newly established rate stabilization
5 reserve fund, which will provide reserve funding to
6 stabilize the Hawaii employer-union health benefits
7 trust fund at times when that trust fund has
8 insufficient moneys to cover the costs of providing
9 health and other benefits plans for active employees
10 and retirees and their beneficiaries; and
11 (3) Continues to provide for the use of a portion of the
12 transient accommodations tax revenues to supplement
13 deficient county public employer contribution amounts
14 if necessary.

15 SECTION 2. Chapter 87A, Hawaii Revised Statutes, is
16 amended by adding a new section to be appropriately designated
17 and to read as follows:

18 "§87A- Rate stabilization reserve fund; establishment;
19 purpose. (a) There is established a rate stabilization reserve
20 fund to be placed within the employer-union health benefits
21 trust fund for administrative purposes.



1 (b) The rate stabilization reserve fund may cover the
2 increasing costs of providing health and other benefit plans for
3 active employees and retirees and their beneficiaries as
4 required by this chapter. A separate account for each public
5 employer shall be established and maintained to accept and
6 account for each public employer's contributions. Unless
7 otherwise specified by law, the rate stabilization reserve fund
8 shall not be subject to appropriation for any purpose and shall
9 not be subject to claims by creditors of employers or the board.

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

11 (1) Moneys transferred from the Hawaii employer-union
12 health benefits trust fund established by section 87A-
13 30 and the other post-employment benefits trust fund
14 established by section 87A-42;

15 (2) Interest from the separate trust fund established to
16 prefund other post-employment health and other
17 benefits plan costs for members and their
18 beneficiaries pursuant to section 87A-42 and interest
19 from the rate stabilization reserve fund; and

20 (3) Appropriations from the legislature.



1 (d) The rate stabilization reserve fund shall meet the
2 requirements of the Governmental Accounting Standards Board
3 regarding employment benefits trusts."

4 SECTION 3. Section 87A-31, Hawaii Revised Statutes, is
5 amended by amending subsection (b) to read as follows:

6 "~~(b) [The fund, including any earnings on investments, and~~
7 ~~rate credits or reimbursements from any carrier or self-insured~~
8 ~~plan and any earning or interest derived therefrom, may be used~~
9 ~~to stabilize health and other benefit plan rates; provided that~~
10 ~~the approval of the governor and the legislature shall be~~
11 ~~necessary to fund administrative and other expenses necessary to~~
12 ~~effectuate these purposes.]~~ All unencumbered and unexpended
13 moneys in excess of \$2,000,000,000 remaining in the fund at the
14 end of each fiscal year shall be transferred to the rate
15 stabilization reserve fund established in section 87A- ."

16 SECTION 4. Section 87A-42, Hawaii Revised Statutes, is
17 amended as follows:

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

19 "(a) Notwithstanding sections 87A-31 and 87A-31.5, the
20 board, upon terms and conditions set by the board, shall
21 establish and administer a separate trust fund for the purpose



1 of receiving employer contributions that will prefund other
2 post-employment health and other benefit plan costs for retirees
3 and their beneficiaries. The separate trust fund shall meet the
4 requirements of the [~~Government~~] Governmental Accounting
5 Standards Board regarding other post-employment benefits trusts.
6 The board shall establish and maintain a separate account for
7 each public employer within the separate trust fund to accept
8 and account for each public employer's contributions. Employer
9 contributions to the separate trust fund shall be irrevocable,
10 all assets of the fund shall be dedicated exclusively to
11 providing health and other benefits to retirees and their
12 beneficiaries, and assets of the fund shall not be subject to
13 appropriation for any other purpose and shall not be subject to
14 claims by creditors of the employers or the board or plan
15 administrator. The board's powers under section 87A-24 shall
16 also apply to the fund established pursuant to this section.
17 Notwithstanding any law to the contrary, once the separate
18 accounts for each public employer within the separate trust fund
19 have a combined balance of at least \$2,000,000,000, any earnings
20 from the \$2,000,000,000 remaining in the separate trust fund at
21 the end of each fiscal year shall be transferred to the separate



1 public employer accounts within the rate stabilization reserve
2 fund established in section 87A- . Unless otherwise specified
3 by law, the \$2,000,000,000 and the separate trust fund shall not
4 be subject to appropriation for any purpose and shall not be
5 subject to claims by creditors of employers or the board."

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

7 "(d) In any fiscal year [~~subsequent to the 2017-2018~~
8 ~~fiscal year~~] in which a county public employer's contributions
9 into the fund are less than the amount of the annual required
10 contribution, the amount that represents the excess of the
11 annual required contribution over the county public employer's
12 contributions shall be deposited into the fund from a portion of
13 all transient accommodations tax revenues collected by the
14 department of taxation under section 237D-6.5(b)(4). The
15 director of finance shall deduct the amount necessary to meet
16 the county public employer's annual required contribution from
17 the revenues derived under section 237D-6.5(b)(4) and transfer
18 the amount to the board for deposit into the appropriate account
19 of the separate trust fund."

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



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

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

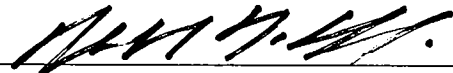
8 ~~(2) An amortization payment, which is a catch up payment~~
9 ~~for past service costs to fund the unfunded actuarial~~
10 ~~accrued liability over the next thirty years]."~~

11 SECTION 5. Statutory material to be repealed is bracketed
12 and stricken. New statutory material is underscored.

13 SECTION 6. This Act shall take effect on July 1, 2020.

14

INTRODUCED BY: _____



By Request



S.B. NO. 2981

Report Title:

Unfunded Liabilities; EUTF; OPEB; Green New Deal-Hawaii

Description:

Converts the State's employee health care plan from fully-insured to self-insured or self-funded. Establishes the rate stabilization reserve fund. Establishes a reserve of \$2,000,000,000 within EUTF. Transfers excess funds, earnings, and any pay-as-you-go employee premiums not spent from the EUTF reserve and OPEB to the rate stabilization reserve fund. Continues to provide for the use of a portion of TAT revenues to supplement deficient county public employer contribution amounts.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

