

JAN 22 2021

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## A BILL FOR AN ACT

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RELATING TO UNFUNDED LIABILITIES.

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

1       SECTION 1. The legislature finds that self-insured or  
2 self-funded plans have a number of potential advantages over  
3 fully insured plans. According to the National Conference of  
4 State Legislatures, currently, 48 states self-fund at least one  
5 of the health plan options offered for state employees, and 29  
6 states self-fund all state employee health plan options. Those  
7 states that have administered self-insured state employee health  
8 plans have been able to eliminate most premium taxes and lower  
9 costs while still maintaining a high level of health benefits.  
10       Hawaii's employer-union health benefits trust fund is  
11 currently fully insured rather than self-insured. However,  
12 health care premiums have risen rapidly over the last decade.  
13 Therefore, the legislature believes that it is both prudent and  
14 essential for the State to convert the employer-union health  
15 benefits trust fund to a self-insured model will result in cost  
16 savings.



1       The legislature additionally finds that as of July 1, 2019,  
2   the unfunded portion of the actuarial accrued liability of the  
3   Hawaii employer-union health benefits trust fund was  
4   \$12,436,389,000. This is more than the total revenue that the  
5   state collected in taxes for fiscal year 2019, which was around  
6   \$8,280,000,000.

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 active  
10   employees and retirees and their dependents by making annual  
11   contributions to the other post-employment benefits trust fund.  
12   State, county, and other public employers' annual contributions  
13   to the other post-employment benefits trust fund totals  
14   \$1,175,022,313 for fiscal year 2020. The balance of the trust  
15   fund was \$3,735,834,615, as of June 30, 2020.

16       Clearly, given current and projected revenues, the State  
17   and the counties cannot afford to commit several hundreds of  
18   millions of dollars each year for the next couple decades to  
19   prefund both health and pension unfunded liabilities. A more  
20   affordable and less painful solution is necessary.



1 By not requiring other post-employment benefits prefunding  
2 through 2049, this Act will free up monies that could be used  
3 toward addressing the many important needs of the State and  
4 counties, including balancing the budget, reducing the shortage  
5 of doctors, nurses, and teachers in the State, and bringing  
6 additional funds to the City and County of Honolulu's rail  
7 project. Additionally, savings that come as a result of passage  
8 of this Act can help address the effects of the COVID-19  
9 pandemic that occurred in 2020, including reducing the need, or  
10 possibly even avoiding entirely, furloughing state workers and  
11 reducing the salary of state workers by ten per cent.

12 Accordingly, the purpose of this Act is to reallocate the  
13 amount of prefunding by:

- 14 (1) Capping public employer prefunding to the other post-  
15 employment benefits trust fund once the separate  
16 accounts for each public employer have a combined  
17 subaccount balance of at least \$2,000,000,000 to serve  
18 as a reserve account for the self-insured model; and  
19 (2) Thereafter, transferring any amount of funds over the  
20 \$2,000,000,000 cap, including any investment income  
21 and interest, from the other post-employment benefits



trust fund to a newly established stabilization fund,  
which will:

(A) Provide reserve funding to stabilize the Hawaii  
employer-union health benefits trust fund at  
times when that trust fund has insufficient  
moneys to cover the costs of providing health and  
other benefits plans for active employees and  
retirees and their dependents; and

(B) Ensure that health premiums stay level and do not  
increase in the future.

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

"§87A- Stabilization fund; establishment; purpose. (a)

There is established a stabilization fund to be placed within  
the employer-union health benefits trust fund for administrative  
purposes.

(b) The stabilization fund may cover the increasing costs  
of providing health and other benefit plans for active employees  
and retirees and their dependents as required by this chapter.

A separate account for each public employer shall be established



1 and maintained to accept and account for each public employer's  
2 contributions. Unless otherwise specified by law, the  
3 stabilization fund shall not be subject to appropriation for any  
4 purpose and shall not be subject to claims by creditors of  
5 employers or the board.

6 (c) The stabilization fund shall consist of:

7 (1) Moneys transferred from the Hawaii employer-union  
8 health benefits trust fund established by section 87A-  
9 30 and the other post-employment benefits trust fund  
10 established by section 87A-42;

11 (2) Interest from the separate trust fund established to  
12 prefund other post-employment health and other  
13 benefits plan costs for members and their dependents  
14 pursuant to section 87A-42 and interest from the  
15 stabilization fund;

16 (3) Any earnings on investments of the fund; and

17 (4) Appropriations from the legislature.

18 (d) The stabilization fund shall meet the requirements of  
19 the Governmental Accounting Standards Board regarding employment  
20 benefits trusts.



1        (e) The board may contract with a third-party  
2        administrator or enter into an administrative services only  
3        arrangement to manage and administer the funds of the  
4        stabilization fund in accordance with this section."

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

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

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

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

20       "(a) Notwithstanding sections 87A-31 and 87A-31.5, the  
21       board, upon terms and conditions set by the board, shall



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



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

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

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





# S.B. NO. 887

3. By amending subsection (f) to read:

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

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

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

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

SECTION 6. This Act shall take effect on July 1, 2021.

INTRODUCED BY: 



# S.B. NO. 887

**Report Title:**

Unfunded Liabilities; EUTF; Other Post-Employment Benefits Trust Fund; Stabilization Fund; Establishment

**Description:**

Establishes the stabilization fund. Caps employer contributions to the other post-employment benefits trust fund. Transfers excess funds over the established cap from other post-employment benefits trust fund to the stabilization fund to cover cost increases of providing health and other benefits plans for active employees and retirees and their dependents.

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

