

STAND. COM. REP. NO. 1567

Honolulu, Hawaii

APR 09 2021

RE: H.B. No. 468
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-First State Legislature
Regular Session of 2021
State of Hawaii

Sir:

Your Committees on Labor, Culture and the Arts and Ways and Means, to which was referred H.B. No. 468, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND,"

beg leave to report as follows:

The purpose and intent of this measure is to remove Medicare Part B reimbursement for spouses of employee-beneficiaries hired on or after July 1, 2021.

Your Committees did not receive any testimony on this measure.

Prior to the hearing on this measure, your Committees posted and made available for public review a proposed S.D. 1, which amends this measure by replacing its contents with that of S.B. No. 1087, S.D.1 (Regular Session of 2021), which was previously passed by the Senate, and temporarily suspends the requirement for public employers to make annual required contributions to the Hawaii Employer-Union Health Benefits Trust Fund through fiscal year 2024-2025.

Your Committees received testimony in support of the proposed S.D. 1 from the Department of Budget and Finance and City and County of Honolulu Department of Budget and Fiscal Services. Your



Committees received comments on the proposed S.D. 1 from the Hawaii Employer-Union Health Benefits Trust Fund and Grassroot Institute of Hawaii.

Your Committees find that the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) is a state agency that provides eligible state and county employees and retirees and their eligible dependents with health and life insurance benefits. EUTF receives monthly contributions known as "pay-as-you go" premiums from state and county employers that are used towards the payment of costs for the beneficiaries' health benefit and group life insurance plans.

In 2013, to reduce EUTF's substantial amount of unfunded liability, the Legislature passed Act 268, Sessions Laws of Hawaii 2013, which required EUTF to establish a separate trust fund entitled the Other Post-Employment Benefits (OPEB) Trust, into which the public employers must pay annual required contributions, to pre-fund the OPEB plan costs for existing employees and pay down EUTF's existing unfunded liability. The amount of annual required contribution is determined by EUTF, and beginning fiscal year 2018-2019, public employers were required to pay an amount sufficient to fully cover the "normal cost", which is the OPEB cost attributable to the current year of service and the "amortization payment", which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next thirty years.

In July 2020, to address the \$2.3 billion budget shortfall caused by the coronavirus disease 2019 (COVID-19) pandemic, the Governor suspended the State's required payment of the annual contributions to EUTF for the fiscal year ending June 30, 2021. As a result, for fiscal year 2020-2021, the state and county contributions will be limited to their share of the monthly "pay-as-you-go" premiums and claims expenses. The proposed S.D.1 of this measure extends this suspension for four more years, until fiscal year 2024-2025.

Your Committees find that extending this temporary suspension of annual required contributions is one of the cornerstones of the Governor's approach to balancing the general fund financial plan. According to the Department of Budget and Finance, the four-year suspension will reduce the State's fixed costs by \$1,434,439,000,



and will provide the State and other public employers with the flexibility to address budgetary shortfalls while the economy recovers from the impact of the COVID-19 pandemic.

Your Committees also recognize the negative impacts of the elongated suspension of the annual required contribution payments. Prefunding of the OPEB is a sound, long-term budget policy that hedges against the risk of EUTF's annual current benefits payments outpacing its revenues. Prefunding also allows the investment earnings from the funds to be used in the future for payment of retiree premiums. The suspension of contributions will delay the public employers from reaching a full-funded status of their OPEB funds unless payments are accelerated after the suspension is repealed. According to projections by EUTF, the proposed S.D. 1 will increase EUTF's unfunded liability, resulting in a net increase of \$4,100,000,000 in the State's required payments for fiscal years 2026 to 2055. Your Committees find it crucial that measures be taken to offset this increase, and believes the elimination of the state and county employers' obligation to reimburse Medicare Part B premiums to spouses of future EUTF employee-beneficiaries, as proposed in this measure, which is estimated to save the State \$1,200,000,000 over the next thirty years, to be a plausible option.

Accordingly, your Committees have amended this measure by adopting the proposed S.D. 1 and further amending it by:

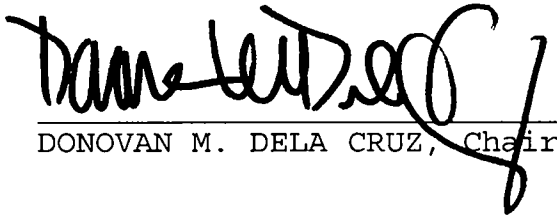
- (1) Inserting a new part that requires EUTF to:
 - (A) Examine and assess possible means to offset the future increase in the State's annual required contributions resulting from the extended suspension of payment until fiscal year 2024-2025, including the assessment of the negative and positive impacts of amending section 87A-23, Hawaii Revised Statutes, as proposed in H.B. No. 468, H.D. 1 (Regular Session of 2021); and
 - (B) Submit a report of its findings and recommendations, including any proposed legislation, to the Legislature no later than twenty days prior to the convening of the Regular Session of 2022; and



- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the records of votes of the members of your Committees on Labor, Culture and the Arts and Ways and Means that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 468, H.D. 1, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 468, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on behalf of the members of the Committees on Labor, Culture and the Arts and Ways and Means,



DONOVAN M. DELA CRUZ, Chair



BRIAN T. TANIGUCHI, Chair



