DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAIʻI
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAIʻI 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

<u>WRITTEN ONLY</u>

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON JUDICIARY AND WAYS AND MEANS
ON
SENATE BILL NO. 1087, S.D. 1

March 3, 2021
9:45 a.m.
Room 211 and Videoconference

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

The Department of Budget and Finance strongly supports Senate Bill (S.B.) No. 1087, S.D. 1.

S.B. No. 1087, S.D. 1, is an Administration bill that amends Sections 87A-42, 87A-43, 237-31, and 237D-6.5, HRS, to temporarily suspend the requirement for public employers to make annual required contributions to the Hawaiʻi Employer-Union Health Benefits Trust Fund through FY 25.

Temporary suspension of annual required contributions is one of the cornerstones of the Administration's approach to balancing the general fund financial plan. It will provide the State and other public employers flexibility to address budgetary shortfalls while the economy recovers. Although pre-funding other post-employment benefits (OPEB) is a sound, long-term budget policy to hedge against the risk of annual current benefits payments outpacing the growth of State revenues, addressing current budget shortfalls is an immediate concern that should take priority. Based on the most recent actuarial valuation report for the State's OPEB as of July 1, 2020, suspending OPEB pre-funding payments for all four years will reduce fixed costs by $1,434,439,000 over the same period.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR

STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
201 MERCHANT STREET, SUITE 1700
HONOLULU, HAWAII 96813
Oahu (808) 586-7390
Toll Free 1(800) 295-0089
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WRITTEN ONLY

TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEES ON JUDICIARY AND WAYS AND MEANS
ON SENATE BILL NO. 1087 S.D.1

March 3, 2021
9:45 a.m.
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RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Chairs Rhoads and Dela Cruz, Vice Chairs Keohokalole and Keith-Agaran, and Members of the Committees:

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not taken a position on this bill. EUTF staff would like to provide comments.

The bill suspends prefunding of retiree health benefits (Act 268, Session Laws of Hawaii 2013) under Hawaii Revised Statutes 87A for fiscal years ending June 30, 2022, 2023, 2024 and 2025 reducing the State ($1.4 billion) and counties annual payment requirements for these four years. Fiscal year 2021 prefunding contributions were suspended by the Governor's 10th emergency proclamation (State portion $408 million). For these five years, the State and counties are still required to pay for retiree health benefit premiums. The downside to the suspension is an increase in future payments (State net increase in payments of $4.1 billion for fiscal years 2026 – 2055). Passage of this bill is not expected to change the actuary's use of the 7% investment expected rate of return for purposes of valuing the long-term liability.

Act 268 was enacted to begin the process of prefunding retiree health care liabilities, similar to state and county pensions, instead of continuing to pay only retiree premiums. Prefunding today would result in investment earnings being used in the future to pay for retiree premiums. Act 268 required that State and counties contribute an annual required contribution (ARC) comprised of the cost of the benefit for the current employees' year of service (normal cost) and a payment to amortize the unfunded liability over a period of 30-years.

The Legislature should also be aware that the results of the State's actuarial valuation for July 1, 2020 was an actuarial gain of $733 million resulting in lower projected future ARC amounts of $3.4 billion for years through 2055 as compared to the July 1, 2019 actuarial valuation. Additionally, HB468, if passed, is projected to reduce future ARC amounts ($1.2 billion for fiscal years through 2055). HB468 would eliminate State and county reimbursements of Medicare Part B premiums for spouses of retirees hired on or after July 1, 2021.

Thank you for the opportunity to testify.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, TRANSIENT ACCOMMODATIONS, Suspends EUTF contribution requirement

BILL NUMBER: SB 1087, SD1

INTRODUCED BY: Senate Committee on Labor, Culture and the Arts

EXECUTIVE SUMMARY: 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.

SYNOPSIS: Reverses the mechanisms enacted in Act 268, SLH 2013, that required public employers to pay an annual "required contribution" to the Employer-Union Health Benefits Trust Fund, or EUTF.

EFFECTIVE DATE: 7/1/2050. Repeals 6/30/2025.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Budget and Finance and identified as BUF-20 (21).

EUTF is a state agency administratively attached to the Department of Budget and Finance 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 public employers that is used towards the payment of costs for the beneficiaries' health benefit and group life insurance plans.

In 2013, to reduce the EUTF's substantial amount of unfunded liability, the Legislature passed Act 268, Session Laws of Hawaii 2013, that required the EUTF to establish a separate trust fund entitled the Other Post-Employment Benefits (OPEB) Trust, into which the employers must pay annual required contributions to pre-fund the OPEB plan costs for existing employees as well as pay down the EUTF's existing unfunded liability. The amount of annual required contribution is determined by the 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.

Act 268 provided that if a public employer failed to make its annual required contribution, then: (1) if the nonpaying employer were the State, the shortfall would be intercepted from General Excise Tax collections, and (2) if the nonpaying employer were a county government, the shortfall would be intercepted from that county's share of the Transient Accommodations Tax.

On April 25, 2020, to address conditions wrought by the COVID-19 pandemic, the Governor issued a Sixth Supplementary Proclamation Amending and Restating Prior Proclamations and Executive Orders Related to the COVID-19 Emergency, which suspended all earmarks on the

TAT, including sharing the TAT with the counties. This step rendered it impossible for the Act 286, SLH 2013 sequestration provision to be enforced against a county that failed to make the minimum required payment.

On July 17, 2020, to address the $2.3 billion budget shortfall resulting from the impacts of the COVID-19 pandemic, the Governor issued a Tenth Proclamation Related to the COVID-19 Emergency, which suspended the State's payment of $408 million as the annual required contributions for the fiscal year ending June 30, 2021. As a result, for fiscal year 2020-2021, the State and counties contributions will be limited to their share of the monthly "pay-as-you-go" premiums and claims expenses.

This bill would extend this suspension for four more years, until fiscal year 2024-2025.

In July 2020, Moody's Investors Service, one of the three major credit rating agencies that publish bond-ratings for Hawaii, downgraded the rating for the State's general obligation (GO) bonds from Aa1 to Aa2, considering the long-term effect of the COVID-19 pandemic on the State's economy. In October 2020, Fitch Ratings downgraded its rating for the State's outstanding GO bonds from AA+ to AA. S&P Global Ratings has assigned the State an AA+ rating with a negative outlook.

The Foundation is concerned about negative impacts of the elongated suspension of the annual required contribution payments. Prefunding other post-employment benefits (OPEB) that the State now offers its employees (which includes not only the EUTF, but the State's defined benefit retirement plan called the Employees' Retirement System of ERS) is a sound, long-term budget policy that hedges against the risk of the 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, or unless substantial changes are made to new employees' entitlements to post-employment benefits.

According to the EUTF's projections, this measure will increase its unfunded liability, resulting in a net increase of $4.1 billion in the State's required payments for fiscal years 2026 to 2055.

According to the American Legislative Exchange Council's 2019 study, "Unaccountable and Unaffordable: Unfunded Public Pension Liabilities Total Nealy $5 Trillion,"[1] Hawaii's unfunded pension liabilities per capita were $25,830, ranking 47th out of 50 states. This is, of course, before the pandemic hit us. How much lower do we want to sink?

We question the wisdom of solving short-term budgetary problems with measures like this one that virtually guarantee significant long-term repercussions.

Digested 2/28/2021

[1] https://www.alec.org/app/uploads/2020/06/2019-Unaffordable-FINAL.pdf.

LATE

GRASSROOT
INSTITUTE OF HAWAII

March 3, 2021
9:45 a.m.
Conference Room 225

To: Senate Committee on Judiciary
Sen. Karl Rhoads, Chair
Sen. Jarrett Keohokalole., Vice Chair

Senate Committee on Ways and Means
Sen Donovan M. Dela Cruz, Chair
Sen. Gilbert S.C. Keith-Agaran, Vice Chair

From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President

RE: SB 1087 SD1 — RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on SB1087, which would suspend the requirement for public employers to make annual required contributions to the Hawaii Employer-Union Health Benefits Trust Fund through fiscal year 2025.

Commented [1]: changed from 2024-2025 because even though it starts in 2023, it's actually just fiscal year 2025. Right?

We are concerned that this measure would put Hawaii taxpayers on the hook for an additional nearly $8 billion.

The fund, which pays out health benefits to current and retired state and county employees and their dependents, currently has unfunded liabilities of $11.5 billion.[1] Skipping payments for five years could increase the total unfunded liability by at least $2 billion,[2] to over $13.5 billion,

[1] "Draft Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2020," Gabriel, Roeder, Smith & Company, Jan. 11, 2021, Section A, p. 2.
[2] The State of Hawaii's unfunded liability for the EUTF is $8.9 billion, and the unfunded liability for the counties is a total of $2.6 billion, as shown on Joseph Newton and Mehdi Riazi, "Hawaii EUTF" Gabriel, Roeder, Smith & Company, Jan. 11, 2021, p. 2, row "UAAL," which stands for "Unfunded Actuarial Accrued Liability." The state's unfunded liability could increase by approximately $2 billion as shown on the red line on the chart on p. 9. Note that $2 billion is not stated in the report, but is visually apparent in

according to a report by Gabriel, Roeder, Smith & Company.[3] This would free up $1.78 billion for the state and $537 million for the counties between fiscal 2021 to fiscal 2025, excluding Maui County, which has committed to fully funding its portion of approximately $13 million per year.[4]

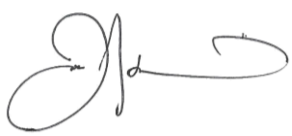
But deferring payments would have the unfortunate side effect of adding interest and payroll growth costs of $4.2 billion in the long run, according to the GRS report,[5] and $1.3 billion more for the counties, according to an estimate by the Grassroot Institute of Hawaii.[6]

The original deferred payments must also be paid back, which with interest and payroll costs could total up to $7.8 billion over the next 30 years, assuming the state and all the counties except Maui County suspend the payments between fiscal years 2021 to 2025.

This would increase the amount of unfunded liabilities to be paid down by Hawaii taxpayers, and destabilize the health benefits plan of 68,000 active government employees and their 60,000 dependents and 47,000 retirees and their 20,000 dependents.[7]

Lawmakers should rethink suspending the required annual payments to the state's health benefits fund. It is better that we find a sustainable approach to addressing the state's debts now, rather than passing the bill to Hawaii's next generation.

Sincerely,



Joe Kent
Executive Vice President

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the chart on page 9. Note also that the report calculates only the estimated unfunded liability for the state but not the counties. It is possible that the unfunded liabilities of the counties could increase as well, but data is unavailable. The current unfunded liability across the state and counties is $11.5 billion, as shown on p. 3, column (3).

[3] The $13.5 billion estimate is derived by adding $2 billion to the current unfunded liability of $11.5 billion. However, it should be noted that the actual unfunded liability could be higher, since the GRS report does not estimate the additional unfunded liability for the counties.

[4] Maui County has committed to fully funding its portion of approximately $13 million per year. See "Draft Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2020," Gabriel, Roeder, Smith & Company, Jan. 11, 2021, Section A, p. 5, which states, "The County of Maui has indicated it plans to fully fund the ARC."; Joe Kent, "Ige's EUTF Funding Dodge Will Come Back To Haunt Us," Honolulu Civil Beat, Sept. 21, 2020.

[5] "Draft Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2020," Gabriel, Roeder, Smith & Company, Jan. 11, 2021, p. 8, column e.

[6] "Grassroot Institute of Hawaii analysis of county ARC increase from deferral of 5 years of prefunding," Grassroot Institute of Hawaii, Jan. 11, 2021.

[7] "Who we are," Hawaii Employer-Union Health Benefits Trust Fund, 2021.

Grassroot Institute of Hawaii