
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 2024.

14 SECTION 3. There is appropriated out of the general
15 revenues of the State of Hawaii the sum of \$ or so
16 much thereof as may be necessary for fiscal year 2023-2024 for
17 the purposes of this part.

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

20 PART II



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

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

15 Meanwhile, the State, counties, and other public employers
16 are also required to make payments to cover a portion of pay-as-
17 you-go Hawaii employer-union health benefits trust fund costs.
18 Clearly, given current and projected revenues, the State and the
19 counties cannot afford to prefund both health and pension
20 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 Act 229, Session Laws of Hawaii 2021, temporarily suspended
4 the requirement that public employers make annual required
5 contributions to the other post-employment benefits trust fund;
6 however, that temporary suspension is scheduled to expire on
7 June 30, 2023.

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

16 Accordingly, this part:

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



1 (2) Thereafter, transfers any investment income and
 2 interest from the other post-employment benefits trust
 3 fund to a newly established rate stabilization reserve
 4 fund, which will provide reserve funding to stabilize
 5 the Hawaii employer-union health benefits trust fund
 6 at times when that trust fund has insufficient moneys
 7 to cover the costs of providing health and other
 8 benefits plans for active employees and retirees and
 9 their beneficiaries; and

10 (3) Provides for the use of portions of any other revenues
 11 collected on behalf of the public employer or held by
 12 the State to supplement deficient public employer
 13 contribution amounts if necessary.

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

17 "§87A- Rate stabilization reserve fund; establishment;
 18 purpose. (a) There is established a rate stabilization reserve
 19 fund to be placed within the employer-union health benefits
 20 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 6. 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 7. 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 Governmental Accounting Standards Board
5 regarding other post-employment benefits trusts. The board
6 shall establish and maintain a separate account for each public
7 employer within the separate trust fund to accept and account
8 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 fiscal year 2017-~~
8 ~~2018~~] in which a public employer's contributions into the fund
9 are less than the amount of the annual required contribution,
10 the public employer's contributions shall be deposited into the
11 applicable fund pursuant to this section from portions of any
12 other revenues collected on behalf of the public employer or
13 held by the State. The director of finance shall deduct the
14 amount necessary to meet the public employer's annual required
15 contribution from any revenues collected on behalf of the public
16 employer held by the State, except the tax revenues deposited
17 into the mass transit special fund pursuant to section 237D-
18 2(e) (1), and transfer the amount to the board for deposit into
19 the appropriate account of the separate trust fund."

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



1 "(e) 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]."~~

PART III

12 SECTION 8. Statutory material to be repealed is bracketed
 13 and stricken. New statutory material is underscored.

14 SECTION 9. This Act shall take effect on July 1, 2023.

INTRODUCED BY:

John M. [Signature]
 JAN 19 2023



H.B. NO. 343

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 portions of any other revenues collected on behalf of the public employer or held by the State to supplement deficient public employer contribution amounts.

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