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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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DEPARTMENT OF BUDGET AND FINANCE
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ADMINISTRATIVE AND RESEARCH OFFICE
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TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON LABOR AND TECHNOLOGY
ON
SENATE BILL NO. 1586

February 3, 2025
3:30 p.m.
Room 224 and Videoconference

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST
FUND BOARD OF TRUSTEES

The Department of Budget and Finance (B&F) opposes this bill.

Senate Bill No. 1586 amends Chapter 87A, HRS, to: 1) amend the composition of the Board of Trustees (Board) of the Hawai'i Employer-Union Health Benefits Trust Fund (EUTF), including reducing the number of trustees from ten to nine, making the Director of Finance or designee of the State an ex officio trustee, and adding a new category of trustees requiring technical expertise; 2) limit a trustee to serving only up to 120 days beyond the end of the appointed term when a successor has not been appointed; 3) remove Board vacancy appointment language for consistency with Board composition changes; 4) reduce quorum requirements to two trustees representing the public employers and three trustees representing the employee-beneficiaries; and 5) amend the Board's voting system to provide each trustee a vote instead of one collective vote for trustees representing the public employers and one collective vote for trustees representing the employee-beneficiaries.

B&F opposes this bill because the proposed Board re-composition and voting structure significantly changes the balance of interests between public employers and public employee unions. It is important to point out that the present Board composition

and voting structure was based on the governance framework of Taft Hartley benefit trust funds, where employers and unions have equal representation on the governing board and equally weighted votes. This structure serves to balance the competing interests of the public employers and public employee unions and promotes decision-making that is fair and beneficial to both parties as a whole.

EUTF is a multi-billion-dollar operation that provides health benefits for approximately 195,000 State and county active employees, retirees and their beneficiaries. For FY 2023-24, \$1.1 billion was paid by the State and counties for their other post-employment benefits (OPEB) contributions for retiree health benefits and \$685.6 million in contributions was paid by the State, counties and employees for active employee health benefits. Based on EUTF's actuarial valuation report as of July 1, 2024, the State (not including the counties) had an unfunded accrued actuarial liability of \$5.9 billion that is projected to be amortized in FY 2040-41.

Unlike the Employees' Retirement System (ERS), where its Board of Trustees focuses largely on investments because ERS benefits are defined by statute, the EUTF Board must deal with health benefit plan design. And health benefit plan design determines plan cost and plan cost drives public employer and public employee contributions for active employees' health benefits and public employer OPEB annual required contributions for retiree health benefits.

Given EUTF's group size and significant sums involved, it is critical that EUTF governance be structured to balance competing interests. Adding community/technical board members and changing the voting structure introduces a third/outside interest dynamic that would upset this balance and could be detrimental to public employer and/or public employee interests. B&F strongly believes that the present Board structure has worked in maintaining this delicate balance and has served the State well for over 20 years.

Thank you for your consideration of our comments.



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Osa Tui, Jr.
President

Logan Okita
Vice President

Cheney Kaku
Secretary-Treasurer

Ann Mahi
Executive Director

TESTIMONY TO THE HAWAI'I SENATE COMMITTEE ON LABOR AND TECHNOLOGY

Item: SB 1586 – Relating to the Hawaii Employer-Union Health Benefits Trust Fund Board of Trustees

Position: Oppose

Hearing: Monday, February 3, 2025, 3:00 pm, Room 224

Submitter: Osa Tui, Jr., President - Hawai'i State Teachers Association

Dear Chair Aquino, Vice Chair Lee, and members of the committees,

The Hawai'i State Teachers Association **opposes** SB 1586 which amends the composition of the Hawai'i Employer-Union Health Benefits Trust Fund Board of Trustees, clarifies vacancy procedures, and amends quorum requirements and voting powers.

This bill significantly diminishes the voice of the employees and retirees to whom the EUTF is meant to serve. When it comes to voting on the EUTF board, the employer trustees and the employee trustees have equal weight. This bill reduces the employee vote from 50% to just 37.5%, effectively neutralizing Hawai'i public employees and retirees from having any power over decisions made by the EUTF board.

Currently, the EUTF has on its board one representative each from HGEA, HSTA, UHPA, UPW, and an HGEA retiree. Under this bill, the voices of thousands of public employees throughout the state will be squelched by eliminating two employee seats at the decision-making table. They, as well as an employer trustee, would be replaced with three others who do not have to be public employers nor union representatives (as the name "Employer-Union" would generally dictate should be at the table). Rather, three private Hawai'i-resident individuals from the finance and health industries and a third with no defined expertise would be placed onto the board.

Currently, the EUTF has on its board the former Hawai'i Director of Finance and the current Hawai'i Deputy Director of Finance as well as the former chair of the Hawai'i House Health, Human Services, and Homelessness Committee. These trustees are already knowledgeable of finance and health issues.

It makes no sense why this proposed change is necessary other than being a blatant power grab to reduce the voices of those at the table advocating for the beneficiaries for whom the trust fund serves.

The Hawai'i State Teachers Association asks your committee to **oppose** this bill.

Mahalo.



UNITED PUBLIC WORKERS

AFSCME Local 646, AFL-CIO

THE SENATE
KA 'AHA KENEKOA

THE THIRTY-THIRD LEGISLATURE
REGULAR SESSION OF 2025

COMMITTEE ON LABOR AND TECHNOLOGY

Senator Henry J.C. Aquino, Chair

Senator Chris Lee, Vice Chair

Monday, February 3, 2025, 3:30 PM
Conference Room 224 & Videoconference

Re: Testimony on SB1586 – RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND BOARD OF TRUSTEES

Chair Aquino, Vice Chair Lee, and Members of the Committee:

The United Public Workers, AFSCME Local 646, AFL-CIO ("UPW") is the exclusive bargaining representative for approximately 14,000 public employees, which includes blue collar, non-supervisory employees in Bargaining Unit 1 and institutional, health, and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties.

UPW **vehemently opposes** SB1586, which amends the composition of the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") board of trustees. This measure also clarifies vacancy procedures and amends quorum requirements and voting powers.

Since the creation of Section 87A-5, Hawaii Revised Statutes ("HRS"), the EUTF board has been comprised of ten trustees—five representing the employee-beneficiaries and five representing the employer. While most decision-making bodies, such as boards and commissions, are made up of an odd number of members to avoid tie votes, the Legislature created this ten-membered board to ensure that neither side, the employee-beneficiary trustees nor the trustees representing the employers, would be provided with a statutory advantage when it came to making decisions pertaining to the EUTF. The current number of trustees, which has existed in statute since 2001, has not proven to be problematic.

While the number of trustees assigned to the EUTF board has not changed in twenty-three years, its composition was amended slightly in 2005 to clarify how employee-beneficiaries would be represented: three trustees are appointed from each of the exclusive representative organizations with the largest number member beneficiaries; one trustee is appointed by mutual agreement of the remaining exclusive representatives; and one trustee representing the retirees is appointed by mutual agreement of all eligible exclusive representatives. The composition of the employee-beneficiary trustees has shown to be equitable.

UPW believes that this bill is attempting to solve a problem that does not exist, and we categorically object to reducing the number of employee-beneficiary trustees by adding members of the public, who are unlikely to

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understand the complexities of public sector collective bargaining, to the EUTF board and decreasing the overall number of trustees. We urge the committee to defer this bill.

Mahalo for the opportunity to testify in strong opposition to this measure.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kalani Werner", with a long horizontal flourish extending to the right.

Kalani Werner
State Director

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The Senate Committee on Labor & Technology
February 3, 2025
3:30 PM
Room 224

RE: **SB 1586, Relating to the Employer-Union Health Benefits Trust Fund Board of Trustees**

Attention: Chair Henry Aquino, Vice Chair Chris Lee and members of the Committee

The University of Hawaii Professional Assembly (UHPA) appreciates the opportunity to submit testimony in **STRONG OPPOSITION** to SB 1586, Relating to the Employer-Union Health Benefits Trust Fund Board of Trustees.

SB 1586 seeks to stack the deck against the exclusive representatives in representing the interests of its members, the beneficiaries of the EUTF, and places the power in the hands of the employer and outsiders with no understanding or vested interest in representing the EUTF or its beneficiaries. The EUTF Board should not mirror the makeup of the ERS Board, which will be the end result, should this measure pass.

From its inception, the EUTF Board structure was set up and intended to mirror that of a Taft-Hartley Trust Fund, with an equal number of employer and employee (union) Trustees. This type of joint labor-management structure helps ensure that both sides have a say in the plan's management.

The EUTF Board composition, while not perfect, has worked. In fact, it has provided the exclusive representatives with the ability to protect the interests of the EUTF beneficiaries from potentially harmful actions by the employer. As the law is currently written, there are dual responsibilities to the beneficiaries and to the employer which creates a neutral and equitable division between the Employer and Employee Trustees, whose interests can easily be justified by referencing the applicable section in HRS, Chapter 87. With the current setup (5 employer trustees and 5 employee trustees), all employer trustees have one vote, and all employee trustees have one vote. In order for a motion to pass, you need at least three votes in the affirmative from both the employer side and the employee side. This provides sufficient checks and balances for the EUTF Board to ensure that the interests of each side are being taken into consideration.

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The proposed changes to the make-up of the EUTF Board would disrupt this equity and make it appear much like the Board of the Hawai'i Employees' Retirement System (ERS), removing significant representation of the beneficiaries by the exclusive representatives, in favor of outside parties and potentially the employer. The proposed measure decreases the number of employee representatives by two, from five to three. It also statutorily designates a seat to the Director of Finance or a designee as an ex officio Trustee, like the ERS Board of Trustees. The measure then allows the appointment of two employer trustees, and the appointment of:

Three trustees who are residents of the State, one of whom shall have at least two years of providing financial services, including investments, to public, corporate, or private institutional clients, and another who shall have at least two years of experience in the health industry.

This language is especially concerning because it inserts outside influence into the matters and interests of the EUTF, by those with no real understanding of or vested interest in the EUTF, and does not align with the scope or intent of the law. Again, this section resembles that of HRS Chapter 88, and the ERS Board, which many would argue does not function in the best interest of its beneficiaries.

The EUTF board considers many possible changes that could enhance or reduce benefits that impact the roughly 200,000 beneficiaries. In comparison, the ERS cannot enhance or reduce pension benefits without legislative approval. This measure would make it easier to pass motions that could be detrimental to or will not improve the health benefits of the EUTF beneficiaries because of the voting structure change. The employers would already have 3 votes and need 2 out of the 3 public members to vote with them to reduce or enhance health benefits.

As a sitting EUTF Employee Trustee, I acknowledge that the EUTF and HRS, Chapter 87 have fundamental flaws, but these flaws have been in place since its inception. Attempts by the exclusive representatives to address these issues have been thwarted by the legislature, unwilling to take the necessary steps in order to allow the EUTF Board to operate as a more cohesive unit by focusing the responsibilities of the Trust than on the beneficiaries. If the Legislature is looking for ways to have the EUTF function in a more efficient manner, it should reach out to the Administrator, Derek Mizuno and see how it can best assist. If you have any inquiries about how the Board is functioning, I am more than happy to provide feedback as a sitting Trustee. One measure the legislature should consider includes expanding the role of the exclusive



representatives and allowing each union to have its own plans and negotiate their own benefits.

SB 1586 is offering a solution to a problem that does not exist. UHPA greatly appreciates the opportunity to testify in **STRONG OPPOSITION** to this measure.

Respectfully submitted,

Christian L. Fern
Executive Director

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HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Thirty-Third Legislature, State of Hawaii
The Senate
Committee on Labor and Technology

Testimony by
Hawaii Government Employees Association

February 3, 2025

S.B. 1586 — RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
BOARD OF TRUSTEES

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly opposes the purpose and intent of S.B. 1586 which amends the composition of the Hawai'i employer-union health benefits trust fund board of trustees.

The Hawaii Employer-Union Health Trust Fund board is currently composed of 10 trustees – five (5) trustees representing the public employers, and five (5) trustees representing the employee-beneficiaries. This even split ensures a balance of interest and is intended for both groups to collaboratively work together to develop the benefits structure and negotiate the total premiums for each health plan with the insurers. An even split of trustees allows for the voices of beneficiaries to be fairly heard and to ensure that the total cost and benefits of their health insurance is equitable.

As written, the employee group will lose two seats and the board will no longer be in equilibrium between employer and employee trustees – it will be an employer-controlled board and we fear that employee's best interest will no longer be looked after. An employer dominated board could mean reduced and skeleton health benefits that won't address the health needs of beneficiaries, or a stiff increase on the premium rates that is not affordable. This measure is an insult to the roughly 170,000 active beneficiaries, retirees, and their dependents that have/continue to serve the public. We respectfully request that the legislature file this measure. Messing with an employee's medical plan is as personal as it gets.

Thank you for the opportunity to provide testimony in strong opposition to S.B. 1586.

Respectfully submitted,

Randy Perreira
Executive Director