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OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

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FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2556**

February 29, 2016
9:15 a.m.

**MAKING AN APPROPRIATION FOR THE ANNUAL REQUIRED CONTRIBUTION FOR
THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND**

Senate Bill No. 2556 appropriates an unspecified amount of general funds for FY 2016-17 to the Department of Budget and Finance for the payment of the annual required contribution (ARC) for the Hawaii Employer-Union Health Benefits Trust Fund (EUTF).

The Department of Budget and Finance supports the intent of this measure which will help in the payment of the State's ARC and reduce the EUTF's unfunded actuarial accrued liability (UAAL). It should be noted that the FY 17 Executive Supplemental Budget includes 100% of ARC payments, \$409,687,000, for other post-employment benefits pre-funding. Accelerating funding of the ARC to 100% in FY 17 instead of FY 19 will allow the State to reduce its ARC payment needs in the long term. Any additional appropriations that the Legislature would want to make to pay off the UAAL will be beneficial as well.



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TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2556

February 29, 2016, 9:15 a.m.

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

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee:

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not taken a position on this bill. However, the Committee should be aware of the impact to the EUTF. Additional contributions above the Act 268 requirement for FY2017, 60% of the Annual Required Contribution (ARC), will reduce the ARC in the future. For example, the EUTF's actuary, Gabriel Roeder Smith & Company, compared the actual ARC for FY2017 and FY2018 calculated as part of July 1, 2015 actuarial valuation versus the expected ARC for those same years from the July 1, 2013 actuarial valuation. The State's actual ARC for FY2017 and FY2018 is \$744 million and \$770 million, respectively, as compared to the projected amount from the July 1, 2013 actuarial valuation of \$777 million and \$802 million, respectively. The decrease in the ARC of \$33 million and \$32 million is due to the State's contributions in FY2014 and

FY2015 in excess of the Act 268 requirement totaling \$134.4 million and positive health trend results reducing the actuarial accrued liability by \$332 million.

Thank you for the opportunity to submit testimony.