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February 2, 2016

To: The Honorable Rosalyn H. Baker, Chair,
The Honorable Michele N. Kidani, Vice Chair, and
Members of the Senate Committee on Commerce, Consumer Protection,
and Health

Date: Wednesday, February 3, 2016
Time: 9:00 a.m.
Place: Conference Room 229, State Capitol

From: Linda Chu Takayama, Director
Department of Labor and Industrial Relations (DLIR)

Re: S.B. No. 2665 Relating to Health Savings Account Programs

I. OVERVIEW OF PROPOSED LEGISLATION

This proposal permits employers to offer a high deductible health plan with a health savings account (HSA) in addition to group accident and health or sickness insurance policies, group hospital and medical service plan contracts, and Health Maintenance Organization (HMO) plans. The proposal allows this option as long as the benefits provided in aggregate by the HSA program and the insurance coverage are equivalent and meet the requirements of chapter 393, Hawaii Revised Statutes (HRS)—Prepaid Health Care (PHC).

The department offers comments on this measure.

II. CURRENT LAW

Section 393-11, HRS, requires that an employer provide an eligible employee with health insurance by a PHC plan qualifying under section 393-7, HRS. The Prepaid Health Care Advisory Council reviews these plans and makes a recommendation to the Director of Labor and Industrial Relations for approval or disapproval.

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III. COMMENTS ON THE SENATE BILL

The department offers these comments concerning the proposal:

- The PHC Act requires that an employer provide an approved plan. The Act does not require an employer to offer more than one approved plan to its employees. This measure requires an employer who offers a Health Savings Account (HSA) program to also have a non-HSA plan, thereby adding a requirement to the PHC Act.
- Allowing Employers to offer high deductible plans will likely adversely affect employees who select the currently approved PHC Act compliant plan in the amount the employee will have to pay for coverage. Under section 12-12-12, Hawaii Administrative Rules, an employer is only responsible for the cost of the least expensive plan. Because the cost of a high deductible plan is less than currently approved PHC Act plans, the employee would have to pay not only 1.5% of the employee's wage as permitted by current law, but also the difference in the cost of the two plans.
- The measure includes provisions that unused funds become the property of the HSA holder (employee) at the end of the year. However, employer contributions to the HSA are intended to be used by the employee to pay for qualified medical expenses. If the employee uses that money for non-medical purposes, the employee may face federal tax penalties (currently 20% and withdrawn money is taxable income) regardless of whether the funds are the property of the HSA holder.



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February 2, 2016

To Senator Rosalyn Baker, Chair and Members of the Commerce, Consumer Protection, and Health Committee

RE: **Senate Bill No. 2665 Relating to Health Savings Account Programs**

Please accept this written letter of support for Senate Bill No. 2665 that addresses the establishment of Health Savings Accounts in Hawai'i.

My name is Sheri Braunthal and I am currently employed with Central Pacific Bank (CPB) as its VP, Human Resource Service Center Manager. I submit this testimony on behalf of myself as well as Patty Foley, CPB's Senior VP of Human Resources. Both Patty and I have worked extensively in Human Resources for over 20 years with CPB as well as other companies as Outrigger Enterprises and Hawaiian Telcom.

Employee health care benefits are one of the fastest rising business costs which continue to be a challenge for employers to manage. CPB is not alone in experiencing dramatic increases in health premium costs and each year, it becomes increasingly difficult to find solutions or initiatives to help slow or mitigate the added expense. We have participated in many efforts such as designing innovative health and pharmacy programs and incentivizing our employees to participate in various wellness initiatives aimed at improving health outcomes and behaviors.

We need more options to be able to provide better results – both medically and financially - for our employees and their families.

Health Savings Accounts (HSAs) provide the right incentive for employees to become more informed healthcare consumers by being mindful about appropriate health care consumption. The funds in HSAs belong to employees and are available to use for medical services now and in the future. Employees can take any funds in HSAs with them if they leave their jobs. A track record of success nationally suggests that HSAs have been instrumental in creating positive patient behaviors by encouraging early and preventive treatment and doctor visits as well as medication adherence.

HSAs are the kind of partnership between employers and employees that will create an environment of mutual responsibility and reduce unnecessary health care expenditures. We urge you to pass legislation that will promote such a partnership through Health Savings Accounts.

Respectfully submitted,

Sheri Braunthal, PHR, SHRM-CP
VP, Human Resource Service Center Manager

Patty Foley
SVP, Human Resources

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THE SENATE

Committee on Commerce, Consumer Protection, and Health

Senator Rosalyn H. Baker, Chair

Senator Michelle N. Kidani, Vice Chair

State Capitol, Conference Room 229

Wednesday, February 3, 2016; 9:00 a.m.

**STATEMENT OF THE ILWU LOCAL 142 ON S.B. 2665
RELATING TO HEALTH SAVINGS ACCOUNT PROGRAMS**

The ILWU Local 142 **opposes** S.B. 2665, which authorizes employers to establish group health savings accounts in addition to group accident and health or sickness insurance policies, group hospital and medical service plan contracts, and HMO plans issued or renewed after July 1, 2016.

As we understand this bill, S.B. 2665 proposes to allow high-deductible health plans to be offered by employers, along with health savings accounts (HSA). On the face of it, the proposal appears to offer employees with options—and possibly a means to save on the cost of health care and even reap greater financial benefits. While this proposal may work well for a healthy employee who is not likely to need physician, hospital, surgical or other catastrophic medical care, a “creaming” effect will take place, leaving the employee who is not so healthy and needs more medical care relegated to a health plan that will be more costly because of adverse selection.

The impact on the prevalent plan under the Prepaid Health Care Act is also a consideration. The concept of the prevalent plan is based on identifying the plan with the greatest number of enrolled individuals. If fewer people enroll in the plan with better benefits, the standard will be eroded and the prevalent plan will be one with lesser benefits.

Furthermore, while high-deductible plans mean lower premiums, the unintended consequence is that fewer people will access health care services, resulting in greater costs when a person is finally forced to seek treatment. What could have meant lower-costing treatment for a condition detected early may mean catastrophic costs for delayed treatment due to a high deductible.

The ILWU urges that S.B. 2665 be **held**. Thank you for the opportunity to share our views and concerns.