DAVID Y. IGE
GOVERNOR

STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
P.O. BOX 2121
HONOLULU, HAWAII 96805-2121
Oahu (808) 586-7390
Toll Free 1(800) 295-0089
www.eutf.hawaii.gov

TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON HOUSE BILL NO. 887

February 24, 2017
2:00 p.m.
Room 308

RELATING TO UNFUNDED LIABILITIES

Chair Luke, Vice Chair Cullen, and Members of the Committee:

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not had an opportunity to take a position on this bill. The EUTF Board's next meeting is March 3, 2017. EUTF staff would like to provide comments on the bill.

Based on actuarial valuation prepared by the EUTF's actuary, Gabriel Roeder Smith & Company, the State's unfunded actuarial accrued liability (UAAL) as of July 1, 2015 is $9.066 billion (actuarial accrued liability of $9.287 billion less $221 million in assets). The legislature, Administration and EUTF Board have been working to address the UAAL by focusing on the following areas to grow the assets and reduce the liability:

Asset Growth

1. Act 268, Sessions Laws of Hawaii (SLH) 2013 provides a funding mechanism to amortize the UAAL over a period of 30 years (ending June 30, 2044) through employer contributions to the other post-employment benefits trust fund (OPEB Trust). Through December 31, 2016, the State has made contributions to the

OPEB Trust ($739.8 million) in excess of their Act 268 requirements ($476.8 million) to fund the UAAL (excess contributions of $263.0 million).

2. Through December 31, 2016, the OPEB Trust has returned 7.1% since inception (June 30, 2011) which slightly exceeds the investment return hurdle of 7%. With the passage of Act 030, SLH 2016 that expands the asset classes that the EUTF is able to invest in, the EUTF Board approved an updated asset allocation that adds the private equity, private real estate, global options and trend following asset classes that increased the long term expected return from 6.4% to 7.3% while lowering risk from 11.4% as measured in standard deviation to 10.9%. The EUTF Investment Officer (position was added during the 2015 legislative session) is working with the EUTF's investment consultant to implement the revised asset allocation.

Liability Reduction

3. Cleaning Up Enrollment. Over the past three years, the EUTF has conducted a number of retiree plan projects such as pharmacy benefit manager claims audits, certification of dependent full-time student status, certification of dependent disabled status, implementation of a mechanism to identify recent deaths, maximization of Medicare subsidies and discontinuance of Medicare Part B reimbursements for those retirees that have them paid by Med-QUEST. Estimated annual savings from these projects is nearly $6 million. The EUTF Benefits Audit Specialist (position was added during the 2016 legislative session) will continue the aforementioned projects, as necessary, and implement other projects such as claims audits of the medical, dental, vision

and life insurance plans; identification and removal of surviving spouses who have remarried; and identification and removal of divorcees.

4. Reducing the Health Benefit Premium/Claim Trend. The EUTF Board is addressing the health care trends through education of our members on how to use the benefits (e.g. using mail order and generic prescription drugs, and emergency room utilization); benefit plan design (e.g. prescription drug step therapy programs, addition of coverage for annual physical examinations, a heart disease program, and advanced care planning); and wellness and disease management programs.
5. Reduction in the Employers' Share of Retiree Premiums. Effective July 1, 1996 and 2001, the legislature passed bills to reduce the employer contribution to the retiree premiums – employees had to work longer for employer contributions and employer contributions to dependent coverage was eliminated.

The combined efforts of the legislature, Administration and EUTF Board are moving in the same direction to address the UAAL. This bill does not continue us down that same path and in fact eliminates the funding requirements of Act 268, SLH 2013, by limiting the OPEB Trust to $2 billion (as of February 22, 2017 the OPEB Trust's balance is $1.7 billion). The bill also has the following problems:

A. The bill does not contain any methods to address the UAAL. It just provides $140 million of investment income annually to assist with future retiree premiums. In fiscal year 2015-2016, the State paid approximately $300 million for retiree premiums. The EUTF's actuary projects this amount to grow to $1.0

billion in fiscal year 2032-2033. The State's share of the $140 million will do little to offset the $1.0 billion.

B. With the elimination of the Act 268, SLH 2013 funding mechanism in place, the State's actuary will be required to use a much lower investment return rate (i.e. high quality, municipal bond rates) to value the AAL.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR

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

LATE

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

WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

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

WRITTEN ONLY
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 887

February 24, 2017
2:00 p.m.
Room 308

RELATING TO UNFUNDED LIABILITIES

House Bill No. 887 establishes the Rate Stabilization Reserve Fund (RSRF) to stabilize the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) when there is insufficient money to cover the costs of providing benefits to employee beneficiaries and dependent beneficiaries and will also cap the employer contributions to the Other Post-Employment Benefits (OPEB) trust fund when the separate accounts for each public employer within the trust fund have a combined balance of at least $2 billion. The measure will also require that any excess balances at the end of each fiscal year above $2 billion for both the EUTF and the OPEB trust funds be transferred to the RSRF.

The Department of Budget and Finance would like to provide the following comments:

If the prefunding of the annual contributions is stopped when the rate stabilization reserve fund reaches a combined $2 billion for all separate accounts, then the $13.3 billion health benefits liability will grow significantly in part because EUTF retirees and active members are living longer than expected. New mortality tables provided by the EUTF Actuary is expected to add another $360 million to the State's portion of the $13.3 billion health benefits liability or $9.644 billion.

Even without consideration of the new mortality tables, the total health benefits accrued liability is expected to grow from $13.3 billion in 2017 to $44.5 billion in 30 years. The health benefits unfunded liability is also expected to increase by over $6 billion without consideration of any investment returns on stopped contributions.

Given that the EUTF is a mature system and that there are more than 12,000 of its members who can retire today, the benefit payments is expected to dramatically increase over the next several years to over $1 billion.

Thank you for the opportunity to provide our comments.

LATE

Testimony with Comments in Support of the Intent
of HB 887 RELATING TO UNFUNDED LIABILITIES
and
HB 888 RELATING TO ADDRESSING THE HEALTH UNFUNDED LIABILITY
Presented to the House Committee on Finance
at the public hearing 2 p.m. February 24, 2017
in Conference Room 308 at the Hawaii State Capitol
by David H. Rolf, Mililani, Hawaii

Chair Luke, Vice Chair Cullen and members of the Committee:

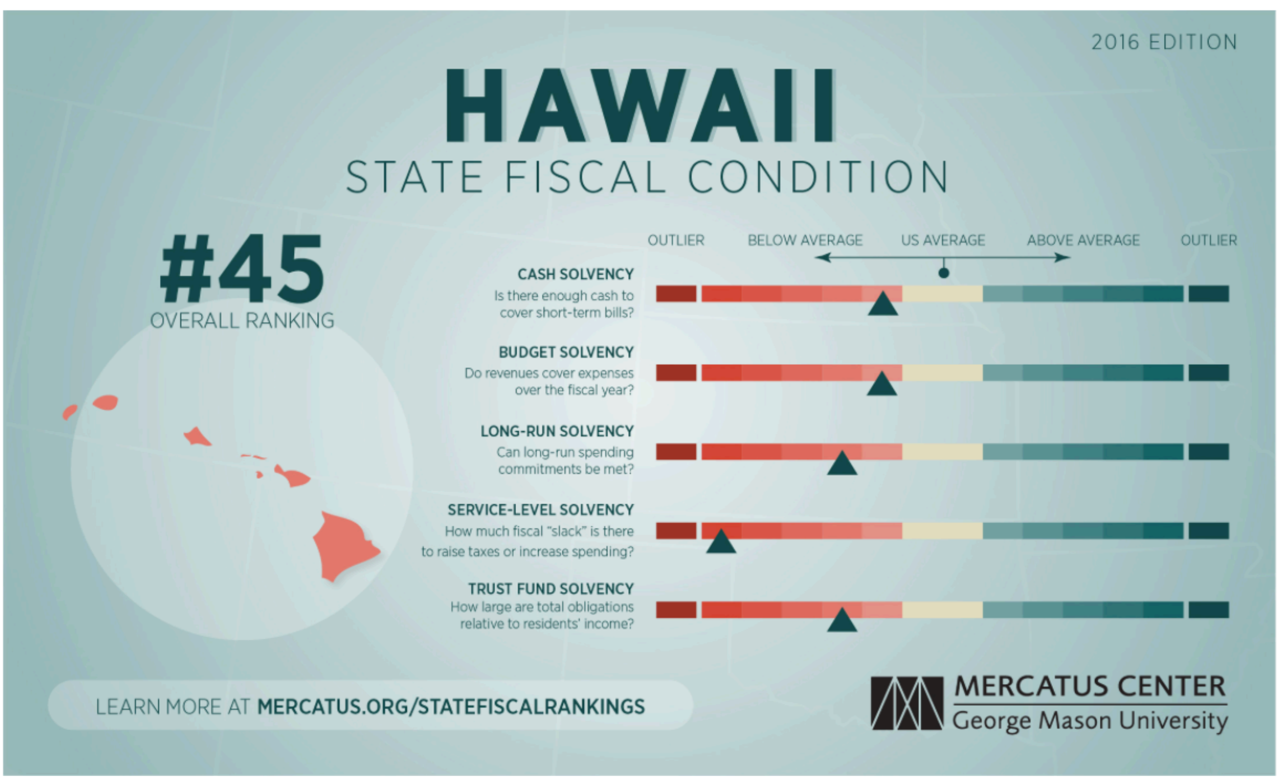
I am David Rolf, a 42-year resident of the State, and an occasional testifier, as a citizen, on serious matters pertaining to public policy, today, offering comments in support of the intent of HB887 and HB888 which relate to the State's unfunded liabilities and proposals for solutions to these unfunded state employee pension and public health fund liabilities.

Background on The Perfect Storm

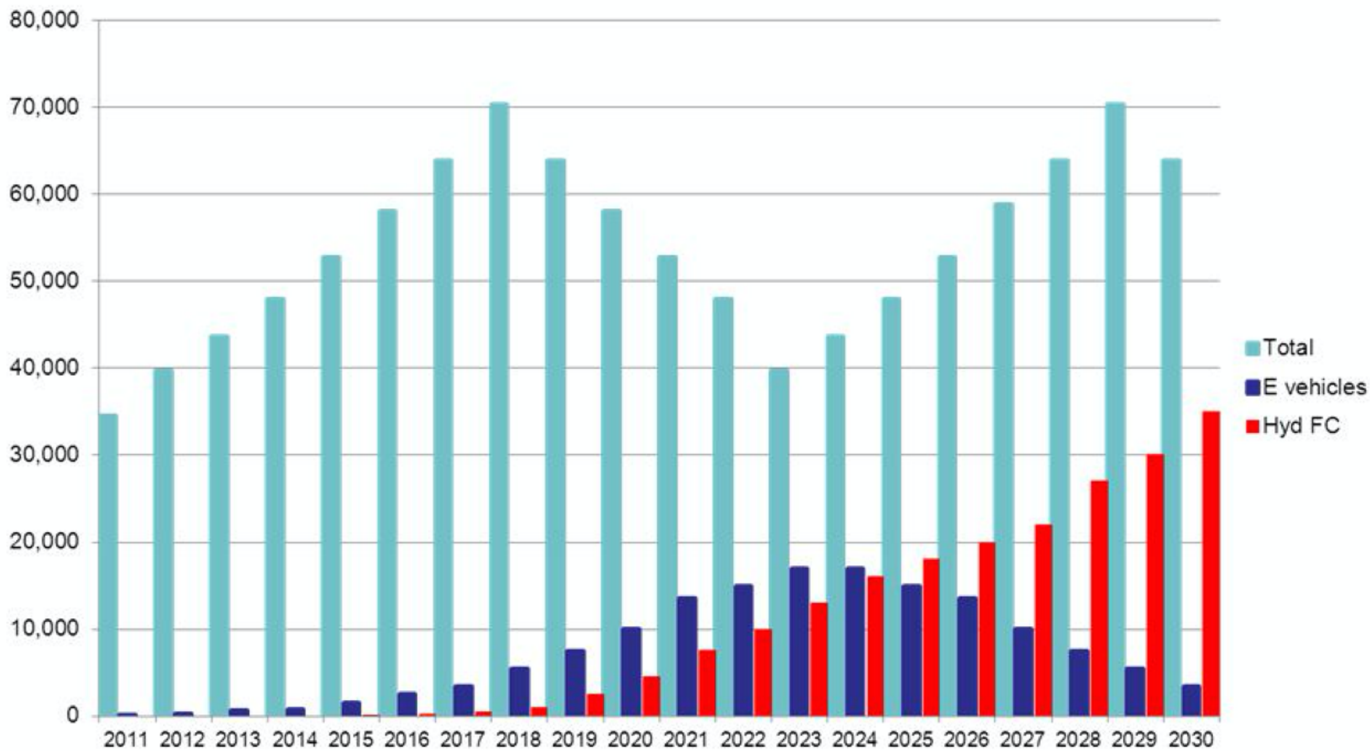
The collision of the billions of dollars needed to meet the rail funding demands--caused by the consistent understatement of the real costs (in billions)--with the pending billions of dollars of ERS shortfalls due to recent recognition of previously understated employee pension fund liabilities and health fund liabilities, is creating the perfect storm for the economy.

Right now, there is little "fiscal slack"

Hawaii is approaching Puerto Rico with regard to our State's ability to raise taxes or increase spending. See the State's position on the 4th bar on the chart below, Puerto Rico, is the dark maroon bar (outlier).



Since new car sales mirror the performance of the state's economy, the below graphic has proven a useful tool for seeing what lies ahead not only for the auto sector but for the whole State economy.



The graph shows the predicted low point for new vehicle registrations approaching in six or so years. If the State economy follows this path, then the increasing demands of the two big underfunded programs will contribute to a strain on the State, during a low point in the economy.

I created this graph in 2010, with one of the purposes being to show the uptake of renewable energy vehicles that would be "needed" to meet the goals of the Hawaii Clean Energy Initiative. The graph has proven helpful for planning purposes, because the year-by-year predictions of electric, gasoline, and hydrogen vehicle uptake have proven accurate over the past six years.

I don't know yet if my rough calculations about the pending troubles for the ERS fund and the public employee health benefits fund are accurate enough to publish. It is clear, however, that proposals for solutions, like those in HB 887 and HB 888 should, at this point, receive serious consideration.

Respectfully submitted,
David H. Rolf
Mililani, Hawaii

finance8 - Joy

LATE

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 23, 2017 11:03 PM
To: FINTestimony
Cc: cwilson@ahcs.com
Subject: *Submitted testimony for HB887 on Feb 24, 2017 14:00PM*

HB887

Submitted on: 2/23/2017
Testimony for FIN on Feb 24, 2017 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
cathy wilson	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov