DAVID Y. IGE
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EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

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

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

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON LABOR, CULTURE AND THE ARTS
AND WAYS AND MEANS
ON
HOUSE BILL NO. 468, H.D. 1, PROPOSED S.D. 1

April 5, 2021
10:30 a.m.
Room 211 and Videoconference

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

The Department of Budget and Finance (B&F) strongly supports House Bill (H.B.) No. 468, H.D. 1, Proposed S.D. 1.

H.B. No. 468, H.D. 1, Proposed S.D. 1, amends Sections 87A-42, 87A-43, 237-31, and 237D-6.5, HRS, to temporarily suspend the requirement for public employers to make annual required contributions to the Hawaiʻi Employer-Union Health Benefits Trust Fund through FY 25, and the associated general excise tax "claw back" if annual required contributions are not made.

Temporary suspension of annual required contributions is one of the cornerstones of the Administration's approach to balancing the general fund financial plan. It will provide the State and other public employers flexibility to address budgetary shortfalls while the economy recovers. Although pre-funding other post-employment benefits (OPEB) is a sound, long-term budget policy to hedge against the risk of annual current benefits payments outpacing the growth of State revenues, addressing current budget shortfalls is an immediate concern that should take priority. Based on the most recent actuarial valuation report for the State's OPEB as of July 1, 2020, suspending OPEB pre-funding payments for all four years will reduce fixed costs by $1,434,439,000 over the same period.

While this bill will temporarily suspend OPEB prefunding, it also enables the State and the counties to make partial prefunding payments at levels below the actuarially determined amounts. B&F will be working with the counties to determine whether they will be in a position to make some level of prefunding payments in the future.

Thank you for your consideration of our comments.

STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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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 COMMITTEES ON LABOR, CULTURE, AND THE ARTS AND WAYS AND MEANS
ON HOUSE BILL NO. 468 H.D.1, PROPOSED S.D.1

April 5, 2021
10:30 a.m.
Via Videoconference & Conference Room 211

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Chairs Taniguchi and Dela Cruz, Vice Chairs Les Ihara and Keith-Agaran, and Members of the Committees:

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not taken a position on this bill. EUTF staff would like to provide comments.

S.D. 1 suspends prefunding of retiree health benefits (Act 268, Session Laws of Hawaii 2013) under Hawaii Revised Statutes 87A for fiscal years ending June 30, 2022, 2023, 2024 and 2025 reducing the State ($1.4 billion) and counties annual payment requirements for these four years. Fiscal year 2021 prefunding contributions were suspended by the Governor's 10th emergency proclamation (State portion $408 million). For these five years, the State and counties are still required to pay for retiree health benefit premiums. The downside to the suspension is an increase in future payments (State net increase in payments of $4.1 billion for fiscal years 2026 – 2055). Passage of this bill is not expected to change the actuary's use of the 7% investment expected rate of return for purposes of valuing the long-term liability.

Act 268 was enacted to begin the process of prefunding retiree health care liabilities, similar to state and county pensions, instead of continuing to pay only retiree premiums. Prefunding today would result in investment earnings being used in the future to pay for retiree premiums. Act 268 required that State and counties contribute an annual required contribution (ARC) comprised of the cost of the benefit for the current employees' year of service (normal cost) and a payment to amortize the unfunded liability over a period of 30-years.

The Legislature should also be aware that the results of the State's actuarial valuation for July 1, 2020 was an actuarial gain of $733 million resulting in lower projected future ARC amounts of $3.4 billion for years through 2055 as compared to the July 1, 2019 actuarial valuation.

Thank you for the opportunity to testify.

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
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RICK BLANGIARDI
MAYOR

ANDREW T. KAWANO
DIRECTOR

KELLI J. NISHIMURA
ACTING DEPUTY DIRECTOR

WRITTEN ONLY
TESTIMONY BY ANDREW T. KAWANO
DIRECTOR, DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
TO THE SENATE COMMITTEE ON LABOR, CULTURE AND THE ARTS, AND THE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 468, HD1, SD1 Proposed
April 5, 2021
10:30 a.m.
Conference Room 211 and Videoconference

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Chair Taniguchi, Chair Dela Cruz, and Members of the Committees:

The Department of Budget and Fiscal Services supports the proposed SD1 for House Bill 468, which temporarily suspends the requirement for public employers to make annual required contributions to the Hawaii Employer-Union Health Benefits Trust Fund through FY 2025.

The Mayor’s proposed FY 2022 budget for the City and County of Honolulu includes significant reductions across all agencies and the deferral of part of the pre-payment portion of OPEB for FY 22 to appropriately fund the budget. The City is anticipating lower revenues resulting from the COVID-19 pandemic, but other expenses such as employee fringe benefits continue to increase. The City is also facing substantial new costs from the initial phase of rail operations.

The City Council is currently deliberating on the FY 22 City budget, and it is too soon to determine whether the City will be able to pay the full OPEB annual required contribution (ARC) in FY 2022. The City anticipates receiving nearly $400 million from the American Rescue Plan, but we are awaiting guidance on how the funds can be spent. The proposed SD1 would allow the City the flexibility needed to determine whether the City will be able to pay the full OPEB ARC in FY 2022 without making further cuts that will affect City services during this difficult time.

Thank you for the opportunity to submit testimony in support of the proposed SD1.

GRASSROOT
INSTITUTE OF HAWAII

April 5, 2021
10:30 a.m.
Conference Room 211 & Videoconference

To: Senate Committee on Labor, Culture and the Arts
Sen. Brian T. Taniguchi, Chair
Sen. Les Ihara, Jr., Vice Chair

Senate Committee on Ways and Means
Sen Donovan M. Dela Cruz, Chair
Sen. Gilbert S.C. Keith-Agaran, Vice Chair

From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President

RE: HB468, Proposed SD1 — RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on the proposed amendment to HB468, which would suspend the requirement for public employers to make annual required contributions to the Hawaii Employer-Union Health Benefits Trust Fund through fiscal year 2024-2025.

We are concerned that this measure would put Hawaii taxpayers on the hook for an additional nearly $8 billion.

The fund, which pays out health benefits to current and retired state and county employees and their dependents, currently has unfunded liabilities of $11.5 billion.[1] Skipping payments for five years could increase the total unfunded liability by at least $2 billion,[2] to over $13.5 billion,

[1] "Draft Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2020," Gabriel, Roeder, Smith & Company, Jan. 11, 2021, Section A, p. 2.
[2] Joe Kent, "Delaying EUTF payments will add $8 billion to Hawaii taxpayer debt," Grassroot Institute of Hawaii, Jan. 12, 2021.

according to a report by Gabriel, Roeder, Smith & Company.[3] This would free up $1.78 billion for the state and $537 million for the counties between fiscal 2021 to fiscal 2025, excluding Maui County, which has committed to fully funding its portion of approximately $13 million per year.[4]

But deferring payments would have the unfortunate side effect of adding interest and payroll growth costs of $4.2 billion in the long run, according to the GRS report,[5] and $1.3 billion more for the counties, according to an estimate by the Grassroot Institute of Hawaii.[6]

The original deferred payments must also be paid back, which with interest and payroll costs could total up to $7.8 billion over the next 30 years, assuming the state and all the counties except Maui County suspend the payments between fiscal years 2021 to 2025.

This would increase the amount of unfunded liabilities to be paid down by Hawaii taxpayers, and destabilize the health benefits plan of 68,000 active government employees and their 60,000 dependents and 47,000 retirees and their 20,000 dependents.[7]

Lawmakers should rethink suspending the required annual payments to the state's health benefits fund. It is better that we find a sustainable approach to addressing the state's debts now, rather than passing the bill to Hawaii's next generation.

Sincerely,

Joe Kent
Executive Vice President
Grassroot Institute of Hawaii

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[3] The $13.5 billion estimate is derived by adding $2 billion to the current unfunded liability of $11.5 billion. However, it should be noted that the actual unfunded liability could be higher, since the GRS report does not estimate the additional unfunded liability for the counties.

[4] Maui County has committed to fully funding its portion of approximately $13 million per year. See "Draft Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2020," Gabriel, Roeder, Smith & Company, Jan. 11, 2021, Section A, p. 5, which states, "The County of Maui has indicated it plans to fully fund the ARC."; and Joe Kent, "Ige's EUTF Funding Dodge Will Come Back To Haunt Us," Honolulu Civil Beat, Sept. 21, 2020.

[5] "Draft Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan, Actuarial Valuation Report as of July 1, 2020," Gabriel, Roeder, Smith & Company, Jan. 11, 2021, p. 8, column e.

[6] "Grassroot Institute of Hawaii analysis of county ARC increase from deferral of 5 years of prefunding," Grassroot Institute of Hawaii, Jan. 11, 2021.

[7] "Who we are," Hawaii Employer-Union Health Benefits Trust Fund, 2021.