



ANNUAL REPORT

FISCAL YEAR 2005-06

**Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii**

December 2006

This report presents an overview of the activities of the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”) for the fiscal year 2005 - 2006. The EUTF is administratively attached to the Department of Budget and Finance. The EUTF’s office is located at Suite 1520, City Financial Tower, Honolulu, Hawaii.

OVERVIEW

Chapter 87A of the Hawaii Revised Statutes established a trust fund known as the Hawaii Employer-Union Health Benefits Trust Fund. The EUTF is the state agency that provides eligible state and county employees and retirees and their eligible dependents with health and life insurance benefits. The EUTF replaced the Hawaii Public Employees Health Fund (“PEHF”), effective July 1, 2003.

TRUST FUND ORGANIZATION

Board of Trustees

The EUTF is administered by a board of trustees (“Board”). The Board is responsible for determining the nature and scope of the benefit plans offered, negotiating and entering into contracts with insurance carriers, establishing eligibility criteria and management policies for the EUTF, and overseeing all EUTF activities.

There are ten trustees, five representing the public employers and five representing employee-beneficiaries, including a retiree representative. The current trustees are shown below:

Employer Trustees

- Nelson Befitel
- Marie Laderta
- Mark Recktenwald
- Stanley Shiraki
- Katherine Thomason

Employee-Beneficiary Trustees

- George Kahoohanohano, SHOPO
- Elizabeth Ho, AFSCME
- Gerald Machida, Retirees
- John Radcliffe, UHPA
- Guy Tajiri, HFFA

Board officers currently are Mark Recktenwald, Chairperson, Nelson Befitel, Vice-Chairperson and Guy Tajiri, Secretary-Treasurer. The officers serve a one-year term beginning July 1 of each year.

During the period covered by this report, the Board has used both standing and temporary committees to facilitate its administration of the EUTF. The two standing committees are the Administrative Committee and the Benefits Committee. The Administrative Committee considers matters pertaining to the administration and operation of the EUTF, e.g., development of budget, organization of staff, setting of personnel policies, evaluation of EUTF systems, and consideration of use of third party administration services. The Benefits Committee considers matters pertaining to the design and procurement of the EUTF’s health and life insurance benefit plans.

Administrator and Staff

The day-to-day administration of the EUTF is managed by an administrator who reports to and is responsible to the Board. The administrator is James Williams who was hired in November 2004. The EUTF administrator and new staff positions are exempt from civil service.

The administrator is assisted in managing the EUTF by an assistant administrator, a financial management officer, and an information systems analyst. EUTF staff includes nine (9) full-time civil service positions that were transferred from the PEHF (predecessor to EUTF) effective July 1, 2003, plus twenty (20) exempt employees hired directly by EUTF or a total of twenty-nine (29) employees (including the management staff).

The EUTF has three branches: the Financial Services Branch, Information Systems Branch, and Member Services Branch. A health benefits program manager oversees the Member Services Branch and is supported by five employees assigned to customer service duties that include answering phones and e-mails from members and handling all processing for retirees. Five other employees process all active employee enrollment submissions. The financial management officer is supported by two accountants and three accounting clerks. The EUTF information systems analyst provides internal IT support services, fulfills HIPAA security responsibilities, and coordinates additional support services provided by DAGS/ICSD and is supported by one IT specialist.

Advisors and Consultants

The Board utilizes the services of Garner Consulting as its benefits plan consultant. Garner Consulting, a nationally recognized consulting firm specializing in employee benefit issues, was founded in 1987 and is based in Pasadena, California. Garner Consulting is a consultant to numerous public and private sector employers across the United States including Marriott International, Queen's Health Systems, the Southern California IBEW-NECA Health Trust Fund and Washington Counties Insurance Fund.

The Board also has employed professional consultants and advisors on certain specific issues of importance to the EUTF. Business Solutions Technologies (BST) was retained to assist the EUTF with on-going support of the PeopleSoft health fund information management system (PeopleSoft/HFIMS). Segal was retained to conduct a claims audit for the HMSA medical and prescription drug plans. An advisor seat was purchased from Gartner, Inc which offers a cost-effective way for EUTF to obtain valuable technical research, information and reports to support critical information technology needs.

ADMINISTRATIVE RULES

The EUTF operates according to administrative rules adopted in February 2003. The administrative rules were formulated to meet the requirements of Chapter 87A, Hawaii Revised Statutes, and the health and other benefit plans established by the EUTF. In addition, they were designed to increase administrative efficiencies and reduce the EUTF's administrative costs. For example, the rules set the effective dates for initial enrollments, changes in enrollment, and cancellations of enrollment in the EUTF's health benefit plans so as to facilitate automated handling of such activities. After a general review by the staff and Board, the administrative rules were revised in July 2006.

HEALTH AND LIFE INSURANCE BENEFIT PLANS

The EUTF currently provides health and life insurance benefits through contracts with the following organizations:

- ◆ Hawaii Medical Service Association (HMSA)
- ◆ Kaiser Permanente (Kaiser)
- ◆ Hawaii Dental Service (HDS)
- ◆ Vision Service Plan (VSP)
- ◆ Mutual Benefit Association of Hawaii/ChiroPlan Hawaii, Inc. (ChiroPlan)
- ◆ Royal State National Insurance Company, Ltd. (Royal State)
- ◆ Aetna Life Insurance Company (Aetna)

The health benefits plans offered by these organizations and implemented on July 1, 2003 continued through 2005 with no material changes to the existing benefits. These contracts will expire on June 30, 2007. Two major, local carriers provide medical plan coverage for the State and County active employees and retirees. HMSA offers the Preferred Provider Option (PPO) plan and Kaiser offers the Health Maintenance Organization (HMO) plan. HDS and VSP provide the regular and dual dental and vision plans respectively for active employees and the regular dental and vision plans for retirees. Aetna provides the life insurance plan for active employees and retirees.

For both active employees and retirees, the health benefit plans are available to domestic partners and full-time students up to the age of 24. No additional premium is required for student coverage under the family option. Active employees also receive chiropractic benefits through ChiroPlan which is offered in combination with any of the medical plans offered.

All active employees who have medical coverage through private sector or federal government plans are eligible to enroll in either of two Dual-Coverage Medical Plans. The Royal State National Insurance Company, Ltd offers a dual coverage medical reimbursement plan, and HMSA offers a fee-for-service dual coverage plan.

The Board of Trustees (EUTF) achieved two major cost savings actions during the year. First, the EUTF Board negotiated a major rate reduction for its retiree medical and prescription drug plans offered by the Hawai'i Medical Services Association (HMSA) that resulted in total savings estimated at more than \$5.2 million. The rate reduction was effective July 1, 2005. EUTF retiree rates for the HMSA plan were approximately 6 – 7% below FY 05 rates. Second, the EUTF Board negotiated a premium holiday for active employee medical and prescription drug plans offered by HMSA that saved about \$20.5 million. The premium holiday meant that for December 2005, HMSA did not bill the EUTF for active employees enrolled in its medical and prescription drug plans. The savings for approximately 39,000 employees totaled about \$8.2 million, and the savings for employers totaled about \$12.3 million. In addition, the Board incorporated the Medicare Part D drug plan into the Kaiser Senior Advantage plan effective January 1, 2006, resulting in rate reductions totaling approximately \$3.8 million annually.

The table below shows active employees' enrollment as of June 30, 2006.

Type of Benefit Plans	Type of Coverage		Grand Total
	Self	Family	
MEDICAL			
Regular Plans			
HMSA	16,544	14,906	31,450
Kaiser	5,050	4,283	9,333
Dual Plans			
HMSA Dual Plan	237	316	553
Royal State Dual Plan	107	394	501
Prescription Drug Only			
HMSA	46	95	141
Total Medical	21,984	19,994	41,978
DENTAL			
Regular Plan			
HDS	20,161	22,982	43,143
Dual Plan			
HDS Dual	267	1,191	1,458
Total Dental	20,428	24,173	44,601
VISION			
Regular Plan			
VSP	20,068	20,982	41,050
Dual Plan			
VSP	227	955	1,182
Total Vision	20,295	21,937	42,232
LIFE INSURANCE			
Aetna	52,386		52,386

The table below shows retirees' enrollment as of June 30, 2006

Health Plans	Type of Coverage		Grand Total
	Self	Family	
MEDICAL			
HMSA Non-Medicare	3,471	4,734	8,205
HMSA With Medicare	13,050	8,099	21,149
Kaiser Non-Medicare	819	989	1,808
Kaiser With Medicare	3,179	1,664	4,843
Total Medical	20,519	15,486	36,005
DENTAL			
HDS	20,371	15,276	35,647
VISION			
VSP	20,324	15,522	35,846
LIFE INSURANCE			
Aetna	32,052	-	32,052

OPERATIONS

During fiscal year 2006, the EUTF continued to face challenges that stretched its resources. The 2005 State legislature authorized an additional six positions in the FY2006/2007 budget. The EUTF has been able to establish three positions (one IT Specialist and two customer service representatives), and is in the process of filling the remaining vacancies.

Two major projects severely strained the limited EUTF resources. Pursuant to Act 245 SLH 2005, the Hawaii State Teachers Association (HSTA) implemented its Voluntary Employees Beneficiary Association (VEBA) plans effective March 1, 2006. Slightly more than 13,000 bargaining unit 5 (BU05) members were transferred to the VEBA. The transfer process presented significant challenges for EUTF. Over one hundred participants shown as members of BU05 were found to be members of other bargaining units (or excluded). The transfer process required research and coordination regarding each of these participants by and between EUTF, HSTA MBC (VEBA plan administrator) and the Department of Education (DOE). In addition, the EUTF identified and DOE confirmed additional BU05 members not initially identified by DOE. These conditions resulted from BU05 members moving from teaching to administrative positions and vice versa. Also, EUTF provided support to the Department of Budget and Finance in verifying billings from HSTA MBC for VEBA employer payments for VEBA participants.

The second project resulted from the Medicare Modernization Act of 2003 which established a prescription drug program for Medicare recipients effective January 1, 2006. The federal program was designed to encourage private and public employers to provide and/or retain prescription drug programs for the retirees. As part of the program, the Centers for Medicare and Medicaid

Services (CMS) provide financial incentives for employers to continue providing retiree prescription drug coverage. EUTF provided administrative support and assistance to the Department of Budget and Finance to obtain the retiree drug subsidy (RDS) for the state and county employers. This support included mailing notices of creditable coverage and answering resulting calls, sending and receiving Medicare retiree enrollment files to/from CMS, researching discrepancies and providing related administrative assistance.

During FY2006, the EUTF Customer Service staff of four personnel received over 46,000 telephone calls and made 13,700 outgoing calls, or an average of 4,980 incoming and outgoing calls per month. In addition, the same staff processed over 13,000 retiree enrollment-related forms, processed, printed and mailed over 5,700 COBRA election notices, 18,000 confirmation notices, 5,000 retiree related notices and other project notices or letters such as the special enrollment and responses to retiree requests.

The Enrollment staff received and imaged 50,228 documents during FY2006. Of the documents received and imaged, the staff processed all but 3,522 documents for a completion rate of 94% by mid-July 2006. Enrollment related documents which affected an employee or retiree's benefit plans or coverage total nearly 64% of all documents submitted. Other documents dealt with change of address, correction or clarification of data submitted, removal of dependents from plans and other miscellaneous categories.

A major accomplishment during FY06 was significant improvement in the accuracy of demographic data maintained by the EUTF. When the EUTF assumed responsibility of the current database, incorrect mailing addresses resulted in well over 1500 mail returns. During FY2006, the EUTF processed several large mailings of 24,000 or more pieces. In each case, less than 0.9% of the addresses proved to be incorrect. A clear example was the 2006 open enrollment which required over 36,000 retirees to be contacted. From this mailing, only 301 were mail returns due to incorrect addresses or 0.8% of the total.

Open Enrollment was held from April 17, 2006 to May 19, 2006. In preparation for the 2006 Open Enrollment, the EUTF conducted training sessions on the four major islands for the personnel and financial officers involved in the open enrollment process. Nearly 400 personnel and financial officers attended the 9 training sessions. The EUTF staff also held 39 informational open enrollment sessions, including 13 retiree sessions, throughout the state. These sessions were held at various locations on Oahu, Kauai, Maui and Hawaii (Hilo and Kona). Like the previous year, with minimum changes in the EUTF plans, less than 2% employees and retirees attended these sessions.

For the 2006 Open Enrollment, active employees submitted 3,689 enrollment related forms and retirees, 623. Since there were no significant changes for the

FY2007 benefit period, most employees and retirees remained on their previous plans.

The EUTF participates with the major State departments and counties which host pre-retirement, orientation and other informational sessions during the year. Over 2,500 interested employees attended these sessions. The EUTF continued the program to provide on-site retirement counseling in conjunction with the Employee Retirement System's periodic group retirement counseling sessions. During these sessions, the employee receives counseling from the ERS counselors regarding their retirement benefits and is counseled by the EUTF staff on their retirement health and life insurance benefits. This collaboration provides a valuable service to our employees planning to retire.

FISCAL YEAR 2006

During FY 2006, the EUTF collected \$572,488,753 in employer and employee contributions for health benefit plans and paid carriers \$530,911,563 in premiums. Medicare Part B reimbursements paid to retirees amounted to \$33,704,126. The above amounts are presented on an accrual basis. There was a decrease in contributions and payments due to the implementation of HSTA VEBA plans effective March 1, 2006 and the premium holiday for HMSA active medical and prescription drug plans in December 2005.

An annual audit of the EUTF, as required by Chapter 87A-25(2), was conducted for the plan year July 1, 2005 through June 30, 2006 by Grant Thornton LLP. The EUTF financial reports as presented in the Audit Report were approved by the EUTF Board of Trustees on November 29, 2006 and are attached to and incorporated in this report.