

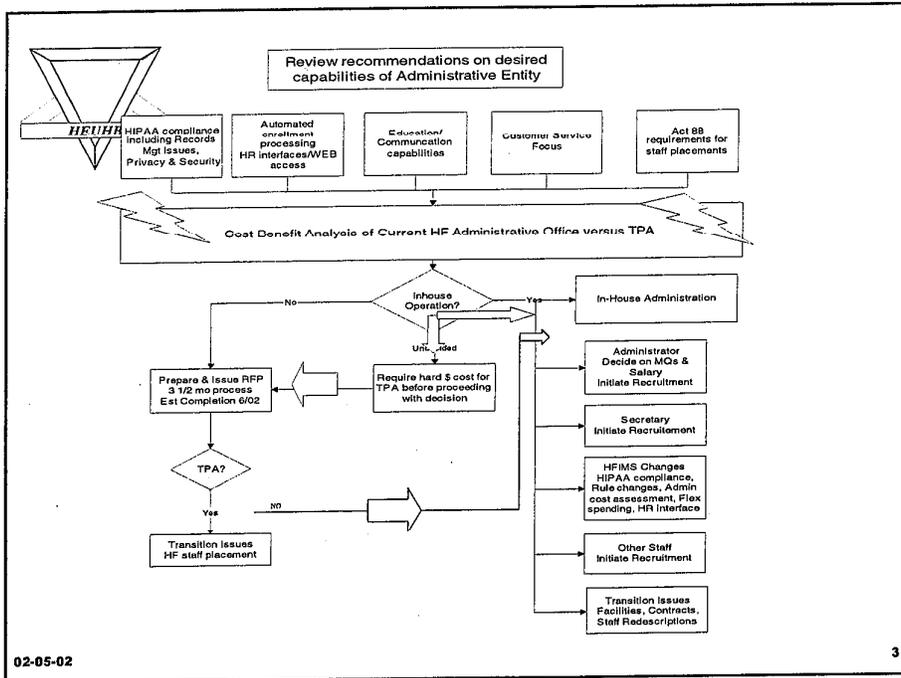
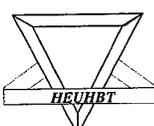
Captive versus Third-Party Administration

Board Meeting February 5, 2002



Terms

- ✓ For purposes of this presentation
 - **Captive Administrator** is an exclusive administrative entity, employed either directly by the Board or through exclusive contract to only administer the benefit plans offered by the Board to participants
 - **Third Party Administrator** is an entity that regularly does business with other employers and trusts that provide benefits to participants and provides full administrative services to these entities

Cost Benefit Analysis of Captive versus Third Party Administration

- ✓ Scope of services required
 - matching existing services
 - capabilities of current versus potential administrator
 - market
- ✓ Cost
- ✓ Timing
- ✓ Customer Service
- ✓ Workforce - Human Resources

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Scope of Services

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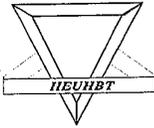


Scope of Services Required - Considerations

- ✓ Are the services performed exclusive to the EUTF or are they easily duplicated through a third party in a timely and cost effective manner
- ✓ Is the current administrative entity capable of expanding to meet the needs of the new Trust and Plans

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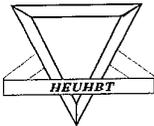


Scope of Services Required

- ✓ Are there areas of expertise not obtainable through the existing structure or
- ✓ Is there exclusive expertise
- ✓ Is there a value or loss from an administrative entity exclusively dedicated to the administration of the State of Hawaii Employer-Union Health Benefit Trust plans
- ✓ Are there examples in other Public Sector Plans

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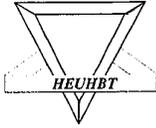


Major Administrative Duties of the Fund Office

- ✓ Determine the eligibility of employees and retirees
- ✓ Enroll State and County employees and retirees in Health Fund benefit plans, recording, and keying in their enrollments into the Public Employees Health Fund Information Management System (PEHFIMS) master database.

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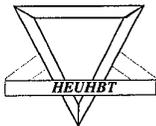


Major Administrative Duties of the Fund Office

- ✓ Maintain enrollment records, including the effective, cancellation, and termination dates of coverage for subscribers in Health Fund plans.
- ✓ Collect contributions from employees for Health Fund premiums (through State and County payroll systems and by cash payments made by certain employees and retirees).

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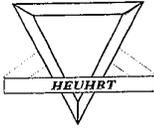


Major Administrative Duties of the Fund Office

- ✓ Collect contributions from State and County public employers for Health Fund premiums.
- ✓ Pay Health Fund premiums to insurance carriers.
- ✓ Produce monthly enrollment/membership reports and electronic files
- ✓ Reconcile financial accounts (i.e. accounts receivables and payables)

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Major Administrative Duties of the Fund Office

- ✓ Produce financial and statistical reports on enrollment changes in Health Fund
- ✓ Comply with Federal and State laws governing employee benefit plan administration

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Major Administrative Duties of the Fund Office

- ✓ Assist the Board in the administration of Its duties and responsibilities with respect to
 - Fund investment and management
 - Rule making
 - Benefit design and administration
 - Communication
 - Accountability

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Evaluation Scope of Services

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Evaluation - Scope of Services

- ▼ Are there areas of expertise not obtainable through the existing structure or
 - Whereas recommendations from the operating committee call for “upgrading” certain positions, the existing Captive fund administration is capable and experienced.
 - Depth would be enhanced by a Third Party Administrator due to other client experiences and staff redundancy, but at the expense of dilution (commitments to other clients)

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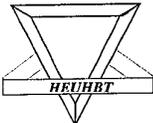


Evaluation - Scope of Services

- ✓ Is there exclusive expertise
 - The functions and processes of the existing Captive administration are not easily duplicated
 - The State plans are unique in administration
 - A long learning curve would be required
 - Start up expenses would reflect this learning curve
 - Systems investments would either need to be sold or reconstructed
 - Most expertise is resident with personnel

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Evaluation - Scope of Services

- ✓ Is there a value or loss from an administrative entity exclusively dedicated to the administration of the State of Hawaii Employer-Union Health Benefit Trust plans
 - Participants benefit from a dedicated administration that does not share resources with other clients
 - Local service enhances lead-time and access
 - The lack of redundant staff can hamper process
 - Systems are custom

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Evaluation - Scope of Services

✓Market

- No major administrative organization has a local presence
 - Zenith administrators - LA, SF, Seattle
 - ABPA - LA, SF, Nevada
 - ATPA - LA, SF, Seattle, Nevada
 - BPA - LA, SF
 - All would commit to opening some local office presence, but only to a limited extent - systems would remain in another State
- 90,000 participants requires a major organization

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Cost

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FY 2004 EUTF ESTIMATED IN-HOUSE OPERATING COST Draft 10-17-01			
	Work Processes Are Unchanged	Work Processes Are Re-engineered	Comments/Questions
Direct Cost:			
Personal Services (Staff & Overtime)	853,299	892,921	
Fringe	184,643	193,217	
Contract Hire	-	-	
Fringe	-	-	
Other Current Expenses	667,446	657,446	
Total (Direct Charge)	1,695,387	1,743,583	
Central Agency Support Cost:			
Equipment Use Charge	14,052	14,052	
DAGS Risk Management	258	258	
DAGS Central Services	1,255	1,255	
DAGs Lease Management	182,301	182,301	
B&F Dept Support & Other Central Agency Support	173,962	173,962	
ICSD Charges	274,187	274,187	
Total (Central Agency Support)	646,015	646,015	
HFIMS Amortized Cost:	1,200,744	1,200,744	
Self Sustaining Accounting System		60,000	Exception: EUTF staff payroll will run through DAGS. Quarterly Medicare Part B Reimb checks run through DAGS? Estimated cost \$100K (for study) and \$200K (for manual software with some customization) = \$300K. Amortized cost over 5 years (straight line).
Estimated FY 04 Computer requirements:			
Imaging & Enhanced imaging for HIPAA & OCR	320,720	320,720	Includes balance of FY03 Imaging requirement (\$267,000 - \$146,280 = \$120,720) and added FY04 est requirement of \$200,000. \$ is subject to change, pending add'l info

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HFIMS COMPUTER PROJECT - AMORTIZED			
FY	Description	Amount	
FY 96	Alternative Design Study by Watson Wyatt	420,000	
FY 97	Purchase of Equipment for in-house LAN system in HF Office	111,104	
FY 99	Implementation contract by the Hunter Group, Inc.	3,569,742	
FY 99	MOU with DAGS/ICSD	200,000	
FY 00	Travel & Subsistence Allowance (out-of-state)	16,006	0.7-01 HF provided cost to amortize
FY 00	Machinery & Equipment	35,251	
FY 01	Travel & Subsistence Allowance (out-of-state)	6,592	\$ reflected in HF FY03 Supplemental Bgt Request (Dept. Recommendation)
FY 01	Machinery & Equipment	205,490	
FY 01	Training (People Soft) - encumbrance	6,540	
FY 01	Oracle (install) - encumbrance	2,834	
FY 01	IMB (install) - encumbrance	4,049	
FY 01	Verizon - encumbrance	24,930	
	FY 96 to FY 01 - \$ to amortize	4,603,438	
FY 02	Items 1 to 8	304,000	
FY 03	Assess Administration Fee	100,000	
FY 03	Flexible Credit (Cafeteria)	100,000	
FY 03	DPO Web Access	500,000	
FY 03	HRI Interface	200,000	
FY 03	HFIMS Phase III - Imaging	146,280	
	FY 02 to FY 03 \$ to amortize	1,400,280	
	TOTAL (To Amortize)	6,003,718	
	Amortize over 5 years	5	
	PER YEAR:	1,200,744	

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Estimated FY 04 Operating Costs

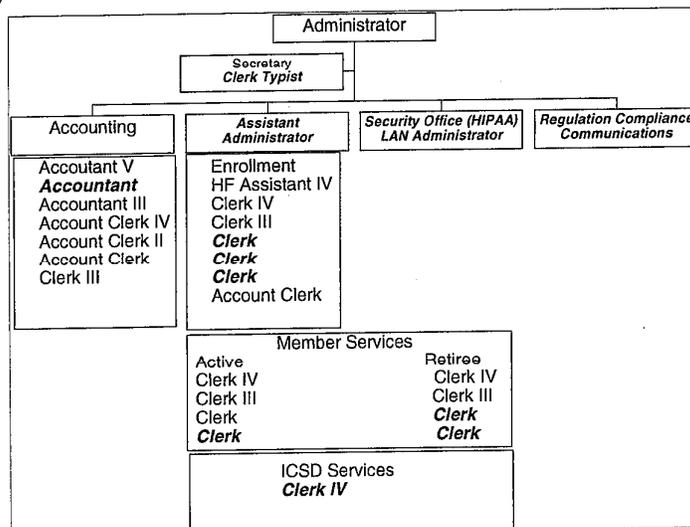
Direct Costs	Current Process with Additions	Re-Engineered
Staff	\$ 853,299	\$ 1,038,878
Fringe	184,643	224,800
Other Direct	657,445	657,445
Total Direct	1,695,387	1,921,124
Central Agency Support	646,015	646,015
HFIMS Amortized Cost	1,200,744	1,200,744
Additional IT requirements	1,054,320	1,114,320
Total before BDC	4,596,466	4,882,203
Adjustments due to BDC		77,760
Flexible benefits (3 positions)		100,000
Additional computer expense		177,760
Subtotal		355,520
External Legal Expense/Contingency		190,000
Claim Auditor		110,000
Total Estimated Expense	5,074,226	5,359,963
Estimated Fund Expense	544,709,241	544,994,978
As a Percent of Fund Expense	0.02%	0.02%
Claims Administration	7.00%	7.00%
Total	7.93%	7.98%
Benchmark (Segal)	9 - 11%	9 - 11%

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Recommended Staffing



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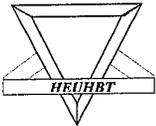


Re-engineering Study - Conclusions

- ✓ Redefined EUTF Enrollment Functions
 - Shift accountability for enrollment data entry to employing agencies
- ✓ Direct transmission of enrollment data from employing agency to EUTF
 - eliminated redundant data entry

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Re-engineering Study - Conclusions

- ✓ Interface HFIMS with major human resource systems information
 - Eliminate verification of information at fund office
 - Immediate communication of necessary enrollment demographic and eligibility data

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Re-engineering Study - Conclusions

- ▼ Improve communications with employing agencies and participants
 - Added communications officer takes ownership of responsibility
 - Reorganization of fund office into function which directly parallel participant needs and events

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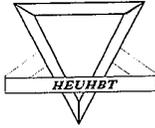


Re-engineering Study - Conclusions

- ▼ Standardize effective dates
 - Allows for system generated dates based upon “event table”
 - HFIMS will calculate and communicate these events more accurately and quickly avoiding overage and underage problems
 - Eliminate prevalence of late enrollment
 - Consistent with “industry standards”

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Re-engineering Study - Conclusions

- ✓ Electronic filing of documents
 - eliminate personnel required to file paper
 - more accurate and economic
 - better suited to new security and privacy regulations
- ✓ Fully automate accounting system
 - Diversified system of manual and automated accounting used today

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Re-engineering Study - Conclusions

- Will better handle increased volume of transactions inherent in EUTF
- Will reduce audit expense
- ✓ Compliance with HIPAA and PBOR
 - Privacy regulations effective 4/2003 require privacy officer and separate security officer
 - Electronic storage and system information are more easily secured than paper system

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Re-engineering Study - Conclusions

▼ Additional IT Support

- Enhanced dependence on HFIMS and electronic storage will require enhanced IT support

▼ Alternative Electronic Enrollment

- Inter-active telephone and internet enrollment eliminate personal intervention by staff
- Interactive edits during enrollment eliminate mistakes

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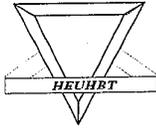
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Evaluation Cost

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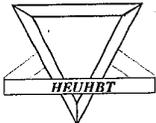


Evaluation - Cost

- ✓ Existing system investments that are reflected as amortized have no cash expense
- ✓ Third Party Administrator would have to recreate these systems and interfaces
- ✓ Additional expense to fund over first five years of plans ranges between \$5,500,000 to \$6,000,000 or 1.5% of plan expenses
- ✓ Ongoing administration would cost more due to "profit" objectives of TPA

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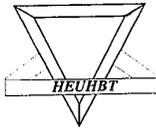


Evaluation - Cost

- ✓ Benchmarks indicate 2% to 4% greater ongoing expenses when compared to current costs including amortized expenses
- ✓ 2% of total Fund expenditures is \$1,100,000 plus amortized system expense of \$1,200,000 as a cash expense
- ✓ 4% of total Fund expenditures is \$2,200,000 plus amortized expenses

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Timing

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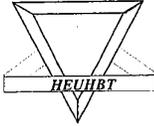


Considerations of Timing

- ✓ Master timeline
- ✓ Time required for new TPA versus starting point of Captive administration
- ✓ Workflow demands of other clients on TPA
- ✓ Geographic limitations
 - location of systems, administrative personnel, infrastructure, accounting
- ✓ Experience with insurance vendors

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Evaluation Timing

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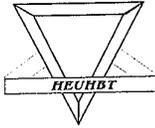


Evaluation - Timing

- ✓ A decision to use Captive (existing) administration structure can be made soonest allowing the greatest lead time
- ✓ Selecting a TPA requires a procurement process that allows the least transition time
- ✓ The entity with the least familiarity with benefits, administration, system and participants would therefore have the least amount of time

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Evaluation - Timing

- ✓ Informal discussions with TPA firms indicate a one-year lead time for system development, interfaces, contracts and preparation for open enrollment would be optimal
- ✓ Less time increases dependence on existing systems and Captive administration
- ✓ Open enrollment commences 14 months from this month

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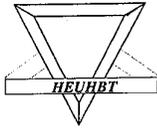


Evaluation - Timing

- ✓ Few entities of this size use a TPA, most develop Captive administration (no states)
- ✓ HIPAA and DOL compliance deadlines are taxing all TPA firms now and throughout the critical periods of the EUHBT's implementation (EDI 10/03 Appeals 4/03)
- ✓ Most requirements for Captive administration have already been planned

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Customer Service

- ✓ Customer service access to the existing administration of the HF is acceptable
- ✓ Areas for enhancement have been outlined in the re-engineering study
- ✓ Operation hours consistent with Hawaii Time would be a requisite
- ✓ A TPA could provide depth, but, without knowledge
- ✓ Transition issues are critical

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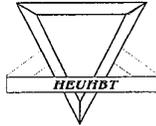


Human Resources

- ✓ A Captive Administration would allow the existing HF employees to keep their jobs
- ✓ A TPA would require contracting out positions at the expense of State positions
- ✓ Captive Administration employees would be Plan participants with a personal interest in the Plan
- ✓ TPA employees may have different interests

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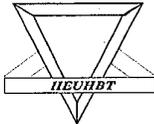
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Evaluation - Customer Service and Human Resources

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Evaluation - Customer Service and Human Resources

- ✓ Experiences of other Boards have valued dedicated, Captive Administration as the most effective with respect to customer service, as well as other factors
- ✓ Turnover at TPA firms is generally very high due to markets and wages
- ✓ Only a dedicated TPA EUHBT staff would remedy this, but at a premium cost

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Conclusions

- While a major benefits TPA may add some depth and experience, it is not related to the Hawaii plans or rules
- Each TPA scenario has a significantly higher cost over a Captive administration, indicating
 - Higher contributions from participants as employer contributions will be negotiated or
 - Lesser benefits to participants to lower costs
- Timing restraints almost dictate an early decision to use Captive administration
- The customer service and human resource considerations are consistent with the above

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