

Royal State Center
819 South Beretania Street
Honolulu, Hawaii 96813
(808) 537-3151

MUTUAL BENEFIT ASSOCIATION OF HAWAII

**Fax Transmittal
Original via U.S. Mail**

October 18, 2002

To: Davis Yogi
Rules Committee
Hawaii Employer-Union Health Benefits Trust Fund

From: Melvin Higa, Senior Vice President

Subject: Response to Your Letter Dated October 9, 2002 Re: Proposed Rules of the
Hawaii Employer-Union Health Benefits Trust Fund

Your letter dated October 9, 2002 is in reply to comments contained in my September 25, 2002, memorandum concerning the proposed rules of the Hawaii Employer-Union Health Benefits Trust Fund. My response to your letter follows.

Thank you for informing me on those revisions made to proposed rules provisions that the committee found necessary or otherwise appropriate. Also, thank you for informing me on those revisions that the committee determined to be unnecessary or otherwise inappropriate, after having given consideration to the comments that I submitted. Finally, thank you for allowing that I provide comment to specific issues for the committee's further consideration.

On considering my submitting additional comments on specific issues, I found a common thread that run throughout the Fund's and including the Rules, Benefits and Administrative Committees conduct of business. The common thread is the absence of Board and/or the Board's Committees having performed, by assignment or otherwise, upfront search for and identification of laws that apply or affect the business conduct of the Fund. Said common thread is one of the primary cause giving rise to self-created deficiencies, inefficiencies and substantive legal issues, which is aggravated by Trustees not reading and listening to comment and input (messages) offered and made. This particular item is mentioned because it is substantive, in nature, to my previous communications and this response.

The Committee's determination reached and decision made as contained in item number 3 should be reconsidered. In reconsidering this matter, further consideration should be given to use of term "affected employee organization", rather than retaining term "exclusive employee organization." This suggestion is made, based on the rationale presented in your response and alignment thereof to the statute, which use the term "affected employee organization."

Item number 4. My memo clearly refers to Chapter 431, HRS (see last sentence of second paragraph). As your letter points out, the Committee's review could find no such requirement (as set forth in paragraph two of my memo) on review of Chapter 87A, HRS. That is because I referenced Chapter 431 and not Chapter 87A. You ask for further comment. Please see Sections 431:10D-201 & 202, and for additional requirements that apply more specifically to the Benefits Committee in respect to RFPs 03-001, subsections 213, 214 & 215 of Section 431:10D, HRS. These statute provisions are clear and self-explanatory and provide the complete description of requirements that I believe apply, and that you requested I provide. Also, please see my communications dated October 15, 2002. It provides much additional and substantive details relating to this matter.

Item number 7. Please see my memo dated October 15, 2002, as a partial response. As applies to full-time students I gather that the Committee discussed issue on propriety of creating new law by rule and further, represents and certifies that Committee discussed and determined that similarly situated dependents (dependent child/children of employee-beneficiaries), except that said similarly situated dependents are not "full-time students," does not result in or otherwise constitute a disparate/discriminatory employment practice. I am certain that this matter crossed your mind, but I'm uncertain whether you informed the Committee and/or legal counsel. My reason for being certain of your personal knowledge has been previously communicated. In addition, I understand and believe that you were the "architect" and "engineer" for getting around having to define "child" based on and reliance on age, and use of the "dependent" provision to circumvent the inherent and obvious ramification to using the generally accepted legal definition (majority age of either 18 or 21) for adult, as versus child.

Again, you convey that the Rules Committee thoroughly discussed all of the issues and proposed changes received. I, again, respond that said conveyance ring hollow. You have now asked that I provide specifics (re disparate/discriminatory employment practices). You and the Committee must be able to recall that Trustee Uwayne, prior to his resignation, requested that the Committee consider providing that health benefits eligibility to include "Reciprocal Beneficiaries" and other employee-beneficiaries who are not required to register as being subject to sexual orientation or under conventional marital status and place same on the Committee's meeting agenda. Mr. Uwayne made said request several times, including at Board meetings and inappropriately therein making certain insinuations and apologizing for same, but did also cite that discriminatory practices law likely applies (government not exempted from laws). Given this background and your conveyance that committee has done its due diligence, I ask for copy of legal opinion or other written evidence that Committee thoroughly discussed Mr. Uwayne's concern. At very minimum, the Committee should have found that Section 378, HRS applies to heart of Mr. Uwayne's concern and consulted with the entity empowered to interpret and enforce those unlawful discriminatory employment practices provisions.

It is the Board's and Committee's duty and responsibility to do their "home work" first, before seeking public comment and input. Therefore, it is not appropriate that you suggest and request that I submit all my findings and show the Committee how the

proposed rules are inconsistent with law and otherwise deficient, and do so by October 21, 2002. Such substantive review, I submit, is the responsibility of the Committee and Board to have performed, and pay for. The lack of time, specialized professional resources and money is not a valid excuse, for it is the Board that has set forth the path for this journey with full knowledge of woefully inadequate funding to buy necessary resources to get the job done, the timing for implementation of benefits plan not being in alignment with the collective bargaining process for determining employer contributions for health and life benefits plans premium costs, the timing of legislature approving the shifting of Fund's health benefits administrative and other expenses to employee-beneficiaries, among many other conditions and barriers created by and under Act 88, SLH 2001.

The situation, however, if left untold and allowed to continue be covered-up, will cost Hawaii hundreds of millions of dollars. A terrible waste of real money. Perhaps, investing more time, that can be averted. Maybe not, as your time, the Committee's time and the Board's (real, quality, genuine effort not simply going through the motion - rubber stamping) time is required.

You closed your letter with the enclosing of proposed final draft of the Administrative Rules that the Rules Committee approved on October 3, 2002, "after thorough discussions of all of the issues and proposed changes received both in writing and verbally from public employers, employee organizations and the public"; and, stated that if I have comments or suggestions about this proposed final draft to submit them in writing. I repeat my previous comments. I also add that the latest text format version you enclosed is 26 pages, as compared to some 60 pages under the comparative chart format version that is currently posted on your Website. To test assertions I have made from the outset, I reviewed Section 1.02 Definitions of the Proposed Final Draft w/Additional Revisions version 10/3/02, that you enclosed. Section 1.02 represents approximately two (2) of the total twenty six (26) pages. My comments on and for these two (2) pages only are as follows:

1.02 Definitions:

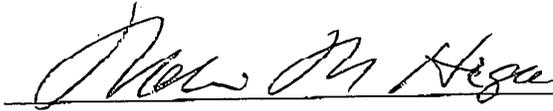
- "Carrier" shall have the meaning as in statute (per proposed rules) – is it realized that the definition in statute does not include and apply to group life insurance benefits and if so, does the omission of group life insurance benefits result in problems or concerns on applying the term carrier within provisions of the proposed rules?
- "Contributions" is not set forth in Section 87A-1 as referenced in the proposed rule. The proposed rules referenced section uses and defines the term in singular, "Contribution", rather than plural "Contributions."
- Both "Dependent-beneficiary" and "Employee-beneficiary" shall mean the persons described in Rule 3.01 of the proposed rules as being eligible for coverage in health benefit plans offered or sponsored by the Fund as dependent-beneficiaries and employee-beneficiaries, respectively. These definitions are not applicable to and do not apply to any benefits plan other than "health benefit

plans.” The proposed rules provide that the term “Health benefit plan” shall have the same meaning as set forth in Section 87A-1, HRS. Therein, the term is defined and means “A group insurance contract or service agreement that may include medical, hospital, surgical prescribed drugs, vision, and dental services...” It does not include any other benefits such as life, long-term care, etc. It appears that the proposed rules present and creates a vast void. Furthermore, Rule 3.01(b) Dependent-beneficiaries does not provide that “reciprocal-beneficiaries” and others who have not married and without marital status are eligible for coverage, as required by Section 378, HRS; and, does not require employee-beneficiary to provide the Fund with written proof reasonably satisfactory to the Fund of the unmarried status and living with the employee-beneficiary’s conditions applicable to full-time students, as required by statute and further, a provision that creates law without authority and is likely to constitute and result in a disparate/discriminatory employment practice.

- Meaning of “Employer” or “public employer” is proposed to be that as set forth in Section 89-2, HRS. That may or may not bring forth concerns. Review and analysis of provisions concerning and referring to term “employer” or “public employer” is required to determine whether there are or may be concern. To conduct such review, “word-search” would be of great help. However, Website does not provide these proposed rules in text format to allow application and use of “word-search” technology. Reference to Section 89-2, HRS, appears to recognize that removal of the word “government” from within the definition of the word “Employee” requires damage control. The question is whether the proposed fix does in fact provide the necessary and required repair. The proposed rules definition for “Full-time student” should be expanded to include student being unmarried and living with employee-beneficiary parent (comment here does not mean that I agree with the proposal, as I do not).
- “Non-Fund benefit plan” should be reviewed as to application, to assure non-interference with collective bargaining. Review of provisions affected may raise other issues.
- The proposed rules defining “Part-time, temporary, and seasonal or casual employee” is outrageous. It is a clever, underhanded attempt to circumvent the law. See my October 15, 2002, letter. The proposed definition is absolutely and clearly inconsistent with the definition provided in the statute. It is crafted in a manner to appear to be consistent with the statute, but is designed to disqualify thousand of workers that the statute clearly makes eligible for health and life insurance benefits. The Committee’s purposeful substitution of the word “or” for “and” is the trick. This is outright fraud and stealing of employee rights to health and life insurance benefits from those least able to detect Trustees thievery and put up a challenge.
- There is no definition for “Periodic change” that the proposed rules say is set forth in Section 87A-1, HRS. The most likely term is “Periodic charge.”
- Similarly, the term “Qualified beneficiary” is “Qualified-beneficiary” as provided in the referenced Section 87A-1, HRS.
- The proposed rules provide that the term “Employee” shall have the meaning as set forth in Section 87A-1, HRS. However, the proposed rules fail to provide

eligibility criteria addressing the deletion of the word "government" from the core part of the statute's definition. "Employee" under Chapter 87A-1 means an employee or officer of the State and county, and no longer means an employee or officer of the state or county *government* that is provided under Chapter 87. One provision that is clear, under the subsections following there under, concerns the employee, officer or elective officer of the legislature. These persons are clearly made eligible, and the elective officers of the legislature are eligible upon election and no longer required to have served for at least ten years before becoming or being eligible, as currently required under Chapter 87. The 2001 legislature made that clear, while making the eligibility of many others ambiguous. The proposed rules need be further reviewed to assure that there is proper alignment of employees eligibility to that with proposed definition of "Employer" or "Public Employer" as defined under Chapter 89, HRS.

The foregoing is limited to my review of Section 1.02. I submit these review findings as my comments, as testimony in support of my assertion that the Proposed Rules is not fit for soliciting public comment and input, and that the Rules Committee is derelict in its duty to recommend Board approval/adoption of such poorly crafted and drafted Rules.

A handwritten signature in cursive script, reading "Peter M. Hege", is written over a horizontal line.