

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Board of Trustees
Wednesday, November 29, 2006

TRUSTEES PRESENT

Mr. Mark Recktenwald, Chairperson
Mr. Nelson Befitel, Vice Chairperson
Mr. Guy Tajiri, Secretary-Treasurer
Mr. George Kahooahanohano

Mr. Gerald Machida
Mr. John Radcliffe
Mr. Stanley Shiraki
Ms. Katherine Thomason

TRUSTEES ABSENT

Ms. Elizabeth Ho
Ms. Marie Laderta

ATTORNEY

Mr. Brian Aburano, Deputy Attorney General

EUTF STAFF

Mr. James Williams, Administrator
Ms. Shirley Kawamoto
Ms. Kathleen Shiroma

Mr. John Garner, Consultant
Ms. Rebecca Reagan, Consultant
Ms. Donna Tonaki

OTHERS PRESENT

Ms. Lynette Arakawa, HDS
Mr. Gary Asato, Kaiser Permanente
Mr. Brad Au, Aon
Ms. Carmen Bartel, Aetna
Ms. Sandra Benevides, Kaiser Permanente
Ms. Alana Deppe-Mariota, Kaiser Permanente
Ms. Monica Engle, VSP
Ms. Elaine Fujiwara, HDS
Ms. Venus Gabuyo, MBAH
Mr. Rick Jackson, MDX Hawaii
Mr. John Jacobs, HMSA
Ms. Jeri Kakuno, MDX Hawaii
Mr. Eleu Kane, Summerlin
Ms. Wanda, Kimura, B&F
Ms. Ruth Kim, HSTRA

Ms. Alice Kotake, HSTA-R
Ms. Doreen Kuroda, DHRD
Ms. Lilia Yu Lum, RSN
Mr. Paul Matsuo, HGEA-R
Mr. Dan McLellan, Aon
Mr. Maurice Morita, HSTA
Mr. Michael Moss, HMSA
Mr. Tim Nimmer, Aon
Ms. Gertrude Nitta, HGEA-R
Ms. Sue Oguro, ORTA
Mr. Tony Saguibo, HMSA
Ms. Cindy Sasaki, Grant Thornton LLP
Ms. Lynn Shimono, Grant Thornton LLP
Mr. Rod Tam, HMSA

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 9:02 a.m. by Trustee Mark Recktenwald, Chairperson, in Conference Room 1935, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii, on Wednesday, November 29, 2006.

II. APPROVAL OF MINUTES

The Board reviewed the draft minutes for October 25, 2006.

There being no objections by the Trustees, the minutes for October 25, 2006 were approved as circulated.

III. COMMITTEE REPORTS

A. Administrative Committee

1. GASB Valuation

Trustee Shiraki reported that the Committee met with Aon Consulting that presented a report on "Actuarial Assumptions for 2006 OPEB Valuation" to the Trustees (see attached written report). The presentation was made by Mr. Brad Au, Vice President (Pension Actuary), Mr. Tim Nimmer, Senior Vice President for Aon Consulting (Health Actuary), and Mr. Dan McLellan, Vice President.

MOTION was made for the Board to adopt the assumptions regarding discount rates presented by Aon Consulting and recommended by the DAGS steering committee of 5% for unfunded plan and 8% for pre-funded plan. The motion passed unanimously.

(Employer Trustee-4/Employee-Beneficiary Trustees-4)

MOTION was made for the Board to adopt the assumptions from the ERS experience study for the June 30, 2006 actuarial valuation regarding Mortality Rates, Disability, Withdrawal/Termination, Retirement, Aggregate Future Payroll Increase, Spouse's Age, and Inflation as presented by the consultant and recommended by the DAGS steering committee. The motion passed unanimously.

(Employer Trustee-4/Employee-Beneficiary Trustees-4)

B. Benefits Committee

1. Benefit Plan Design

Trustee Tajiri reported that the Committee would address the benefit plan design in Executive Session. Summary was presented to the public on the Committee's recommendation on: 1) dental and vision benefit plans coverage for actives and retirees, 2) TRICARE supplemental plan (recommend that the EUTF not offer this based on recent federal legislation), 3) PPO plans (lifetime maximum be eliminated for both actives and retirees; increasing out of pocket limit for active employees from \$1,500 to \$2,000), and 4) other plans (recommend certain plan design changes apply to only specific vendors).

2. Benefit Plan Rate Tiering

Trustee Tajiri reported that the Committee would address the benefit plan rate tiering in Executive Session. The Committee will be recommending to the full Board adopting a three-tier rate structure for actives and retirees.

Trustee Tajiri asked if there were any comments from the public as to the recommended changes to the benefit plan design or benefit plan rate tiering. There were no comments from the public on either of the recommended changes.

3. RFP No. 07-001 Benefit Plans
Trustee Tajiri reported that the Committee would address the RFP on benefit plans in Executive Session.

IV. OTHER REPORTS

A. Administrator

1. November Update (see written report)
 - a. PeopleSoft Support
Overview by Ms. Shiroma regarding PeopleSoft support (see Administrator's report).
 - b. Feasibility Study by Gartner, Inc. – SPO Approved Vendor
Overview by Ms. Shiroma regarding the feasibility study by Gartner, Inc. (see Administrator's report). Mr. Williams stated that the Comptroller was concerned about service oriented architecture (SOA) and was assured that the intent of EUTF is to structure the RFP to emphasize the SOA.
 - c. IT Support by Gartner, Inc. – SPO Approved Vendor
Overview by Ms. Shiroma regarding the IT support by Gartner, Inc. (see Administrator's report). Mr. Dale Aiello from Gartner, Inc., provided background as vendor. Questions were raised as to who would be involved in developing the RFP. Mr. Williams stated that this has not yet been determined but he would solicit DAGS, staff support from Gartner, Inc., EUTF staff, B&F staff, and representation of people who have knowledge and perspective on this. Action will be taken in Executive Session.
 - d. Claims Audit Contract
Overview by Mr. Williams regarding the Claims Audit contract (see Administrator's report).
 - e. Public Officials and Fiduciary Liability Insurance
Mr. Bill Sandkuhler of Aon presented recommended proposals to the Board (see written report).

MOTION was made to approve the Fiduciary Liability proposal from RLI with a \$10 million limit and premium of \$45,000 and to authorize the Administrator to bind the coverage.
(Tajiri/Thomason)

Discussion: Trustee Radcliffe disclosed that he represents the Hawaii Insurer's Council of which AIG is a member. If the Board feels this is a conflict of interest, he will recuse himself from the vote. There was no comment from the Trustees nor the public. The Chair advised Trustee Radcliffe that there was no objection to his participation.

The motion passed unanimously.
(Employer Trustee-4/Employee-Beneficiary Trustees-4)

MOTION was made to approve the Public Officials & Employment Practices Liability proposal from ACE, with a premium of \$27,162 and to authorize the Administrator to bind the coverage.
(Machida/Shiraki)

Discussion: Same caveat from Trustee Radcliffe.

There was discussion on whether the policy limit of \$3M for defense costs was adequate. Mr. Aburano commented that it should be sufficient as it would be difficult for one claim to reach that limit, particularly if the Attorney General's office could associate in the defense of claims. The Attorney General's office being able to associate in the defense of claims would decrease the amount incurred by the insurer for defense costs.

The motion passed unanimously.
(Employer Trustee-4/Employee-Beneficiary Trustees-4)

- f. EUTF Facilities – Renovation
Mr. Nishihara reported that EUTF is still waiting for Hawaiian Telecom to get the parts it needs this week so that the second phase of the project can be scheduled (see Administrator's report).
- g. FY 2007-2009 Proposed Biennium Budget
Ms. Tonaki reported that the EUTF biennium budget has been submitted by B&F to the Governor and approved by the Governor except for the funding for the Investment Consultant in FY 09. Mr. Williams commented that this request can be submitted in the supplemental budget because the contract is subject to funding and the amounts are only estimates until bids are received (see Administrator's report).
- h. FY 2005-2006 Financial Audit
Ms. Cindy Sasaki and Ms. Lynn Shimono presented the FY 2005-2006 financial audit preliminary draft and the draft letter to the Board of

Trustees and Management to the Board (see attached written report). In the Client Advisory Comments, they noted two capital assets acquired in the current year that were not added to the State inventory records.

MOTION was made to approve the financial report and findings as presented by Grant Thornton. (Thomason/Radcliffe) The motion passed unanimously. (Employer Trustee-4/Employee-Beneficiary Trustees-4)

Trustee Thomason commented that there is another GASB for intangible assets which will include in-house development of software improvements.

- i. Investments
Overview by Ms. Tonaki regarding investment of reserves (see Administrator's report).
- j. Assistance and Support for 2007 Open Enrollment
Mr. Williams reported that the EUTF is proposing to amend the contract with Garner Consulting. Action on this item will be taken in Executive Session. Mr. Nishihara presented a general overview for the public regarding the assistance and support for the 2007 open enrollment that the EUTF staff needs, including communication, materials, forms, presentation, and scheduling. Due to the number of anticipated plan changes, Mr. Nishihara noted that it will be time consuming for the EUTF staff to configure the EUTF system to handle such plan changes and to plan for and handle all open enrollment activities at the same time. A request for exemption will be submitted to DPO. Request for proposal (RFP) was drafted, but the timeline would mean the contract would be awarded in February, making it impossible for a vendor to come in and develop materials by the end of February.
- k. Employee Diabetes Management
Mr. Williams reported on the update as of October 31, 2006 from Hawaii Business Health Council (HBHC) (see written report). HBHC will be soliciting another round to try to recruit more participants. The HBHC was able to get a grant to pay the co-pay waivers so there is no cost to the EUTF for this pilot program.
- l. Meetings
Mr. Williams reported that he had introductory meetings with Mr. Rob Lynch of VSP and Mr. Bill Corba of Kaiser(see Administrator's report).

m. GASB 43/45 Valuation

Mr. Williams added to his report that staff contributed and provided the information that was requested of the EUTF (see Administrator's report).

n. HSTA VEBA – Option Period for Retirees

Mr. Nishihara reported that the EUTF will have all the information to the carriers in the mid-December report (see Administrator's report).

Recessed at 10:04 a.m. and Reconvened at 10:17 a.m.

B. DEPUTY ATTORNEY GENERAL

Everson Lawsuit

Mr. Aburano reported that although the hearing was scheduled for today, in the interim, there was a status conference in which the plaintiffs notified Mr. Aburano and the court that they were filing a first amended complaint. The two major additions that they made in the first amended complaint were: 1) that they have certain contractual rights under the constitution respecting retiree health benefits and that the EUTF breached such contractual rights; and 2) a claim that the EUTF negligently interpreted constitutional, statutory, and contractual requirements by offering health benefits plans to retirees that are not equal to those of active employees.

The parties and the court discussed additional briefings particularly on the new negligence claim. As a result, the parties will be filing supplemental briefs and the hearing has been re-scheduled for December 15, 2006.

Mr. Aburano also reported that the EUTF is having correspondence with the insurance companies that are questioning if there is any coverage for this lawsuit.

C. BENEFITS CONSULTANT

Discussion was held to add an agenda item regarding the Hawaii Dental Service (HDS) HIPAA electronic interchange that was inadvertently omitted.

Overview was given by Mr. Garner on the issue of HIPAA and its requirement for electronic data interchange between providers of health care services such as dentists and dental insurance plans. In order to facilitate this interchange, standard codes are used. The American Dental Association is changing their codes as of January 1, 2007 and this has an impact on the benefit plans. Approval is needed before January 1 on these changes as submitted by HDS.

MOTION was made to add this item of Hawaii Dental Service HIPAA electronic interchange to the agenda. (Kahooohanohano/Radcliffe) The motion passed unanimously. (Employer Trustee-4/Employee-Beneficiary Trustees-4)

Ms. Lynette Arakawa, HDS, commented that under HIPAA, the ADA puts together the list of changes every two years. For 2007, most of the new policy codes are for non-covered benefits and exclusions that do not change the benefits or percentages. Because the ADA had added these codes for dentists to file, all carriers must notify their groups.

MOTION was made to adopt the changes to the dental terminology as established by the American Dental Association which would involve continuing to exclude certain excluded items under new codes and to add a benefit for Emdogain another form of treatment. (Tajiri/Radcliffe) The motion passed unanimously. (Employer Trustee-4/Employee-Beneficiary Trustees-4)

November Report

1. Financial Reports
Overview by Ms. Reagan on quarterly report that ended September 30, 2006 (see Consultant's report).
2. Enrollment Report
Overview by Ms. Reagan on the enrollment report for actives and retirees. This is the first enrollment report since the 2006 open enrollment period (see Consultant's report).
3. Performance Standards
Overview by Ms. Reagan regarding performance standards. Two performance standards were not met this quarter but these do not carry financial penalties (see Consultant's report).
4. Self Funding
Mr. Garner reported on the estimates of reserves needed for self-funding and the estimates of the reserves that will be available as of July 1, 2007 (see Consultant's report).
5. RFP No. 07-001 Benefit Plans
Mr. Garner reported that all proposals have been reviewed with the Evaluation Committee and this item will be addressed in Executive Session.
6. Registered Dieticians – Coverage of Services
Overview by Mr. Garner of his discussions with HMSA regarding registered dieticians and coverage of services (see Consultant's report). Precise language for the summary of benefits will be submitted for Board approval at the January Board meeting.

Mr. Garner reported that regarding surpluses, a draft annual report on the financial experience for the 2005-2006 plan year will be submitted at the

January Board meeting. The report will show surpluses by HMSA, VSP, Royal State, and Aetna (see Consultant's report). Under the terms of their contracts, the carriers will hold these surpluses. Royal State and VSP are obligated to return surpluses if the Board requests them to do so. The carriers will pay interest on the amounts that are being held.

7. Retiree Caps (Adjusted Base Monthly Contribution)

Mr. Garner reported on the retiree caps for the plan year 2007-2008. Garners' calculations have been reviewed by B&F and EUTF staff, and they are in agreement with the amount of the caps. Life insurance amount for retirees is a new item that has not been discussed. Amount is increased based on Medicare Part B premiums. There was discussion on the \$4.16 indexed to \$6.63. Mr. Aburano presented a history on the public employers' contributions for life insurance for active employees and retirees going back to 1967. He noted that while there had been variations in the amount, the same amount of contributions had historically been provided for both active employees and retirees.

MOTION was made to approve the adjusted base monthly contribution as presented in the Consultant's report. (Radcliffe/Machida) The motion passed unanimously. (Employer Trustee-4/Employee-Beneficiary Trustees-4)

8. Garner Consulting Bulletin – October 2006

Mr. Garner stated that this bulletin covers a variety of issues but nothing requiring action (see bulletin).

D. Financial Report as of September 30, 2006

Overview by Ms. Tonaki regarding the financial report as of September 30, 2006. There were no significant changes. (see written reports).

E. Carrier's Reports

1. HDS
Written report submitted.
2. HMSA
No report submitted.
3. Kaiser Permanente
No report submitted.
4. MBAH
No report submitted.
5. Royal State Insurance
Written report submitted.
6. VSP
Written report submitted.

V. UNFINISHED BUSINESS

There were no unfinished business.

VI. NEW BUSINESS

A. Gartner Contract – Approval

This item will be addressed in Executive Session.

B. Financial Statements and Report of Independent Certified Public Accountants –
EUTF 6/30/06 and 2005 - Approval

This item was addressed during the Administrator’s report.

C. RFP No. 07-001 Benefit Plans-Amendments or Addenda - Approval

This item will be addressed in Executive Session.

D. RFP No. 07-001 Benefit Plans - Contract Awards - Approval

This item will be addressed in Executive Session.

E. Rate Tiering – Approval

This item will be addressed in Executive Session.

F. Benefit Plan Design – Approval

This item will be addressed in Executive Session.

G. Adjusted Base Monthly Contribution – Approval

This item was addressed during the Consultant’s report.

H. GASB Valuation Assumptions – Approval.

This item was addressed during the Administrative Committee’s report.

I. Public Officials and Fiduciary Liability Insurance – Approval

This item was addressed during the Administrator’s report.

J. Assistance and Support for Open Enrollment – Garner Contract – Approval

This item will be addressed in Executive Session.

K. Administrator Evaluation – Appointment of Committee

The Chair recommended that Trustee’s Radcliffe, Shiraki, and Recktenwald be reappointed and that an employee organization Trustee be added in place of Trustee Miyake. Trustee Kahooohanohano volunteered.

MOTION was made to appoint Trustees Radcliffe, Kahooohanohano, Shiraki, and Recktenwald to serve as the Board’s administrator evaluation committee and to present the recommended evaluation, along with any recommendations regarding changes to the administrator’s employment agreement, including salary, to the

Board for approval at the January meeting. (Thomason/Befitel) The motion passed unanimously. (Employer Trustee-4/Employee-Beneficiary Trustees-4)

- L. Administrative Fees for New Benefits System – Approval
Overview by Ms. Tonaki on using 10% reserves versus 5% reserves to fund the new computer system over eight years. Mr. Williams recommended to the Board using the 10% reserves and the balance would be charged to the employers. (see worksheet on Administrative Fees for New Benefits System, FY08 to FY15). Approval is needed because in January, the benefits consultant will be able to calculate the administrative fees to be charged to the employers based on the budget approved by the Governor on the one-time cost for the computer system.

MOTION was made to approve the funding of the one-time costs of a new computer system as recommended by the Administrator; including \$206,211 per year to be included in the EUTF billed administrative fees, with the remainder of the costs to be funded from EUTF reserves. (Thomason/Radcliffe) The motion passed unanimously. (Employer Trustee-4/Employee-Beneficiary Trustees-4)

- M. Medicare Part D Employer Group Waiver – Effective January 1, 2007 – Approval
Mr. Garner gave an overview that currently the EUTF works with B&F and CMS to collect the subsidy for retiree prescription drug which is less than \$40/member/month. HMSA is proposing to receive the subsidy which would be \$53/member/month from the federal government (CMS) and pass the rate savings to the EUTF. This program would also provide an enhancement to benefits such as for specialty drugs which was not covered before, but will have 20% of eligible charge (see HMSA's letter dated November 22, 2006). The employers would also be billed less as a result of the rate savings. Mr. Williams stated a caveat that HMSA understands that they may or may not be selected to offer the prescription drug plan from July 1, 2007. But, they are prepared to do this for six months regardless of the decision for the new contract.

Mr. Rodney Tam, HMSA, stated that they are prepared should the Board approve this program and will be able to send notice to the retirees in the next five days and mail individual prescription drug cards before January 2007. There will now be two separate cards, one for medical and one for drug coverage. HMSA would like to share in the savings to the extent of \$450,000 for the six-month period of January 1, 2007 to June 30, 2007. This is to help offset HMSA's administrative transitional costs in setting up the program.

MOTION was made to approve the Medicare Part D Employer Group Waiver effective January 1, 2007, as proposed by HMSA and to authorize the Administrator to take the necessary steps to implement the program. (Tajiri/Thomason) The motion passed unanimously. (Employer Trustee-4/Employee-Beneficiary Trustees-4)

VII. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES
None.

VIII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

Board meeting is scheduled for Wednesday, January 24, 2007, 9:00 a.m., City Financial Tower, Room 1935.

IX. EXECUTIVE SESSION

MOTION was made to go into Executive Session at 11:05 a.m. for the reasons stated on the agenda. The Chair announced to the public that the Board will first take up items related to the benefit plan proposals and that the Board will recess the Executive Session to announce the results of the awards. (Kahooohanohano/Befitel) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

Executive Session was recessed at 12:38 p.m. to announce the contract awards.

The Chair reported that the Board has made the following decisions in Executive Session:

1. Award on the health and other benefits plans contracts:
 - a. Chiropractic Benefit Plan - Royal State National, insured, exclusive basis.
 - b. Dental Benefit Plan – Hawaii Dental Service (HDS), insured, exclusive basis.
 - c. Vision Benefit Plan – Vision Service Plan (VSP), insured, exclusive basis.
 - d. Dual Medical Plan –
 - 1) Royal State National, insured.
 - 2) Hawaii Medical Services Association (HMSA), self-funded.
 - e. TRICARE Medical Plan – The Board has decided not to offer this in view of recent federal legislation making it not feasible to offer this type of plan to employee-beneficiaries.
 - f. Life Insurance Plan – Standard Insurance Company, insured, exclusive basis.
 - g. High Deductible Health Plan (HDHP) – HMSA, self-funded, exclusive basis; bundled with HMSA prescription drugs.
 - h. HMO Medical Plans, non-exclusive basis:
 - 1) Insured - Kaiser, bundled with Kaiser prescription drugs
 - 2) Self-Funded - HMSA, bundled with HMSA prescription drugs
 - i. PPO Medical Plans, non-exclusive basis:
 - 1) Self-funded - HMA
 - 2) Self-funded - HMSA
 - j. Prescription Drug – NMHC, National Medical Health Card System, self-funded, on an exclusive basis to be bundled with both PPO Medical Plans and the self-funded dual medical plan administered by HMSA (not bundled with the HMO Medical Plans or the HDHP).

2. Actions taken on benefit plan design recommendations from the Benefits Committee:
 - a. The Board adopted the Benefits Committee recommendation for a 2% trend assumption to calculate rates for the new self-funded plans.
 - b. The Board adopted the recommendation of the Benefits Committee regarding HMO Plans offered through Kaiser - for active employees and retirees without Medicare.
 - 1) Kaiser HMO - to include the Behavioral Incentive Program.
 - 2) Kaiser HMO - co-payments for office visits increased from \$14 to \$15; co-payments for prescription drugs increased from \$10 to \$15; and benefit for laboratory, imaging, and testing changed from a 90% to \$15 co-payment.
 - c. HMO Plans offered through HMSA to active employees \$15 co-payment for office visits and prescription drug co-payments to match those currently offered under the PPO.

The other elements of benefit plan design changes that were discussed earlier by Trustee Tajiri were approved by the full Board.
3. The Board considered the issue of rate tiering, did not approve the Benefits Committee's recommendation to move to a three-tier system, and voted to continue the current two-tier system.

Executive Session was reconvened at 12:40 p.m.

MOTION was made to move out of Executive Session at 1:00 p.m. (Radcliffe/Tajiri)
The motion passed unanimously.
(Employer Trustees-4/Employee-Beneficiary Trustees-4)

The Chair reported that the Board has taken the following action in Executive Session:
The Board approved the Administrator's negotiating a contract or supplemental contract with Garner in an amount not to exceed \$150,000 to support the open enrollment process and in the event a procurement exemption is not granted to contract with Garner, to issue an RFP for the same services.

X. ADJOURNMENT

There being no objections by the Trustees, the meeting adjourned at 1:00 p.m.

Respectfully submitted,

/s/

George Kahooohanohano, Secretary-Treasurer

APPROVED on January 24, 2007.

Documents Distributed:

1. Draft Minutes for October 25, 2006. (7 pages)
2. Memorandum to BOT from Administrator regarding November Administrator Report dated 11/21/06. (4 pages)
3. Letter to BOT from Garner Consulting regarding financial report for the quarter ending September 30, 2006 dated 11/21/06. (16 pages)
4. Garner Consulting Bulletin for October 2006. (3 pages)
5. EUTF Statement of Net Assets (Unaudited) dated 11/09/06. (1 page)
6. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 3 Months Ended 9/30/06 (Unaudited) dated 11/09/06. (1 page)
7. EUTF Statement of Cash Flows 3 Months Ended 9/30/06 (Unaudited) dated 11/09/06. (1 page)
8. The High Road - October 2006. (2 pages)
9. Approved Minutes for September 27, 2006. (10 pages)