

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
Minutes of the Board of Trustees  
Wednesday, January 28, 2009

TRUSTEES PRESENT

Ms. Marie Laderta, Chairperson  
Ms. Barbara Annis, Vice Chairperson  
Ms. Elizabeth Ho, Secretary-Treasurer  
Mr. Darwin Ching  
Dr. Carl Daeufer

Mr. Guy Fujio  
Mr. George Kahooanohano  
Mr. John Radcliffe  
Mr. Lawrence Reifurth  
Mr. Stanley Shiraki

TRUSTEES ABSENT: None

ATTORNEY

Mr. Russell Suzuki, Deputy Attorney General

EUTF STAFF

Mr. James Williams, Administrator  
Mr. Lawrence Nishihara  
Ms. Maria Quartero  
Ms. Kathleen Shiroma  
Ms. Donna Tonaki

Mr. Timothy Nimmer, Consultant (via conference call)  
Mr. Mark Fukuhara, Consultant  
Mr. Justin Kindy, Consultant (via conference call)  
Ms. Joni Tamayo-Wilson, Consultant

OTHERS PRESENT

Ms. Lynette Arakawa, HDS  
Ms. Nikki Bassett, NMHC  
Ms. Sandra Benevides, Kaiser Permanente  
Terry Cano, HFFA  
Ms. Monica Engle, VSP  
Mr. Kevin Fong, HDS  
Ms. Venus Gabuyo RSN  
Ms. Susan Goya, HGEA  
Mr. Terry Harrison, NMHC  
Ms. Julie Hedani, Grant Thornton  
Ms. Vanelle Hirayasu, HMA  
Ms. Leslie Huffman, Standard Insurance  
Ms. Fran Kagawa, HGEA-R

Ms. Bonny Kahalewai, Standard Insurance  
Mr. Jack Katahira, HGEA-R  
Ms. Ruth Kim, HSRTA  
Ms. Wanda Kimura, B&F  
Ms. Alice Kotake, HSTA-R  
Ms. Doreen Kuroda  
Mr. Derek Mizuno, HGEA  
Mr. Maurice Morita, HSTA  
Mr. Rod Tam, HMSA  
Ms. Lynn Shimono, Grant Thornton  
Ms. Jennifer Tobin, C&C  
Ms. Valerie Trechter, Kaiser Permanente

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 9:00 a.m. by Trustee Marie Laderta, Chairperson, in EUTF Conference Room, 201 Merchant Street, Honolulu, Hawaii, on Wednesday, January 28, 2009.

Chair Laderta announced that Deputy Attorney General Russell Suzuki is sitting in for Deputy Attorney General Brian Aburano.

II. APPROVAL OF MINUTES

The Board reviewed the draft minutes for December 8, 2008 and January 7, 2009.

There being no objections by the Trustees, the minutes for December 8, 2008 and January 7, 2009 were approved as circulated.

### III. OTHER REPORTS

#### A. Administrator

1. January Update (see written report)
  - a. PeopleSoft Support  
Overview by Ms. Shiroma regarding PeopleSoft support (see Administrator's report).
  - b. Vitech Systems Group, Inc. – V3 Benefits Administration System Implementation  
Overview by Ms. Shiroma regarding V3 Benefits Administration System Implementation (see Administrator's report).
  - c. Utilization of Additional Space  
Overview by Ms. Shiroma regarding the utilization of additional space for the Vitech project team (see Administrator's report).
  - d. IT Support by Gartner, Inc. –SPO Approved Vendor  
Ms. Shiroma reported that the third project oversight and risk assessment report will be presented later on the agenda (see Administrator's report).
  - e. Implementation of Dependent Eligibility Audit During FY 2009  
Overview by Mr. Williams regarding the withdrawal of his support for the acceleration of the implementation of the dependent eligibility verification audit during FY 2009 (see Administrator's report).

MOTION was made for the Board to approve the acceleration of the implementation of the dependent eligibility verification audit during the current fiscal year. (Radcliffe/Daeufer)

Discussion held by Trustees and staff regarding acceleration meaning to move forward with a procurement exemption for Aon. Trustee Radcliffe stated that his motion to do the eligibility audit is as previously described and discussed at the last Board meeting. Discussion held by Trustees and staff regarding agreeing with the acceleration but proceeding with an RFP that will be on a fee based on performance. Trustee Radcliffe asked Chair Laderta to clarify if Trustees are for or against motion. Discussion held by Trustees and staff that a Trustee may amend the motion incorporating suggestions mentioned in earlier discussions.

MOTION TO AMEND to include an RFP process and the method of payment based on performance. (Shiraki/Annis)

Further discussion held by Trustees and staff if the amended motion is a friendly motion and would the administrator be able to accomplish the amended motion in a timely matter. Mr. Williams stated that it would be approximately three months longer than Trustee Radcliffe's motion but the original motivation for the procurement exemption was to get the 2% reduction in rates effective 7/1/09. Aon needs to be asked whether they would be able to modify the rate calculation by 2% based on the motion. Mr. Fukuhara stated he would need to check with Tim Nimmer and Justin Kindy to determine if it would be actuarially sound to reduce rates by 2% with the issuance of an RFP. The amount of reduction in rates is determined by when the savings will start and that will depend on when the contract with a vendor would be executed. Discussion held by Trustees and benefits consultant regarding if the 2% would still be possible. Mr. Fukuhara stated that it would not be 2% because of less time for savings. The 2% was based on having savings for 9 out of the 12 months in the next fiscal year. If Mr. Williams is right in his calculation of three 3 additional months for an RFP then there would be one quarter less savings. Mr. Fukuhara would need to ask Mr. Nimmer what he would need to be confident because when he puts the savings down he validates and certifies those figures. Mr. Nimmer may want something more concrete on the start date and methodology used in the audit in order to certify the amount of savings.

MOTION TO AMEND to include an RFP process and the method of payment based on performance. The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

MAIN MOTION AS AMENDED: For the Board to include acceleration of the implementation of the dependent eligibility verification audit during the current fiscal year to include an RFP process and the method of payment based on performance. The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

- f. Scheduling of the 2009 Open Enrollment Period for Active Employees  
Overview by Mr. Williams regarding the scheduling of the 2009 Open Enrollment period for active employees. The Administrator recommends that the Board approve the Open Enrollment period for active employees from April 20, 2009 to May 22, 2009. Discussion held by Trustees and staff regarding open enrollment support from Aon that has been requested because staff needs assistance to handle open enrollment.

MOTION was made for the Board to approve the Open Enrollment period for active employees from April 20, 2009 to May 22, 2009. (Fujio/Radcliffe)  
After discussion held by the Trustees, the motion passed unanimously.  
(Employer Trustees-5/Employee-beneficiary Trustees-5)

- g. Financial Audit for FY 2007-2008  
Ms. Tonaki reported that the final EUTF financial statements for FY2007-2008 were included in the Board packet. Grant Thornton will be presenting the concluding phase of the EUTF audit later on the agenda.
- h. Accounting Issues  
Ms. Tonaki reported that the collection issue with CMS is still in dispute with the collection agency (see Administrator's report).
- i. GASB 43/45  
Ms. Tonaki reported that the EUTF received an additional \$7.5 million from Hawaii County for OPEB (pre-funding) contributions. Hawaii County has now pre-funded a total of \$21,113,063.09 through December 2008 (see Administrator's report).
- j. Investment Consulting Activities  
Overview by Ms. Tonaki regarding the Investment Consulting activities. A workshop will be scheduled with the Investment Committee. Mr. Williams stated the probable date is February 24, 2009 in the morning and the back-up date is February 26, 2009. The staff will know by tomorrow morning and will confirm by e-mail to Trustees (see Administrator's report)
- k. Policy on Prescription Drugs for Out of Country Employees/Retirees  
Overview by Mr. Williams regarding the EUTF handling two cases recently in which participants requested approval for prescriptions longer than 120 days due to being out of country for an extended period. After consulting with Aon, the Administrator recommends that the Board approve a revision of the policy (see Administrator's and Benefits Consultant report). This item will be addressed during the Consultant's report.
- l. Biennium Budget 2009-2011  
Mr. Williams reported that the EUTF participated in briefings on the proposed biennium budget before the House Finance and Senate Ways and Means on January 12, 2009. A copy of the EUTF portion of the testimony was in the Board's packet (see Administrator's report).
- m. Proposed Legislation  
Mr. Williams gave an update and recommendations on proposed legislation affecting the EUTF for House and Senate bills (see "Proposed Legislation

Affecting EUTF” for House and Senate). Discussion held by Trustees and staff regarding HB6 and if a motion was made would all Trustees be in support or opposition.

There being no objections by the Trustees, the Board will take no action on HB 6.

MOTION was made for the Board to approve the administrator’s recommendation to oppose HB 7. (Shiraki/Radcliffe) The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

MOTION was made for the Board to approve the administrator’s recommendation to oppose HB 437 and SB 608. (Radcliffe/Shiraki) The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

Discussion held by Trustees and staff regarding HB 850 on why the Board would oppose this bill because it is between the County and the State. Further discussion held by Trustees and deputy attorney general that this bill is not necessary because current law allows the County to become employer members on the Board. Mr. Suzuki stated that is correct. Discussion held by Trustees regarding concerns of the unbalance it would cause if this bill is passed because the State is the largest employer and the needs of the County and State is different. Mr. Williams stated that the two rationales he heard is that there is no prohibition to the Governor appointing County representative and by putting 4 out of 5 county representatives, it would unbalance in favor to the Counties since the State is the largest entity.

MOTION was made for the Board to approve to oppose HB 850. (Shiraki/Annis) After discussion held by the Trustees, the motion failed. (Employer Trustees-4 YES-Annis, Ching, Laderta, Shiraki; NO-Reifurth/Employee-beneficiary Trustees-5 No-Daeufer, Fujio, Ho, Kahooanhano, Radcliffe)

MOTION was made for the Board to approve the administrator’s recommendation to take no position on SB 446 at this time and to monitor. (Reifurth/Ho) After discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

There being no objections by the Trustees, the motion to oppose HB 437 applies to SB 608 (the Senate version).

SB 1024 is the Senate version of HB 850 that the Board voted on earlier which failed.

Discussion held by Trustees and staff regarding SB 1138 that the Board opposed the VEBA and should remain unified.

MOTION was made for the Board to approve to oppose SB 1138. (Reifurth/Annis) After discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

- n. International Foundation of Employee Benefit Plans (IFBEP) Programs  
Mr. Williams recommends that the Board approve Trustees Fujio and Daeufer's participation in the IFEBP Trustees and Administrators Institute or the Benefits Conference for Public Employees, the participation of up to four Trustees and one staff person in the IFEBP Investments Institute and authorize the administrator to take the necessary actions to implement this motion.

MOTION was made for the Board to approve Trustees Fujio and Daeufer's participation in the IFEBP Trustees and Administrators Institute or the Benefits Conference for Public Employees, the participation of up to four Trustees and one staff person in the IFEBP Investments Institute and authorize the administrator to take the necessary actions to implement this motion. (Annis/Radcliffe) The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

- o. Recruitment for Vacant Positions  
Update by Mr. Williams regarding recruitment for vacant positions (see Administrator's report).

B. COMMUNICATION RELATED TO THE FINANCIAL AUDIT –  
PRESENTATION BY GRANT THORNTON

Ms. Lynn Shimono from Grant Thornton summarized and highlighted changes of the final financial audit report FY 2007-2008 (see Financial Audit Report) and required communication related to the audit. Discussion held by Trustees and the auditor regarding if the significant or not significant deficiencies were taken care of.

Ms. Shimono and Mr. Williams stated yes deficiencies were taken care of.

Discussion held by Trustees, staff and auditor regarding changes between actives and retirees. Ms. Shimono stated the overall total assets did not change, the cash went up or down and the receivable went up or down. Discussion held by Trustees, staff, and auditor regarding if the Legislature held investigative hearings to question accounting procedures and methods or numbers in general, would Grant Thornton be able to provide assistance. Ms. Shimono stated yes, depends on the type of assistance. The only concern Grant Thornton would have is to share anything that would impair the independent services they provide.

C. PROJECT OVERSIGHT AND RISK MANAGEMENT ASSESSMENT –  
GARTNER, INC.

Ms. Rosy Spraker from Gartner, Inc. summarized the Benefits Administration System Project Assessment Report 3 for the period 9/1/200-11/30/08 (see report submitted 1/15/09). Ms. Spraker stated that the full report will be posted on the EUTF website.

D. DEPUTY ATTORNEY GENERAL

1. Everson Lawsuit

Mr. Suzuki stated there is nothing further to report in the Everson lawsuit.

Mr. Suzuki stated he is prepared to report on two legal questions the Board has asked advice on. The Board can waive the attorney-client privilege so he can present at this time. Mr. Williams stated since the Board already acted on the eligibility audit and one of the questions is related to that it may be appropriate to address that question at this time.

Mr. Suzuki stated Trustee Ching asked whether the tax information itself could be used to confirm eligibility status and the answer is no, the system cannot mandate that record under Hawaii Revised Statute Section 235-116 those records are confidential but as a condition for verification the Board can set that as one example of verification of status. It cannot be required but it can be at their discretion to waive their confidentiality and provide that information. Discussion held by Trustees, staff and deputy attorney general that the employee-beneficiary may willingly submit documents or the audit can provide a list of various alternative ways that the employee would be able to submit to verify eligibility. The other question will be addressed under the audit.

Recess at 10:20 a.m. and Reconvene at 10:30 a.m.

E. BENEFITS CONSULTANT

1. January Report

a. Annual Report for Fiscal Year Ending 6/30/08

Mr. Fukuhara stated that the annual report will be finalized and presented at the Board meeting on February 25, 2009.

b. Aetna Final Report

Overview by Mr. Fukuhara regarding Aetna's final report (see Consultant's report).

c. Open Enrollment Support

Update by Mr. Fukuhara regarding open enrollment support. Mr. Fukuhara stated Aon will put their actions on hold pending approval from the Governor.

d. Briefing with Governor Lingle and Legislators

Overview by Mr. Fukuhara regarding the briefing with Governor Lingle and legislators (see Consultant report and briefing reports). Mr. Fukuhara stated that two reports were presented by Mr. Nimmer and most of the slides were also presented at the December 8, 2008 Board meeting. Mr. Fukuhara summarized the information that was added in the briefing reports to the Governor. Trustee Radcliffe asked if Aon's report on benchmarking could be made available to the unions. The report on "Benchmarking of Employee Benefit Plans" was distributed to the public and can be made available to the unions and public. Trustee Radcliffe stated that the meeting with Governor, her staff and leaders of the Legislature was serious and he summarized some of the discussions held in the meeting. It was concluded that everyone is in all of this together. Mr. Radcliffe stated he explained to them that the unions position, in so far as the Governor's position is that the employees have to pick up 100% of the cost increases, is that the unions will pick up none. So they are at an impasse. Trustee Radcliffe explained that if the EUTF does not have new contracts going forward at the end of June 2009 the benefit plans end. Mr. Williams or the administration cannot do a single thing to keep the program going. Chair Laderta stated she cannot speak for the Governor but her take on the Governor's position is not exactly as Trustee Radcliffe said whereby the Governor expects the employees to pay 100% of the increase in costs. The Governor commented that it is unfair for the employees to take on the entire burden and that was an initial position. She is asking the Board to implement cost containment options, whether it is applying reserves, redesigning the plans or readjusting the benefits. Chair Laderta stated she just wanted to clarify that. Trustee Radcliffe stated it is not a clarification but a difference of opinion that he accepts. He did hear the Governor say at the meeting that it was an initial position which is better than come hell or high water that's what it will be. Discussion held by Trustees, staff, and public regarding the miscommunication that Governor used EUTF money to fund the homeless program which the Legislators still believe.

Mr. Williams stated that Trustee Radcliffe's statement about benefits ending June 30, 2009 is literally true and he had asked the deputy attorney general to check into it. Only the Board can make decisions about extending benefit plans, rates and benefits. Some may be aware that in collective bargaining, if the contracts are expiring and there are no new agreements you keep paying the same wages and contributions. This is not the case with the EUTF benefits, only the Board can take action to establish plan benefits and rates. Mr. Suzuki stated the authority is not delegable and neither is it implied in the law that the administrator has that authority. Trustee Radcliffe stated that it is important for the Board and public to know that every day/hour that is delayed in this process, is a day/hour that is closer to walking over a cliff. Once you get to a certain point you may not get back. The Board will have to make

some very difficult decisions and the public/retirees should be involved in discussions out there as well. Every time he speaks to retirees they say do not take away benefits or make me pay more but those days are going to come. For the actives, 80% of the cost of health insurance is chronic illness and 80% of chronic illness is behavior. Will the Board have to say to members you cannot smoke or have a cholesterol level above x, y or z, if you do you are going to have to pay more for benefits or not have any benefits?

Chair Laderta would like the deputy attorney general to look in to what happens to the medical benefit plans should the Board not make a decision by the time they expire on June 30, 2009. Mr. Williams stated if there are no plans or rates then the people have no benefits as of July 1, 2009.

Chair Laderta stated by operation of law they are obligated to offer a health plan. Mr. Williams stated if you put it that way, what we are talking about here is what happens if you fail that obligation. Everyone needs to understand there are no benefit plans. Mr. Suzuki stated the basic principle would be it is the Board's obligation to act. Chair Laderta stated the Board has the obligation to offer the health plans but what would happen to the payment of premiums. Mr. Williams stated he does not understand the legal question, if there is no plan there is no payment. Mr. Suzuki stated the Board's obligation is to develop the rates and present the plans so the legislature and executive branch through collective bargaining and the budgetary process may determine whether or not they are going to fund it. The Board has the first step in developing the plans and rates. The legislature could call a special session and take the Board's powers away and do it on their own. As it is written now it is the Board's responsibility to do the first step and develop the rates. Discussion held by Trustees and staff regarding if there are no rates what would happen to the premiums or the monies the counties already paid. Mr. Williams stated there are two separate issues; the monies the counties contributed are for future benefits that are restricted on the balance sheet and are not on the table. Discussion held by Trustees and staff regarding retirees being covered. Mr. Williams stated he will need to check the motions passed because the retirees are on a calendar year basis. If those motions that were passed are sufficient to carry us through December that may be the case. Mr. Williams must check if the Board approved the rates on the second half of the calendar year. Mr. Williams stated it is very clear cut, if the Board does not act, the EUTF will not process the payroll deduction tapes or bill the employers because he does not have the authority to do that and would not know what to bill. If it is self funded (HMSA, HMA and NMHC) and claims are incurred after June 30, 2009, they will not pay because they have no prospect of getting reimbursed by the EUTF. The only way to continue is if the Board takes action. Mr. Suzuki stated if the Board does not do it, the legislature may have to call a special session and do it for the Board. Mr. Fukuhara stated to clarify what Mr. Williams said, the Board did take action and previously approved benefits and rates for the retirees extended through

the end of this calendar year, for the fully insured benefits plans with the exception of Kaiser. Kaiser and self funded plans' rates and benefits have only been approved through June 30, 2009 for retirees.

Chair Laderta stated that at the Governor's briefing the key legislators asked why the reserves for actives declined so much over a year's period. They also asked Aon if it was possible that the actives and retirees reserves can be pooled together. At that time, Aon said yes but some people do and some do not for various reasons. Mr. Fukuhara stated that this item will be discussed later under the self-funded plans.

e. Exceeding 90 Day Supply of Prescription Medications

Overview by Mr. Fukuhara regarding the proposed Out of Country policy for prescription drugs (see Consultant's report). The consultant recommends the Board change the policy as follows: "For prescriptions for persons traveling or residing temporarily outside of the U.S. and its territories requiring more than 90 days supply, authorize coverage up until the end of the plan year, but no more than 12 months supply, if the particular drug can be safely dispensed and taken for longer periods (e.g., maintenance medications). Discussion held by Trustees, staff, benefits consultant and NMHC regarding if the 90 days policy is an insured driven policy or physician based and if physician based is there a professional opinion. Mr. Harrison from NMHC stated it is neither and contingent upon the rules and guidelines set up by the EUTF. Mr. Williams stated he thinks the Trustees are asking why the EUTF has this kind of provision. Mr. Williams understanding is it is more of a cost containment issue because if you go for a longer period there would be quite a few people who fill the prescription for that period, pay it and may not use it the full length of time. Mr. Harrison stated that is correct: change in direction and certain effectiveness of certain drugs may cease for the individual then they would have the quantity on hand that would be wasted. Discussion held by Trustees, staff and benefits consultant regarding a request of verification that the person will be out of country for that length of time. Mr. Williams stated in these particular two cases, letters were written but it would require prior authorization through NMHC and would not be able to go directly to the pharmacy. Trustee Radcliffe stated that these cases are rare but would primarily be for the University of Hawaii professors who go on a study, leave or sabbaticals to Antarctica or a far off place for an extended period.

MOTION was made for the Board to approve the consultant's recommendation as follows: "For prescriptions for persons traveling or residing temporarily outside of the U.S. and its territories requiring more than 90 days supply, authorize coverage up until the end of the plan year, but no more than 12 months supply, if the particular drug can be safely dispensed and taken for longer periods (e.g., maintenance medications). (Ho/Shiraki) After

discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

f. Coverage for TMJ

Overview by Mr. Fukuhara regarding a request from an employee-beneficiary to add coverage for TMJ. The consultant does not recommend adding coverage for TMJ (see Consultant's report). Discussion held by Trustees and staff regarding the procedures for responding to these requests.

MOTION was made for the Board to approve the consultant's recommendation not to add coverage for TMJ. (Radcliffe/Ho) After discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

F. Financial Report as of November 30, 2008

Overview by Ms. Tonaki regarding the financial report as of November 30, 2008 (see financial reports). Discussion held by Trustees and staff regarding the cash balance for the administrative account for FY 2008. Ms. Tonaki stated the cash at the beginning of the year was \$8.6 million. Ms. Tonaki explained that when a contract is encumbered the cash must be available in the account, so most of this cash will be spent for the payment of Vitech. Ms. Tonaki will provide the Trustees with the actual amount of the excess balance and what the projection would be for 2009 at the next Board meeting. Ms. Tonaki referred the Trustees back to the "Statement of Net Assets" and explained the unrestricted amount is \$59 million but based off the Vitech contract encumbrance, in FY 08 the EUTF had to encumber \$9.8 million. In FY 08 the EUTF paid Vitech \$3.3 million which left a balance of \$6.5 million as of June 30, 2008. For the audited financial statement and for accounting purposes because the Vitech project is continuing and still in progress, the EUTF did not make it an accounts payable. This item is really not accounted for now in the current books because at the end of June 30, 2009 it was not considered a payable. As the EUTF is paying it, it is booked as an expense which will continue to increase. Ms. Tonaki would like the Trustees to be aware that approximately \$5.7 million out of the \$59 million would still need to be kept in reserves. Mr. Williams stated the Trustees committed to using the reserves for most of the Vitech project and to recover from the employers \$200,000 a year over an eight period. The \$200,000 recovered from the employers would be built into the administrative fee.

G. Carrier's Reports

1. HDS

Written report submitted.

2. HMSA

No written report submitted. Mr. Tam reported that HMSA implemented the on-line care. The on-line care is available to anyone that has access to the internet. At this time HMSA is covering the payment for EUTF HMSA members until

June 2009. At the next Board meeting HMSA will be asking if the Board would like to continue the on-line service for the EUTF participants.

3. HMA  
Written report submitted. Ms. Hirayasu introduced Ms. Regina Young, Senior Director at HMA.
4. Kaiser  
Written report submitted. Ms. Benevides reported that Kaiser Mobile Health on the Big Island in July 2009. Informational sessions will be held on February 19, 2009 in Hilo and February 26, 2009 in Kona.
5. NMHC  
Written report submitted. Mr. Harrison introduced Ms. Nicolle Bassett who replaced Sara Ballard.
6. Royal State Insurance  
No written report submitted.
7. Standard Insurance  
Written report submitted. Ms. Kahalewai introduced Leslie Huffman, Consultant, National Accounts.
8. VSP  
Written report submitted.

#### IV. UNFINISHED BUSINESS

##### A. NMHC Clinical Recommendations for Active Employees

Mr. Fukuhara stated there is nothing new to add. This agenda item was part of the December 8, 2008 packet and the Board may take action on the recommendations that were presented.

MOTION was made for the Board to approve the consultant's recommendations to implement NMHC clinical recommendations effective July 1, 2009.

(Reifurth/Shiraki) The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

##### B. Self-Funded Plans Rates and Benefits Effective 7/1/09

Overview by Mr. Nimmer regarding the 7/1/2009 active and retiree rate increase and reserve reconciliation (see Aon's letter dated 1/28/09). Mr. Nimmer stated the EUTF is still in a strong position relative to other state entities when it comes to fiscal items. Yes, the Board is facing a very big decision in terms of what to do with benefits and rates next year. Mr. Nimmer stated he wants to make clear that the EUTF is solvent; there is no question about the solvency today, tomorrow or through the end of this fiscal year. The question of solvency then is anytime decisions are made today or whenever the decisions are made that would dictate how solvent the EUTF will be in the future. The Board is sitting in a very strong financial position today and the result of the Board's decision would impact what the solvency will look like one or two years from now. Mr. Nimmer summarized the "Executive Summary" in Aon's letter dated 1/28/2009. Discussion held by Trustees, staff and

benefits consultant regarding the active rate increase components and that the 2% prescription drug contract change would be a one time cost to catch up. Mr. Williams provided background information for reasons why the Trustees wanted and Garner included price performance guarantees that would apply to anyone who was awarded the prescription drug contract, which in this case, is NMHC. Mr. Williams stated what NMHC presented at that time would be what the EUTF would experience. Given the explanation that the prescription drug costs are higher, if it were utilization (more people using more drugs) that is not part of what he is talking about. But if the costs of drugs were higher, then Aon needs to examine that with NMHC and determine whether NMHC met those contractual obligations.

Discussion held by Trustees, staff, and benefits consultant regarding eliminating all self funded plans and going back to fully insured plans. Mr. Nimmer stated, in total, when you take in consideration the risk charges and other items when you are working for the insurance company as their actuary, he would assume that the rates would be very similar and would be shocked if there was greater than a 5% difference. Trustee Radcliffe stated there is no advantage either way. Mr. Nimmer stated the advantage would be the flexibility, the avoidance of premium tax, to enjoy financial experiences in the Board's favor so the Board could use those monies at a future date as opposed to that being absorbed into profit, and invest the reserves so the EUTF earns interest on that money. The size of the EUTF is heavily weighed towards self funded and Aon does not have clients close to the size of the EUTF that are not self funded. Mr. Fukuhara informed Mr. Nimmer that a mutual benefits society such as HMSA does not have to pay premium tax in Hawaii. Trustee Radcliffe stated that there will have to be some education on that because unions do not believe that. Discussion held by Trustees, staff and benefits consultant regarding mandating wellness standards. Mr. Nimmer stated it would be advantageous in the long term. Mr. Williams asked Mr. Nimmer if the Board would make these decisions today would he lower the rate projections. Mr. Nimmer stated that he would need to understand the components of the program, when that program would be implemented, what the consequences are for non-compliance, and what the consequences are for people who do comply (how would that impact the rates and deductibles). Without any of those answers, Mr. Nimmer would be in violation as the EUTF's actuary in providing professional judgment of where the rates would come in. Mr. Williams asked what kind of mandatory wellness provisions would be needed to get a 10% rate reduction. Mr. Nimmer stated it would be very difficult to achieve and the only plans that have been able to achieve something of that magnitude would be if someone is not compliant (if the proposed plan is someone needs to attend to the doctor, get a blood test, go through a wellness presentation with the doctor, and then start a plan) if they do not achieve certain thresholds of results then their deductibles would be \$2,000, then you would realize those types of savings. However, there are certain HIPAA compliance rules that need to be followed as well as other regulations that would make it difficult to achieve a significant savings on the wellness program. Discussion held by Trustees, staff, and benefits consultant regarding using an 80% confidence level of solvency.

Mr. Williams stated as he recalls Mr. Nimmer's answer at the Governor's meeting, there is no requirement that it be 95% that is a decision the Trustees can make in terms of whether they want 80% or 95%, it's just the higher the percentage is the more likely the EUTF would have enough money in a given year to pay all claims and expenses. Mr. Nimmer stated that Mr. Williams is correct, only a few states have it legislatively required for the states to be at a certain level of solvency. There are many states, because of the fiscal pressures, that are reevaluating their reserve position to where 95% confidence level simply costs the Board too much money. As a result, they are considering 80% in terms of an acceptable level. Aon has a couple of boards that have gone on the record to say they cannot afford to do anything and will need to do 50% confidence level. Mr. Williams stated he is confident that some margin is needed because the claims fluctuation reserve for actives is projected to be exhausted by June 30 of this year. Mr. Nimmer stated if the reserves continue to be depleted, Mr. Williams is correct. Mr. Williams stated, based on how he did the arithmetic, to have a fully funded fluctuation reserve is approximately \$26 million. Mr. Nimmer stated it is approximately \$28 million. Mr. Williams asked if he were to come up with the \$28 million to use for the CFR, Aon could eliminate the 5%. Mr. Nimmer stated yes, if they had that amount of money by June 30, 2009. Mr. Williams stated the more realistic option the Trustees would have would be to allocate, borrow, or transfer money from excess retiree reserves to fund the actives claim fluctuation reserves. If the Trustees made that decision then Aon would not need the 5% margin. Mr. Nimmer stated that is correct. Mr. Williams stated that Mr. Suzuki can answer if the Trustees can use the excess retiree reserves to fund the actives claim fluctuation reserves. Mr. Suzuki stated the general answer is yes given also that the accountants have said it does not violate the GASB standards. Chapter 87A does not prohibit the use of excess reserves. The Board needs to make a distinction between excess reserves from the claims fluctuation reserves. These are monies that our consultants are saying are not necessary to fund the claims fluctuation reserves because the money over and above that that are not necessary to maintain the solvency of the retirees program. The way the appropriations are made does not make the distinction between the retirees and the active employees. The budget from the legislature is one lump sum amount so there are no issues about transferring the monies there. The answer is, that in exercising the Board's fiduciary responsibility the Board makes sure and gets good confirmation that this is indeed excess amounts that the Board will not be breaching their responsibilities by depleting the retirees' program. Board needs to confirm with the consultants that indeed this money is not necessary to fund the claims, and then the Board can use their judgment to determine whether it is prudent to transfer or use that fund. Mr. Williams stated that Aon has the experience volatility of 1.4% in the actives and asked if there is a dollar amount in addition to the claims fluctuation reserve that could be set aside that would eliminate the need for that 1.4%. Mr. Nimmer stated a major portion of that is the difference where the claims costs are being reported versus where they are coming in on the financials. Also experience volatility is not a fixed dollar amount and asked if the question is if we caught ourselves up then

would we have to apply that again. Mr. Williams stated no, he is asking whether that is an amount we can reserve against so instead of doing the 1.4% you can set aside reserves in case you need those dollars you got them if you don't need them you still retain them. Does that work or not work for this 1.4% experience volatility, comparable to what we talked about in the reserve margin. Mr. Nimmer stated we need to get the base rate back to an amount, if the rate was \$100. If we do not pay for that 1.4%, the base rate would now be \$98.60, the trend would not be enough to account for the \$1.40. Mr. Williams asked whether it needs to be in the rate and cannot be reserved against. Mr. Nimmer stated that is correct. Discussion held by Trustees, staff and benefits consultant regarding the terminology of buy-downs. Aon will revise memorandum to change terminology of buy-downs. Discussion held by Trustees, staff and benefits consultant regarding why the excess reserves have been depleted. Mr. Nimmer stated it is a combination of the description in the memorandum, the different items on why the reserves were depleted which was over a two year period. The reserves were partially depleted in the first year and they are being depleted as we have this discussion today during the second year. The projection was made fifteen months ago when the data was two years old and as experience developed, the utilization, the underlying trend, the knowledge we have now with the eligibility timing differences which were not taken in consideration for both Garner and Aon's study, the prescription drug contracting, the formulary changes, the higher trends for prescription drugs, and also the way the claims are being recorded versus how they are being attached to the ledger. When you take all of those things into consideration in a two year period that is where the reserves have gone and the buy-down was part of that. Chair Laderta requested that Aon provide this explanation in writing. Mr. Nimmer stated Aon will submit an updated memorandum for the Board to review. Chair Laderta stated the decision to use the reserves, when the presentation was given it was with the understanding the EUTF had enough excess reserves for the next couple of years and that is not panning out now and she needs to understand what happened. Mr. Nimmer stated at the end of two years the plan is still solvent and there are still reserves attached to the EUTF. We still continue to have reserves on our books, it is just that the level of excess reserves, the amount of reserves that is over and above what is needed to be 95% confident, have been depleted. That is the environment we have today. Trustee Shiraki asked Aon to clarify that the EUTF has enough reserves for the Trust Fund. Mr. Nimmer re-stated the question, from an actuarial prospective, do you have enough reserves required for the Trust Fund. Trustee Shiraki responded yes. Mr. Nimmer stated yes, the only reserves that are actuarially required for a Trust Fund is the IBNR. The reason for that is because it is a true liability, the claims have been incurred. The claims fluctuation reserves and excess reserves are the required for the actuarial principles for solvency. The importance of the claims fluctuation reserves is such that based on the Board's appetite for risk, how confident or how solvent would they like the plan to be. Mr. Williams stated as an overall statement it combines actives and retirees in a sense, looking at the overall Trust Fund in an absolute basis, when you combine it all there are still excess reserves. Mr. Nimmer

stated as of today, yes. Trustee Annis asked what reserve margin was needed last time in the early Fall of 2007. Mr. Nimmer stated that was the discussion revolving around how much of the excess reserves should be used to dampen the overall rates to our employers and employees as a result that reserve number would have been a negative number because we were planning to utilize some of the reserves on hand to pay down those rates. Mr. Williams stated that Trustee Annis is talking about the 5% reserve margin adding into the 29.4% and believes Aon did not have the 5% reserve margin because you were showing the claims fluctuation reserve as fully funded. Mr. Nimmer stated correct, the difference between the two scenarios, fifteen or sixteen months ago compared to today, the reserves on hand were so large we did not need any margin because we had more money than needed and were 95% confident we could cover the costs in any given year. Now as we look six more months into the future we would like more money on our books and need to rebuild a portion of that so the reserve margin is functioning as a mechanism to rebuild that claims fluctuation reserve level. Next year, depending on the experience of the underlying plan, how the claims come in we could be facing a situation next year where we would have excess reserves again. So the Board may have to make a decision if they want to stockpile that money or give it back to the employees. Discussion held by Trustees, staff, and benefits consultant regarding the benefits of having wellness programs because we have such a large population and pursuing the possibility of wellness programs. Mr. Nimmer stated he did not want to give the impression that instituting wellness programs and improving the health of the population would not help the long term rates or the overall cost of the program, they certainly will. He understood the earlier question if we instituted the wellness program which probably will not take affect until summer time or later could we drop the rates 10%. The follow-up or explanation would be long term, yes, there are documented study shown that if the average person in a population could drop so many pounds or reduce their risk level of diabetes by a certain percentage, the underlying claims costs would be dramatically reduced. It goes back to the old saying that 20% of all population causes 80% of those claims costs and vice-versa. If we are improving the wellness of the population, claims costs would go down. The power of large public sector or state governmental plans is the fact that turnover rates are much lower on average than the private sector. If you are a state government you have the advantage of all of the work you put into that plan, a large percentage of your population will enjoy that five or ten years down the road. It is a very good strategy to adopt. Discussion held by Trustees, staff and benefits consultant regarding a professor at Cornell that actually has a model on how much money you can save when you do certain kinds of things in terms of wellness. Mr. Nimmer stated that Aon can also provide similar calculations using predictive modeling and other clinical statistics for the population. The simple answer, Trustee Radcliffe is correct, there is a substantial return on investment on the wellness programs when they are implemented and executed properly. Where these programs tend not to be strong is what the consequences are for non-compliance and how to penalize people for not complying.

Mr. Fukuhara summarized the FY2010 active PPO plan designs and the breakdown of the components of 17.5% increase for retirees (see attachment to Aon's memorandum dated 1/28/09)

- C. Fully-Insured Plan Rates (Kaiser, Royal State, ChiroPlan, HDS, VSP, Standard) Effective 7/1/09  
This item will be addressed in Executive Session.

V. NEW BUSINESS

A. IFEBP 2009 Programs

This item was addressed during the Administrator's report.

B. Prescription Drug Plan – Out of Country Policy

This item was addressed during the Consultant's report.

C. Benefit Exception for Medical Food

Overview by Mr. Williams regarding the benefit exception for medical food. Ms. Regina Young from HMA stated that any kind of food is not covered. This is a very unusual situation with multiple medical problems. The Medical Director regarded it as medically necessary. It is rare that HMA would recommend approval and coverage of any kind of food. Discussion held by Trustees, staff, and Ms. Regina Young regarding if HMA has a medical board. Ms. Young stated they have physicians that approve prior authorization requests and a Physicians Advisory Board that reviews policies.

There being no objections by the Trustees, cases will be handled on an exception basis.

MOTION was made for the Board to approve the benefit exception for medical food for 6 months at a time pending review by HMA. (Radcliffe/Fujio) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

D. Benefit Coverage for TMJ

This item was addressed during the Consultant's report.

E. 2009 Open Enrollment Period

This item was addressed during the Administrator's report.

F. Positions on Legislative Issues

This item was addressed during the Administrator's report.

G. Benefit Consultant Evaluation  
This item will be addressed in Executive Session.

H. Benefit Consultant Contract Extension  
This item will be addressed in Executive Session.

VI. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES

A. Letter from HMA dated 12/17/08 – Request from Benefit Exception for Medical Food.  
This item was addressed during New Business.

B. Letter from Employee-Beneficiary dated 12/27/08 – Request to Exceed 90-Day Supply.  
This item was addressed during the Consultant's report.

C. Letter from Employee-Beneficiary dated 1/9/09 – Request Benefit Coverage of TMJ.  
This item was addressed during the Consultant's report.

A member of the public asked if any decisions will be made today. Chair Laderta stated that no decisions will be made today.

VII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

A. February 25, 2009 – Regular Board meeting.

VIII. EXECUTIVE SESSION

MOTION was made to go into Executive Session at 12:47 p.m. for the reasons stated on the agenda. (Ching/Ho) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

The Executive Session adjourned at 2:09 p.m.

The Chair reported that the Board has taken the following actions in Executive Session:

1. Approval of December 8, 2008 Executive Session minutes as amended.
2. Approval of January 28, 2009 Executive Session minutes.
3. Deferred action on insured active benefit plans and rates.
4. Approval of Aon contract extension.

IX. ADJOURNMENT

There being no objections by the Trustees, the meeting adjourned at 2:11 p.m.

Respectfully submitted,

/s/

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Elizabeth Ho, Secretary-Treasurer

APPROVED on February 25, 2009 as amended.

Documents Distributed:

1. Draft Minutes for December 8, 2008. (13 pages)
2. Draft Minutes for January 7, 2009. (4 pages)
3. Grant Thornton Financial Statements and Report of Independent Certified Public Accountants for the EUTF. (56 pages)
4. Benefits Administration System Project Assessment Report 3, Summary Presentation for the Period 9/1/08-11/30/08 submitted 1/15/09 by Gartner. (11 pages)
5. Memorandum to BOT from Administrator regarding January Administrator Report dated 1/21/09. (5 pages)
6. Proposed Legislation Affecting EUTF, House Bills Introduced in 2009 Session dated 1/26/09. (1 page)
7. Proposed Legislation Affecting EUTF, Senate Bills Introduced in 2009 Session dated 1/26/09. (1 page)
8. IFEBP 2009 Inaugural Programs Brochure. (7 pages)
9. Letter to BOT from Aon Consulting regarding January 2009 Benefit Consultant Report dated 12/2/08. (2 pages)
10. FY2010 Plan Options and Cost Implications for Actives, Governor Briefing by Aon Consulting dated 1/14/09. (26 pages)
11. FY2010 Plan Options and Cost Implications for Retirees, Governor Briefing by Aon Consulting dated 1/14/09. (7 pages)
12. Benchmarking of Employee Benefit Plans, Governor Briefing by Aon Consulting dated 1/14/09. (28 pages)
13. Letter to BOT from Aon Consulting regarding 7/1/2009 Active and Retiree Rate Increase and Reserve Reconciliation dated 1/28/09. (6 pages)
10. EUTF Statement of Net Assets (Unaudited) dated 1/20/09. (1 page)
11. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 5 Months Ended 11/30/08 (Unaudited) dated 1/20/09. (1 page)
12. EUTF Statement of Cash Flows 5 Months Ended 11/30/08 (Unaudited) dated 1/14/09. (1 page)
13. Article from Honolulu Advertiser, "Health insurer Summerlin is leaving Nevada market" dated 12/16/08. (1 page)
14. Article Star Bulletin, "Budget woes hang heavy on state Legislature" dtd 1/19/09. (1page)