

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Board of Trustees
Wednesday, May 18, 2011

TRUSTEES PRESENT

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| Mr. Dean Hirata, Chairperson (arrived 9:03 am) | Mr. Derek Mizuno |
| Ms. Loretta Fuddy, Vice-Chairperson (left 11:13 am) | Ms. Karolyn Mossman |
| Mr. George Kahooanohano, Secretary-Treasurer | Ms. Celeste Nip |
| Ms. Audrey Hidano | Ms. Sunshine Topping |
| Mr. Everett Kaneshige | Mr. Clifford Uwaine |

TRUSTEES ABSENT: None

ATTORNEY

Ms. Diane Erickson, Deputy Attorney General

EUTF STAFF

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|---|---------------------------------|
| Ms. Barbara Coriell, Administrator | Mr. Tom Morrison, Consultant |
| Ms. Sandi Yahiro, Assistant Administrator | Mr. Robert Mitchell, Consultant |
| Ms. Maria Quartero | Ms. Donna Tonaki |
| Ms. Kathleen Shiroma | Ms. Nicole Wong |

OTHERS PRESENT

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| Ms. Cassandra Adachi, HRD | Mr. Jack Katahira, HGEA-R |
| Ms. Lynette Arakawa, HDS | Ms. Mae Kishimoto, HSTA-R |
| Ms. Nikki Bassett, informedRx | Mr. Myles Kiyubu, Royal State |
| Mr. Brad Au, Aon/Hewitt | Mr. Roger Kormylo, informedRx |
| Ms. Sandra Benevides, Kaiser Permanente | Mr. Blaise Liu, Royal State |
| Mr. Greg Buscetto, informedRx | Mr. Michael Moss, Kaiser Permanente |
| Ms. Monica Engle, VSP | Mr. Harris Nakamoto, HMA |
| Mr. Christian Fern, HMSA | Ms. Lori Naylon, HMA |
| Ms. Elaine Fujiwara, HDS | Mr. Larry Nishihara, ABC, LLC |
| Mr. Mark Fukuhara, ABC, LLC | Ms. Keren Paris, HMAA |
| Ms. Susan Goya, HGEA-R | Mr. Ronald Scott, HWMG |
| Ms. Wendy Hamada, HMA | Mr. Tony Saguibo, HMSA |
| Mr. Cal Hutton, Ceridian | Mr. Phil Takaba, HMSA |
| Ms. Frances Kagawa, HGEA-R | Mr. Vaughn Tokashiki, HSTA-R |
| Ms. Bonny Kahalewai, Standard | |

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 9:00 a.m. by Trustee Loretta Fuddy, Vice-Chairperson, in EUTF Conference Room, 201 Merchant Street, Honolulu, Hawaii, on Wednesday, May 18, 2011.

Discussion held by Trustees regarding if there are any requirements for approval of the agenda, who makes the decision of Executive Session items, and concerns whether item #3 should be held in Executive Session. [Chair Hirata arrived at (9:03 a.m.) Vice-Chairperson Fuddy stated that the agenda is required to be posted by the Sunshine law

and accepted as is. Any amendments to the agenda should be made prior to the posting. Ms. Yahiro stated that the agenda is drafted by EUTF staff and reviewed/approved by the Chair. If the EUTF staff is unsure if items should or should not be in Executive Session, the deputy attorney general is consulted. There are some items that come up during the meeting which the deputy attorney general would be asked. Trustee Uwaine stated at the last Board meeting there was an item in Executive Session he felt should have been in the public session. Chair Hirata stated that Executive Session item #3 should be in Executive Session. That item is similar and related to what was discussed at the last Board meeting in Executive Session. There being no objections by the Trustees, after discussion in Executive Session, if the Board agrees an item should be held in public session, that item will be removed from Executive Session and added to the public session part of meeting. Discussion held by Trustees, staff and deputy attorney general regarding a determination by the deputy attorney general if the current Board can approve older minutes from the previous Board, that was raised at a prior Board meeting. Ms. Diane Erickson stated she will follow-up and report back to the Board.

II. MINUTES

The Board reviewed the draft minutes of March 17, 2011 and March 30, 2011.

MOTION was made to approve the minutes of March 17, 2011 as circulated. (Fuddy/Kaneshige) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

MOTION was made to approve the minutes of March 30, 2011 as circulated. (Fuddy/Kahoohanohano) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

III. REPORTS

A. Administrator

Ms. Coriell reported that she has been meeting with staff from the Health Department to look at some kind of framework to put together a wellness program in the future. Ms. Coriell attended her first meeting with the Healthcare Exchange Task Force.

1. RFP Calendar & Update

Ms. Coriell stated that the EUTF is on schedule for the RFPs and gave an update regarding the RFPs for health benefit plans. RFP No. 11-05, prescription drug, was cancelled last week Friday, due to ambiguity in instructions. It was replaced with RFP No. 11-06 that was issued on Friday. Offerors have two weeks to submit proposals and can include an entity that has not previously proposed. Those who have submitted proposals have been given the option to submit a letter informing the EUTF that they would like their submission of RFP No. 11-05 to be their submission for RFP No. 11-06. A letter was sent to all vendors that submitted proposals. Discussion held by Trustees and staff if the Attorney General was consulted on this matter. Ms. Coriell stated yes, Ms. Erickson was notified.

Ms. Coriell stated that personnel from SPO stated that if it is in the best interest of all parties and if you got the approval of the Attorney General's office it was okay with them to use these kinds of procedures to cancel the RFP. Discussion held by Trustees, staff and deputy attorney general if the staff has the authority to make a cancellation or is it by Board action because the Board has the authority to approve the RFP. Ms. Erickson stated, in this case, the staff does have the authority as the Procurement Officer. Discussion held by Trustees, staff, benefits consultant, and deputy attorney general regarding the specific problem of the RFP requiring that it be cancelled. Mr. Tom Morrison stated in the RFP, there was a statement in the instructions on the submission of the hard copy to the EUTF office by the stipulated time which contradicted a statement in a different part of the same RFP. That created an ambiguity. The reissue of RFP 11-06 makes it very clear that both hard copies and electronic copies must be submitted to meet the RFP requirement.

2. Board Meeting Calendar for July 2011 – June 2012

Discussion held by Trustees, staff and benefits consultant regarding the proposed Board meeting calendar for July 2011 through June 2012 to be changed to the second Tuesday of the month and that the Board plan and be committed to attend these meetings most of the day if needed. Further discussion held by Trustees and staff regarding committee meetings.

MOTION was made for the Board to approve to change Board meetings to the second Tuesdays of the month at 9:00 a.m. with no meetings for the months of November 2011 and April 2012 (Mossman/Uwaine) After discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

3. Legislation – Rx Task Force, HCR128, HD2

Overview by Ms. Coriell regarding HCR128, HD2 (Rx Task Force). Ms. Coriell is recommending sending a letter to the Legislature to ask that the Task Force does not meet until the RFPs process is done. Discussion held by Trustees and staff regarding concerns if this Task Force would have the authority to overrule the RFPs, who is responsible to pay for any costs, that the Governor has the authority not to approve or move forward on this resolution, and that the resolution is for the Task Force to do an evaluation and submit a recommendation to the Legislature which they may or may not act upon. Chair Hirata stated that he will speak directly to the Governor to inform him of the RFP process that is currently being held. Discussion held by Trustees and staff regarding concerns what role the EUTF Trustees will have regarding this resolution and for the Governor to send a letter to the Speaker and Senate President if we are requesting to hold back this resolution. There are no other legislative items affecting the EUTF.

4. March 30, 2011 Follow-up Items

Ms. Coriell stated that a response regarding Trustees questions dated

April 21, 2011 was e-mailed to the Trustees and a hard copy is in the Board packet (see report). Discussion held by Trustees and staff regarding concerns expressed that staff should follow-up on items or additional questions requested by the Board on a timely basis, before the next Board meeting.

- a. EUTF Contracts – Update on Clearance/Insurance Certificates
Overview by Ms. Coriell regarding the tax clearance for one carrier that is still outstanding. Discussion held by Trustees, staff and deputy attorney general regarding the contractor's non-compliance with procurement that should be reported to the SPO because they are in violation and concerns expressed that the contractor is responsible to follow-up and make arrangements to ensure documents are submitted on time. Chair Hirata requested that the EUTF staff contact SPO to report that a contractor is in violation. Discussion held by Trustees, staff and deputy attorney general regarding procurement procedure that contracts not be executed unless all required documents are submitted and for the EUTF to follow procurement instructions.
- b. Aon's Actuarial Valuation Report Contract – Amount Withheld
The total contract was \$190,000 and \$15,000 withheld until final report is accepted. Aon will do presentation later on the agenda today.
- c. Status of Audit
Overview by Ms. Coriell regarding the status of the audit. An agreement has been made between the Legislative Auditor's Office and Grant Thornton regarding payment for the additional work Grant Thornton did without the EUTF Board's approval which the prior EUTF Board declined to pay. The Auditor has determined that she can do a single year audit instead of a dual year which is normally done. The audit is now progressing and a draft should be submitted soon.
- d. EUTF's Administrative Fees
This item will be addressed later on the agenda today.
- e. DAGS ICSD Non-Receipt of Invoices for IT Services
Ms. Coriell reported that a letter was sent to DAGS Comptroller and is awaiting a response. Chair Hirata requested that the EUTF follow-up with DAGS. Discussion held by Trustees and staff regarding concerns that DAGS may invoice the EUTF retrospectively. The Board has requested that the EUTF reiterate to DAGS that the EUTF has no funds to pay for past fiscal years' quarterly maintenance fees.
- f. Office Space Lease – Deficit on Financials
Ms. Coriell stated if the Trustees have further questions to contact her directly.

- g. Early Retiree Reinsurance Program (ERRP)
This item will be addressed later on the agenda today.

- h. Board Minutes
Board minutes of March 17, 2011 and March 30, 2011 were approved earlier on agenda. Trustee Mossman expressed concerns that Board minutes have not been posted on the EUTF website for the past 18 months. The last board minutes posted on the website was March 18, 2010. The Board has requested that the EUTF staff post all approved minutes on the EUTF website.

B. Assistant Administrator

1. Personnel

Overview by Ms. Sandi Yahiro regarding personnel vacancies (see report).

C. EUTF Managers' March Operational Reports

1. Member Services

Overview by Ms. Nicole Wong regarding the MSB report (see MSB Operations report). Discussion held by Trustees and staff regarding the number of open enrollments received and correspondence that were sent to Department Heads and Personnel Officers regarding the limited open enrollment for the age 26 provision for actives.

2. IT

Overview by Ms. Kathleen Shiroma regarding the IT Operations report (see IT Operations report).

3. Accounting

Overview by Ms. Donna Tonaki regarding the Accounting Operations report (see Accounting Operations report).

a. Financial Report as of March 31, 2011

Ms. Tonaki stated that the financial reports ending February 28, 2011 and March 31, 2011 were distributed to the Board. Overview by Ms. Tonaki regarding the Statement of Net Assets as of March 31, 2011. Trustee Hidano requested that Ms. Tonaki provide information for the year before and information on the budget. Ms. Tonaki stated that fiscal year June 30, 2010 is listed. Trustee Mizuno requested that Ms. Tonaki address significant variances in writing, send to Trustees for review and if there are any questions it can be addressed directly with Trustees. Ms. Coriell stated that she is working with Ms. Tonaki regarding the financial report and distributed the actual FY10 budget and FY12/13 budget. Discussion held by Trustees and staff regarding the budget and actual costs. Chair Hirata requested that the EUTF show the comparison starting with June 2010 so the Board can see what the trend is. Ms. Coriell stated that the EUTF is working with Segal on a monthly report that

shows the activity so the Board can see plan payments over a multi-year period. Overview by Ms. Tonaki regarding the Combined Statement of Revenues and Expenses as of March 31, 2011. Discussion held by Trustees and staff regarding line 13, personal (personnel) services and line 26, consultant services.

b. Review of Budget

Overview by Ms. Tonaki regarding the Biennium Budget FY 2012-2013. Discussion held by Trustees and staff regarding the legislative approval of 9 permanent and 5 temporary positions. Ms. Tonaki stated that the grand total of expenses for the EUTF biennium budget is \$5,109,314 for FY12 and \$5,104,514 for FY13. Discussion held by Trustees and staff regarding if the EUTF is now adequately staffed with these added positions. Ms. Yahiro stated no. Discussion held by Trustees and staff regarding if the vacancies are filled would it be adequate staffing because the EUTF got the positions they requested. Trustee Kahooahanohano expressed his concern that the ERS has double the amount of employees than the EUTF. The EUTF services more employees than the ERS. Chair Hirata requested that he would like to know where and what are the EUTF staffing levels and how far are we from that. If the EUTF is 40% under staff, the Board needs to discuss that. Chair Hirata is unable to tell from what he has and requested that the EUTF staff provide that information to the Board to address this matter.

MOTION was made for the Board to amend the agenda to move item III. Reports, E. Investment Consultant Report out of order. (Mossman/Nip) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

E. Investment Consultant Report

1. Investment Funds
2. Sweep Account

Ms. Yahiro introduced Neil Rue from Pension Consulting Alliance, Inc. (PCA). Overview by Mr. Neil Rue regarding the review of prior Investment Committee strategic allocation decisions and PCA's recommendations (see PCA's report). Discussion held by Trustees and Investment Consultant regarding the timeline of investments. Mr. Rue stated that Mercer originally recommended a ball park 50/50 allocation between two major categories to be funded over a year. This recommendation was made in the middle of 2009. To implement Mercer's recommendation, EUTF would roll that out through reasonably positive equity market types of investments. According to Mr. Rue taking a year to invest \$150 million is a pretty long time. You would take that approach if you have a more aggressive allocation. A 50/50 allocation is a relatively conservative allocation and because of that he recommends putting that money to work, all at once. Discussion held by Trustees and investment consultant regarding when the \$143 million is going to be used to pay premiums and what is the time line. Ms. Coriell stated it would be some day in the future. Mr. Rue stated in the context of the

overall system where you have liabilities that are in the billions, this particular portfolio, right now, at \$150 million is not that large if invested in all cash or invested in all equity, the return will not make a material dent. The key is to begin to set a foundation to get the Board to understand the different types of risk that are in the investment portfolio. There must be some form of liquidity associated with these investments. This is to get the money to work for right now, for the next 12-24 months. Beyond that time period, the allocation could change depending on whether or not State begins to take a pre-funded approach and this portfolio gets built up to another scale. Discussion held by Trustees and investment consultant regarding within equities, two of the funds are relatively small scale (page 2 of report). Mr. Rue stated that the key to the proposal is the table on page 2 for \$143 million based on information received from the EUTF staff on the State's cash flow. Discussion held by Trustees and investment consultant regarding why we are basically using Vanguard. Mr. Rue stated that Mercer went through a search process and recommended Vanguard as a vendor. Vanguard is one of the largest investment managers in the world and very well known for indexing, in a sense that is what the EUTF is doing to begin. The EUTF is indexing, not trying to beat the market, just getting exposure in certain markets. On this scale, \$100 million to \$1 billion dollar plan sponsor size, Vanguard is very competitive that is why they are being recommended along with Blackrock. Discussion held by Trustees and investment consultant regarding whether Vanguard is the most appropriate. Mr. Rue stated he cannot guarantee 100% but Vanguard would be ranked very highly. Blackrock is one of the largest money managers in the world, in TIPS. Discussion held by Trustees and investment consultant that PCA's role would be monitoring on a quarterly basis and the long term use of the funds. Mr. Rue stated that PCA will establish an agenda over the next 12 months. Overview by Mr. Rue regarding establishing an appropriate custodial sweep account and PCA's recommendation (see PCA's report). Discussion held by Trustees and investment consultant regarding submittal of reports and if it will show fees. Mr. Rue stated that PCA will submit quarterly reports and will include fees. Ms. Coriell stated that the EUTF will discuss with PCA what kind of reporting to submit to the Board. Mr. Rue stated that PCA has a fixed retainer fee that does not change. Discussion held by Trustees and staff regarding the procedures for investing funds with vendors through the custodian, Bank of Hawaii, and how Bank of Hawaii was selected. Ms. Yahiro stated that she was not here at that time but a competitive RFP was issued and Bank of Hawaii was selected by the prior Board in 2009. The contract was executed only two months ago. Trustee Mizuno stated that he feels more comfortable going with Mercer's plan since it is in place and to give PCA more time to go back and review everything and not be rushed. Mr. Rue stated in regards to the investment return standpoint, more time would not be necessary. It would be a more simplified structure. From an institutional perspective, you want to be considered an institutional scale player and not a retail player.

MOTION was made for the Board to approve the recommendations presented by the investment consultant to authorize the EUTF staff and its custodian bank, the Bank of Hawaii to implement and adopt the investment consultant's recommended Asset Allocation as show in the Modified-EUTF Approved Strategic Allocation and Fund Line-Up and the recommended id funds money market fund for the sweep account (DGPCMF). (Fuddy/Mizuno) After discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

c. EUTF Administrative Fees

Overview by Ms. Coriell regarding the EUTF administrative fees. Ms. Coriell reported that the EUTF budget analysis covers: (1) the current administrative fees are adequate to cover the EUTF budget expenses and any additional amounts will remain in the fund for the Board to address at a later date; (2) the Board used reserves to cover major computer expenses for an upgrade. The fees are refunding \$200,000 a year back to that surplus to cover that expense. In summary, the administrative fees are adequate to cover the EUTF expenses and recommends that the Board leave the administrative fees as they are and also do not recommend lowering the administrative fees. Discussion held by Trustees and staff regarding that it would be good to see the comparison. There being no objections by the Trustees, the EUTF administrative fees will remain the same as recommended by the Administrator. [Trustees Fuddy and Hidano left at 10:58 a.m.]

Recessed at 10:58 a.m. and reconvened at 11:05 a.m.

D. Vitech Project Oversight and Risk Management Assessment – Gartner

Presentation by Ms. Rosy Spraker regarding the Vitech Project Oversight and Risk Management Assessment (see report). Discussion held by Trustees, staff and Gartner regarding concerns that the project is at high risk, to provide the project plan, and timeline to bring the high risk level down to the green level. Ms. Spraker stated the project plan can be provided. The Board needs to be most concerned when they make decisions to change the new system because minimizing the amount of change would reduce the risks. Also, approval of Vitech's change to the contract so new changes can be implemented without having to wait for contract approvals. Discussion held by Trustees, staff and Gartner regarding dedicated staffing for this project. Chair Hirata requested that Gartner provide a revised project plan that does not address the various risks areas. Discussion held by Trustess, staff and Gartner regarding concerns expressed of the use of the word "risk" to meet the benefit goals. Trustee Mossman stated that the report is helpful but more information is needed. Trustee Mossman commented that the Board's decision making on plans needs to be based on what is best for the employee-beneficiary so the infrastructure needs to be in place to meet the needs of the plan not the other way around. Ms. Coriell stated that the difficulty is that we are dealing with the computer system and that the timing is the issue.

Discussion held by Trustees and staff regarding if the new positions approved by the Legislature may be used as dedicated staff to the project. Ms. Coriell stated that the EUTF is working on filling positions and will coordinate.

E. Investment Consultant Report

Taken out of order and discussed earlier on the agenda.

F. Post Employment Benefits Other Than Pensions (OPEB) Report

Ms. Tonaki introduced Mr. Brad Au from Aon. The final copy of the Actuarial Valuation report and briefing was distributed to the Board today. Presentation by Mr. Au regarding the Actuarial Valuation report. Discussion held by Trustees, staff and Aon regarding the Actuarial Valuation report. The report and briefing outline will be posted on the EUTF website.

G. Segal Report – This item is deferred.

1. Plan Financial Data
2. Loss of Grandfather Status

IV. EXECUTIVE SESSION

MOTION was made to go into Executive Session at 12:25 p.m. for the reasons stated on the agenda. (Topping/Mossman) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

Executive Session adjourned at 12:35 p.m.

Chair Hirata announced that no action was taken in Executive Session

V. OLD BUSINESS

- A. Early Retiree Reinsurance Program Status Update
Letter from Aon was distributed to the Board.

VI. CARRIER REPORTS

- A. HDS
Written report submitted.
- B. HMSA
Written report submitted.
- C. HMA
Written report submitted.
- D. informedRX & NMHC
Written report submitted.
- E. Kaiser
Written report submitted.
- F. Royal State
Written report submitted.

- G. Standard Insurance
Written report submitted.
- H. VSP
Written report submitted.

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

VIII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

- A. May 18, 2011 – Regular Board Meeting.

IX. ADJOURNMENT

There being no objections, the meeting adjourned at 12:37 p.m.

Respectfully submitted,

/s/

George Kahooanohano, Secretary-Treasurer

APPROVED on June 15, 2011 as amended.

Documents Distributed:

1. Draft Board Minutes for March 17, 2011. (9 pages)
2. Draft Board Minutes for March 30, 2011. (6 pages)
3. Memorandum to BOT from Administrator Regarding 3/30/11 Follow-up Items. (5 pages)
4. Memorandum to BOT from Assistant Administrator Regarding Personnel Information dated 5/12/11. (1 page)
5. Memorandum to BOT from MSB Manager Regarding MSB Operations Report dated 5/11/11. (2 pages)
6. Memorandum to BOT from IS Analyst Regarding May IT Operations Report dated 5/11/11. (2 pages)
7. Memorandum to BOT from Financial Management Officer Regarding Accounting Operations Report-April/May 2011 dated 5/11/11. (1 page)
8. EUTF Statement of Net Assets (Unaudited) dated 5/2/11. (1 page)
9. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 8 Months Ended 2/28/11 (Unaudited) dated 5/2/11. (1 page)
10. EUTF Statement of Cash Flows 8 Months Ended 2/28/11 (Unaudited) dated 5/2/11. (1 page)
11. EUTF Statement of Net Assets (Unaudited) dated 5/10/11. (1 page)
12. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 9 Months Ended 3/31/11 (Unaudited) dated 5/10/11. (1 page)

13. EUTF Statement of Cash Flows 9 Months Ended 3/31/11 (Unaudited) dated 5/2/11.
(1 page)
14. EUTF Benefits Administration System Project Assessment Report 14 Submitted 5/9/11.
(18 pages)
15. EUTF Board Briefing - EUTF Postemployment Benefits Other than Pensions, 7/1/2009
Actuarial Valuation by Aon dated 5/18/11. (16 pages)
16. EUTF Postemployment Benefits Other than Pensions Actuarial Valuation Study,
Valuation Date: 7/1/2009, Dated 5/10/11. (41 pages)
17. Claim and Appeal Regulations under Health Care Reform dated 5/18/11 by Segal. (10
pages)