



ANNUAL REPORT

FISCAL YEAR 2001-02

**Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii**

December 2002

ANNUAL REPORT FOR FISCAL YEAR 2001-2002

This report presents an overview of the activities of the Hawaii Employer-Union Health Benefits Trust Fund ("Trust Fund") during the period of July 1, 2001 through June 30, 2002 and also provides an update as of December 2002.

Overview

The Trust Fund was created by Act 88, 2001 Session Laws of Hawaii, and replaces the current Public Employees Health Fund ("PEHF") on July 1, 2003. The Trust Fund was established to provide a single delivery system of health benefits for State and County employees, retirees, and their dependents that is affordable to both the public employers and participants. The intent of combining all public employees into a single health benefits program was to increase negotiating leverage with health benefits carriers and create economies of scale through the consolidation of administrative functions.

Act 88, SLH 2001, enacted major reforms in the administration of the public employee health fund. Some of the significant changes are:

- A defined contribution plan for retirees is established with capped employer contributions that are adjusted annually based upon changes in Medicare Part B premium amounts.
- Public employers' contributions for active employees are a specific dollar amount as negotiated through collective bargaining.
- Employees who were hired on or after July 1, 2001 will receive an employer contribution for only the employee's coverage upon retirement.
- The Board of Trustees has equal representation of public employer and employee-beneficiary trustees, including a retiree representative.
- The retention of auditors, actuaries, investment firms and managers, benefit plan consultants, or other professional advisors to carry out the purpose of the fund is exempt from Chapter 103D, HRS, procurement requirements.
- The Trust Fund Administrator and new staff positions are exempt from civil service.
- Health benefits plan monthly premiums include the administrative expenses of the Trust Fund.

- The Trust Fund is exempt from Chapter 91, HRS, rule making procedures.

Board of Trustees

The Board is responsible for determining the nature and scope of the benefit plans offered, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the Trust Fund, and overseeing all Trust Fund activities.

There are ten trustees, five representing the public employers and five representing employee-beneficiaries. The original ten trustees were appointed in January 2002. Two of the employee-beneficiary trustees (representing UHPA and UPW) resigned in September 2002 and have not been replaced because nominations have not been received from the exclusive employee organizations. The current trustees are shown below:

Employer Trustees

- Sam Callejo
- Audrey Hidano
- Kathryn Matayoshi
- Neal Miyahira
- Davis Yogi

Employee-Beneficiary Trustees

- Joan Lewis, HSTA
- Gerald Machida, Retirees
- Willard Miyake, HGEA
- vacant
- vacant

Term years commence on January 1 and expire on December 31. The initial trustees will serve four years until December 2005 except for Trustee Machida whose term expires in December 2003. The replacement Trustees for the vacant trustee positions may have staggered terms.

Trust Fund Organization

The Trust Fund is administratively attached to the Department of Budget and Finance (B&F) and currently located in temporary offices at B&F, No. 1 Capitol District Building. The Trust Fund anticipates leasing office space at the City Financial Tower, 201 Merchant Street, by March 2003.

The Trust Fund anticipates contracting with insurance carriers to provide health and other benefit plans for approximately 177,600 people effective July 1, 2003. The Trust Fund will function as a centralized enrollment, premium contribution collection, and premium payment organization for the public employers and will process the enrollment and payroll deductions for all State participants. In fiscal year 2003-2004, the Trust Fund will collect and disburse an anticipated \$550 million in premiums to insurance carriers and Medicare Part B reimbursements to retirees. The Board relies on professional services provided by a salaried Administrator, the State Attorney General, and a Benefit Plan Consultant to assist them with these functions.

The Board chose Garner Consulting as its benefit plan consultant in June 2002 and hired Mark Fukuhara as Administrator in July 2002. Mr. Fukuhara has hired staff that includes an assistant administrator, secretary, financial management officer, communications and regulatory specialist, and information systems analyst. The Administrator and staff of the Trust Fund are preparing to assume the functions of the PEHF, including the transfer of PEHF assets, positions, and staff effective July 1, 2003.

Fiscal Year 2002

Act 88, SLH2001, appropriated \$300,000 from the general fund to carry out the purposes of this Act, including the hiring of necessary staff, consultants, and other administrative expenses. All unexpended and unencumbered balances of the appropriation made by this section as of the close of business on June 30, 2002, were carried over to fiscal year 2002-2003.

During the 2002 legislative session, additional funding of \$238,673 was appropriated to the Trust Fund. Therefore, the Trust Fund had a total budget of \$538,673 (\$238,673 + \$300,000) for FY 2002. The \$238,673 was used for personnel expenses of \$139,386; insurance such as fiduciary liability, errors & omissions, and fidelity bond for Trustees of \$39,426; consultant services for the evaluation of the HFIMS system used by the Health Fund of \$50,000; and administrative expenses of \$9,861.

During FY 2002, \$180,000 of the \$300,000 general fund appropriation was used for the Trust Fund's benefit plan consultant, Garner Consulting. There is a balance of \$120,000 in the general fund appropriation. This balance will be used during FY 2003 for the expenses of a new Trust Fund office. These expenses include renovation of the new office space, new office equipment such as computers, desks, chairs, telephones, file cabinets and other equipment, and network and cabling of computers.

An annual audit will be conducted after benefit plans are offered by the Trust Fund. The first audit will be conducted in 2004 for the plan year July 1, 2003 through June 30, 2004. The results of this audit will be summarized in the fiscal year 2004 annual report.

Health Benefit and Life Insurance Plans

A request for proposals (RFP) was issued September 6, 2002 soliciting proposals for medical, prescription drug, vision, dental and life insurance to be effective July 1, 2003. Proposals were received from carriers by the deadline of October 1, 2002 and have been evaluated by the Benefits Consultant. The intent was to have the recommended plans and associated premiums approved by the Board by December 2002.

However, the Board and its subcommittees have been unable to convene meetings since mid-October 2002 due to lack of quorum. Quorum for Board Meetings requires a minimum of three employee beneficiary trustees and three employer trustees. Quorum has not been met because the three employee beneficiary trustees will not cross the informational picket lines of the Laborers Union in its effort to organize and represent substitute teachers.

If the picketing continues then the Board will not be able to convene meetings and therefore will not be able to decide on plans and associated premiums to be effective July 1, 2003. Therefore, it is possible that the 2003 Legislature will be tasked with passing appropriate legislation to ensure health benefits and life insurance continue to be offered beyond the current plan year ending June 30, 2003 to approximately 177,600 plan participants.