



**EXECUTIVE CHAMBERS**

HONOLULU

LINDA LINGLE  
GOVERNOR

December 30, 2004

The Honorable Robert Bunda, President  
and Members of the Senate  
Twenty-Second State Legislature  
State Capitol, Room 003  
Honolulu, Hawaii 96813

Dear Mr. Speaker and Members of the Senate:

For your information and consideration, I am transmitting herewith two (2) copies of the Hawaii Employer-Union Health Benefits Trust Fund's Annual Report for fiscal year ending June 30, 2004. Pursuant to Act 231, SLH 2001, I am also informing you that the report may be viewed electronically at [www.hawaii.gov/budget/LegReports/reportslist](http://www.hawaii.gov/budget/LegReports/reportslist).

Sincerely,

/s/

LINDA LINGLE

Enclosures



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE  
GOVERNOR

December 30, 2004

The Honorable Calvin K.Y. Say, Speaker  
and Members of the House of Representatives  
Twenty-Second State Legislature  
State Capitol, Room 431  
Honolulu, Hawaii 96813

Dear Mr. Speaker and Members of the House:

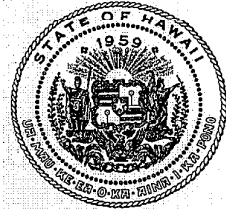
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/s/

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Enclosures



**ANNUAL REPORT**

**FISCAL YEAR 2003-04**

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

**December 2004**

This report presents an overview of the activities of the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"). The EUTF is administratively attached to the Department of Budget and Finance. The EUTF's office is located at Suite 1520, City Financial Tower, and 201 Merchant Street, Honolulu, Hawaii.

## **OVERVIEW**

Chapter 87A of the Hawaii Revised Statutes established a trust fund known as the Hawaii Employer-Union Health Benefits Trust Fund. The EUTF is the state agency that provides eligible state and county employees and retirees and their eligible dependents with health and life insurance benefits at a cost affordable to both the public employers and participants. The EUTF replaced the Hawaii Public Employees Health Fund ("PEHF"), effective July 1, 2003.

## **TRUST FUND ORGANIZATION**

### Board of Trustees

The EUTF is administered by a board of trustees ("Board"). 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 criteria and management policies for the EUTF, and overseeing all EUTF activities.

There are ten trustees, five representing the public employers and five representing employee-beneficiaries, including a retiree representative. The current trustees are shown below:

#### **Employer Trustees**

- Nelson Befitel
- Mark Recktenwald
- Stanley Shiraki
- Katherine Thomason
- Kathleen Watanabe

#### **Employee-Beneficiary Trustees**

- Joan Lewis, HSTA
- Gerald Machida, Retirees
- Willard Miyake, HGEA
- Dayton Nakanelua, UPW
- John Radcliffe, UHPA

Board officers currently are Katherine Thomason, Chairperson, Kathleen Watanabe, Vice-Chairperson and Gerald Machida, Secretary-Treasurer. The officers serve a one-year term beginning July 1 of each year.

During the period covered by this report, the Board has used both standing and temporary committees to facilitate its administration of the EUTF. The two standing committees are the Administrative Committee and the Benefits Committee. The Administrative Committee considers matters pertaining to the administration and operation of the EUTF, e.g., development of budget, organization of staff, setting of personnel policies, evaluation of EUTF systems, and consideration of use of third party administration services. The Benefits Committee considers matters pertaining to the design and procurement of the EUTF's health and life insurance benefit plans.

### Administrator and Staff

The day-to-day administration of the EUTF is managed by an administrator who reports to and is responsible to the Board. The administrator is James Williams who was hired in November 2004 after a lengthy selection process conducted by the Board. Mr. Williams succeeds Mr. Mark Fukuhara, who resigned effective August 2004. The EUTF administrator and new staff positions are exempt from civil service.

The administrator is assisted in managing the EUTF by an assistant administrator, a financial management officer, and an information systems analyst. EUTF staff includes nine full-time civil service positions that were transferred from the PEHF (predecessor to EUTF) effective July 1, 2003, plus fourteen exempt employees hired directly by EUTF or a total of 23 employees (including the management staff). The EUTF is organized under three branches; Financial Services Branch, Information Systems Branch, and Member Services Branch. A health benefits program manager oversees the Member Services Branch and is supported by five employees assigned to customer service duties to answer phones and e-mails from members and to handle all processing for retirees and five other employees to process all active employee enrollment submissions. The financial management officer is supported by two accountants and three account clerks. The EUTF Information System Analyst provides internal IT support services, HIPAA security responsibilities, and coordinates additional support services provided by DAGS/ICSD.

### Consultants and Advisors

The Board utilizes the services of Garner Consulting as its benefits plan consultant. Garner Consulting, a nationally recognized consulting firm specializing in employee benefit issues, was founded in 1987 and is based in Pasadena, California. Garner Consulting is a consultant to numerous public and private sector employers across the United States including the Automobile Club of Southern California, the County of Los Angeles, Firefighters Local 1014 (Los Angeles County), Marriott International and U-Haul.

The Board also has employed professional consultants and advisors on certain specific issues of importance to the EUTF. Commercial Data System scanned and indexed 2003 Open Enrollment forms into the EUTF imaging system. e-World was hired to implement necessary configuration changes to the previous PeopleSoft application of the Health Fund Information Management System to enable the EUTF to process enrollments and accounts receivable data. Malanaphy Consulting was selected to develop a Request for Proposal for a major upgrade of the PeopleSoft system.

## **ADMINISTRATIVE RULES**

The EUTF operates according to administrative rules adopted in February 2003. The administrative rules were formulated to meet the requirements of Chapter 87A, Hawaii Revised Statutes, and the health and other benefit plans established by the EUTF. In addition, they were designed to increase administrative efficiencies and reduce the EUTF's administrative costs. For example, the rules set the effective dates for initial enrollments, changes in enrollment, and cancellations of enrollment in the EUTF's health benefit plans so as to facilitate automated handling of such activities.

## **HEALTH AND LIFE INSURANCE BENEFIT PLANS**

The EUTF provides health and life insurance benefits through contracts with the following organizations:

- ◆ Hawaii Medical Service Association (HMSA)
- ◆ Kaiser Permanente (Kaiser)
- ◆ Hawaii Dental Service (HDS)
- ◆ Vision Service Plan (VSP)
- ◆ Mutual Benefit Association of Hawaii/ChiroPlan Hawaii, Inc. (ChiroPlan)
- ◆ Royal State National Insurance Company, Ltd. (Royal State)
- ◆ Aetna Life Insurance Company (Aetna)

The health benefits plans offered by these organizations and implemented on July 1, 2003 continued through 2004 with no changes to the existing benefits. Two major, local carriers provided medical plan coverage for the State and County active employees and retirees. HMSA offered the Preferred Provider Option (PPO) plan and Kaiser offered the Health Maintenance Organization (HMO) plan. HDS and VSP provided the regular and dual dental and vision plans respectively for active employees and the regular dental and vision plans for retirees. Aetna provides the life insurance plan for active employees and retirees.

For both active employees and retirees, the health benefit plans are available to domestic partners and full-time students up to the age of 24. No additional premium is required for student coverage under the family option. Active employees also receive chiropractic benefits through ChiroPlan which is offered in combination with any of the medical plans offered.

During 2004, the EUTF provided additional medical plan choices for its active employees. All active employees who have medical coverage through private sector or federal government plans are eligible to enroll in either of two Dual-Coverage Medical Plans. The Royal State National Insurance Company, Ltd offered a dual medical reimbursement plan effective February 1, 2004. The second plan, an HMSA fee-for-service plan became available on April 1, 2004.

The table below shows active employees' enrollment as of June 30, 2004.

Health Plans	Type of Coverage		Grand Total
	Self	Family	
<b>MEDICAL</b>			
Regular Plans			
HMSA	19,736	18,556	38,292
Kaiser	6,481	5,565	12,046
Dual Plans			
HMSA Dual Plan	95	231	326
Royal State Dual Plan	99	253	352
<b>Total Medical</b>	<b>26,411</b>	<b>24,605</b>	<b>51,016</b>
<b>DENTAL</b>			
Regular Plan			
HDS	32,143	20,108	52,251
Dual Plan			
HDS Dual	815	1,286	2,101
<b>Total Dental</b>	<b>32,958</b>	<b>21,394</b>	<b>54,352</b>
<b>VISION</b>			
Regular Plan			
VSP	24,301	25,826	50,127
Dual Plan			
VSP	255	1,523	1,778
<b>Total Vision</b>	<b>24,556</b>	<b>27,349</b>	<b>51,905</b>
<b>LIFE INSURANCE</b>			
Aetna	64,233		64,233

The table below shows retirees' enrollment as of June 30, 2004

Health Plans	Type of Coverage		Grand Total
	Self	Family	
<b>MEDICAL</b>			
HMSA Pre-Medicare	3,418	4,465	7,883
HMSA With Medicare	12,203	7,727	19,930
Kaiser With Medicare Plan	3,028	1,647	4,675
Kaiser Pre-Medicare	848	995	1,843
<b>Total Medical</b>	<b>19,497</b>	<b>14,834</b>	<b>34,331</b>
<b>DENTAL</b>			
HDS	19,292	14,778	34,070
<b>VISION</b>			
VSP	19,217	14,838	34,055
<b>LIFE INSURANCE</b>			
Aetna	30,448	-	30,448

## OPERATIONS

Fiscal year 2004 was the first year that EUTF plans were offered. Throughout the fiscal year, the EUTF faced several significant challenges in providing top quality service to eligible State and county employees and retirees and their eligible dependents. The EUTF officially took over the operations from the PEHF effective July 1, 2003.

An automated call distribution (ACD) telephone system was installed in October 2003 to coordinate incoming telephone calls. By the end of June 2004, nearly 32,000 incoming calls and 12,500 outgoing calls were handled by the customer service staff or an average of 4,450 incoming and outgoing calls per month. In addition, the same staff processed over 12,000 retiree enrollment-related forms, nearly 40,000 confirmation notices and other project notices or letters such as the special enrollment and COBRA notices.

In August 2003, the EUTF implemented its imaging program that eliminated the need for paper copies to be handled by the enrollment clerks. Since that time, 46,671 imaged records have been entered into the database by the EUTF staff. The implementation of the imaging system created a significant change in the operational processing of enrollment related forms. Each enrollment workstation was equipped with dual monitors, and paper forms were eliminated, so that each clerk was required to access the enrollment forms through the imaging system.

The imaging system also allows the staff to respond instantaneously to inquiries by the employees and retirees. Specific information requests, questions regarding status of forms and similar inquiries are now at the fingertips of the staff. Customer service to employee-beneficiaries increased significantly, generating a higher level of expectation among those served by EUTF.

By the end of October 2004, previous records maintained by the PEHF were imaged by a contractor, with over 153,600 records added to the imaging database.

In November 2003, the EUTF Board approved the offering of two dual medical plans, to be effective in early 2004. Negotiations with these carriers resulted in the Royal State Insurance Company, Ltd., offering its plan effective on February 1, 2004 and HMSA, beginning April 1, 2004. During the Special Open Enrollment period in January 2004, over 700 individuals enrolled in these dual coverage plans.

In preparation for the 2004 Open Enrollment, the EUTF staff conducted training sessions on the four major islands for the personnel and financial officers involved in the open enrollment process. Over 450 personnel and financial officers attended the 12 training sessions. The EUTF staff also held 59 informational open enrollment sessions throughout the state. Less than 2,000



employees and retirees attended these sessions, compared to over 20,000 who attended in 2003.

Open Enrollment 2004 was a complete contrast to the first EUTF open enrollment in 2003. While over 90,000 enrollment forms were submitted in 2003, only 8,000 forms were received in 2004. The EUTF was able to process 86% of all enrollment forms within an eight-day period in May (compared to five months the previous year). Since there were no significant changes for the FY2005 benefit period, most employees and retirees remained on their previous plans. Approximately 4,700 active employees and 370 retirees made changes to their health benefits selections.

The EUTF participates with the major State departments and the counties which host pre-retirement sessions during the year. Over 3,500 interested employees attended these sessions. The EUTF instituted a program to provide on-site retirement counseling in conjunction with the Employee Retirement System's periodic group retirement counseling sessions. During these sessions, the employee receives counseling from the ERS counselors regarding their retirement benefits and is counseled by the EUTF staff on their retirement health and life insurance benefits. This collaboration provides a valuable service to our employees planning to retire.

In fiscal year 2004, the EUTF staff processed nearly 35,000 enrollment records and scanned nearly 47,000 records. In addition, these personnel served as the primary contacts for the nearly 500 personnel officers that interface with the EUTF when assisting their employees.

#### **FISCAL YEAR 2004**

During FY 2004, the EUTF collected \$523,681,235 in employer and employee contributions for health benefit plans and paid carriers \$481,453,877 in premiums. Medicare Part B reimbursements paid to retirees amounted to \$24,178,905. The EUTF is holding \$4,949,287 in reserves for carrier retrospective premiums.

During FY2004, The PEHF (predecessor to the EUTF) transferred \$7,145,000 to the EUTF. The EUTF Board has authorized amounts totaling \$5,228,000 (including some amounts received in FY 05) to be refunded to PEHF employee-beneficiaries during FY 05.

The monthly premiums for the EUTF's benefit plans include administrative fees that are intended to cover the EUTF's administrative expenses. During FY2004, the total revenues received by the EUTF were \$3,906,378 which included \$3,547,052 in administrative fees and \$359,326 in interest income. The EUTF's administrative fees are used to cover all of its operating expenses. For FY 2004, the administrative expenses appropriated for the EUTF were \$3,439,250 and it had expenditures of \$2,593,407. The expenses included \$1,252,502 for

personal services, \$122,732 for public officials liability, fiduciary liability and fidelity bond insurance for trustees, \$377,951 in computer system maintenance fees, \$566,200 for consultant services including Garner Consulting (\$333,500), e-World (\$112,720), Malanaphy Consulting (\$84,950), Commercial Data Systems (\$24,800) and others (\$10,230), and \$274,022 for miscellaneous expenses such as open enrollment, office supplies, telephone, travel, copier rental and equipment. In addition, \$90,000 was transferred to the Department of Accounting and General Services for an annual audit conducted by Grant Thornton for the plan year July 1, 2003 through June 30, 2004.

The above figures are unaudited, however, an annual audit of the EUTF, as required by Chapter 87A-25(2), was conducted for the plan year July 1, 2003 through June 30, 2004 by Grant Thornton and the final audit report will be available in January 2005.