ANNUAL REPORT

FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

December 2014
This report presents an overview of the organization and activities of the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") for the fiscal year that ended June 30, 2014. The EUTF manages and administers the health and life insurance plans for eligible state and county employees and retirees and their eligible dependents. The objective of the EUTF is to provide quality health plans that are affordable to employers and employees.

The EUTF was established under Chapter 87A of the Hawaii Revised Statutes and is administratively attached to the Department of Budget and Finance. The office is located in City Financial Tower, 201 Merchant Street, Suite 1520, Honolulu, Hawaii.

The EUTF operates according to administrative rules originally adopted in February 2003 and most recently revised in 2014. The administrative rules were formulated to carry out the requirements of Chapter 87A.

MAJOR EVENTS IN FISCAL YEAR 2014

EUTF conducted open enrollment in October 2013 for retirees, with an effective date of January 1, 2014 and in April/May, 2014 for active employees, with an effective date of July 1, 2014.

Effective July 1, 2013 the high deductible plan was replaced with the HMSA 75/25 plan for active employees and the Kaiser Basic plan was replaced with the Kaiser Standard plan.

Gabriel Roder Smith & Company issued the Hawaii Employer-Union Health Benefits Trust Fund Retiree Health Care Plan Actuarial Valuation Report as of July 1, 2013. This valuation is conducted bi-annually. Between July 1, 2011 and 2013, the employers’ unfunded actuarial accrued liability decreased from $16.3 billion to $11.2 billion. The main reason for the significant decrease is the increase in the State of Hawaii’s discount rate from 4% to 7%. The increase in the discount rate results from the passage of Act 268, SLH2013 that requires that the State of Hawaii and the counties fund their annual required contributions beginning with a phased in funding in FY15, leading up to full funding of the annual required contributions in FY19.

In January 2014 EUTF issued Request for Proposals for its medical, prescription drug, dental, vision and life insurance plans. Around March/April 2014 the following vendors were awarded contracts:

- HMSA (medical)
- Kaiser (medical)
- UnitedHealthcare (Medicare Advantage)
- CVS Health (prescription drug)
- HDS (dental)
- Vision Service Plan (vision)
NEW CONTRACTS BEGIN JANUARY 1, 2015 FOR RETIREE PLANS AND JULY 1, 2015 FOR ACTIVE EMPLOYEE PLANS.

TRUST FUND ORGANIZATION

Board of Trustees
The EUTF is administered by a board of trustees (“Board”) which is responsible for determining the benefit plans offered, negotiating and entering into contracts with insurance carriers and plan administrators, 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 that includes a retiree representative. The trustees as of June 30, 2014 are shown below:

Employer Trustees
- Audrey Hidano, Deputy Director, Dept. of Transportation
- Dean Hirata, President, DataHouse Holdings Corp.
- Barbara Krieg, Director, Dept. of Human Resources Development
- Luis Salaveria, Deputy Director, Dept. of Budget & Finance
- Maria Zielinski, Deputy Director, Dept. of Accounting & General Svc

Employee-Beneficiary Trustees
- Linda Currivan Musto, Retirees
- Karolyn Mossman, HSTA
- Celeste Nip, HFFA
- Clifford Uwaine, UPW
- Julia Zeghmi, HGEA

Board officers for the period July 1, 2013 – June 30, 2014 were as follows: Linda Currivan Musto, Chairperson; Julia Zeghmi, Vice-Chairperson; and Luis Salaveria, Secretary-Treasurer.

The Board has regularly scheduled monthly meetings with the exception of October. Board agendas and minutes are posted on the EUTF website at eutf.hawaii.gov.

The EUTF’s financial statements are audited annually and are also posted on the EUTF website.

Administrator and Staff
The EUTF is managed by an administrator who is hired by and reports to the Board.

The administrator is assisted in managing the EUTF by an assistant administrator, a financial management officer, an information systems analyst, and a member services branch manager. EUTF staff has a total of 55 positions (including management staff and the Administrator).

The EUTF has three branches: the Financial Services Branch, Information Systems Branch, and Member Services Branch.
• The financial management officer is supported by seven accountants and four account clerks, who reconcile employee accounts, collect employer/employee contributions for health benefits, process all vendor payments, prepare monthly financial statements and coordinate an annual financial audit.

• The information systems analyst manages support for internal IT services, manages 1st level support for the benefits administration system, fulfills HIPAA security responsibilities, coordinates additional support services provided by DAGS/ICSD and Vitech Systems Group, Inc, and is supported by seven IT staff.

• The member services branch manager oversees the Member Services Branch and is supported by 25 employees assigned to customer service, enrollment, and training duties that include in-person visits and phone calls and e-mails from members, handling all processing for retirees, and processing all active employee enrollment submissions.

Advisors, Consultants and Major Contracts
The Board employs professional consultants and advisors on certain specific issues of importance to the EUTF:

• Benefits Plan Consultant: The Board has contracted with the Segal Company (“Segal”) to provide benefit plan consulting services. Segal is a major national benefits consulting firm and provides access to their wide range of services from their Glendale, California office.

• Benefits Administration System (“BAS”): Vitech Systems Group, Inc. provides the benefits administration computer system which handles all enrollment input and transmission, member records and premium calculation and tracking. Vitech Systems Group, Inc. provides on-going support of the benefits administration system including programming periodic plan and eligibility rule changes.

• Investment Consultants: Pension Consulting Alliance (PCA) provides investment consulting services in developing and updating the EUTF’s investment policy guidelines including a long-term strategic asset allocation, selecting and terminating investment managers/mutual funds and reporting on the performance of EUTF’s long term investments. In addition, PCA assists in selecting investment strategies for the EUTFs short-term funds.

• Actuary: Gabriel Roder Smith & Company provides the Other Post Employment Benefit (“OPEB”) Retiree Health Care Plan Actuarial Valuation Report.

• Auditor: A new auditing firm, Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs LLC, procured by the State of Hawaii Office of the Auditor, began the FY14 audit in September 2014.

HEALTH AND LIFE INSURANCE BENEFIT PLANS
The EUTF provided health and life insurance benefits through contracts with the following organizations:

• Hawaii Medical Service Association (“HMSA”)
  1. PPO Plans – 90/10, 80/20, and 75/25 for EUTF Active Employees
2. HMO for EUTF Active Employees
3. HSTA VB* 90/10 & 80/20 PPO Plan for Active Employees
4. EUTF and HSTA VB* Retiree PPO 90/10 plans

- Kaiser Permanente ("Kaiser")
  1. Comprehensive HMO (EUTF & HSTA VB* for Active Employees)
  2. Standard HMO (for EUTF Active Employees)
  3. HSTA and HSTA VB* Retiree Comprehensive HMO (Non Medicare and Kaiser Senior Advantage Medicare plans)

- CVS Caremark
  1. Caremark Prescription drug coverage for HMSA PPO and HMO plans – for Active Employees and non-Medicare retirees
  2. SilverScript Prescription drug coverage through an Employer Group Waiver Plan (EGWP) for EUTF and HSTA VB* Medicare Retirees

- Hawaii Dental Service ("HDS") – EUTF Active and Retiree & HSTA VB* Active, Retiree and Supplemental (HSTA VB*) plans

- Vision Service Plan ("VSP") – Active, Retiree & HSTA VB* plans

- Royal State National Insurance Company, Ltd
  1. Chiropractic coverage through ChiroPlan Hawaii, Inc. ("ChiroPlan") – included with all EUTF and HSTA VB* active employee medical plans and HSTA VB* retiree medical plans
  2. Group Life insurance for all EUTF and HSTA VB* active employees and retirees.

- Supplemental Medical Plans
  1. Royal State National Insurance Company, Ltd. ("Royal State") for EUTF Active Employees
  2. HMSA Supplemental (eliminated 7/1/14 due to the Affordable Care Act)
  3. HMSA HSTA VB* Supplemental (eliminated 7/1/14 due to the Affordable Care Act)

The federal Affordable Care Act (ACA) became effective for the active employee medical and prescription drug plans on July 1, 2011. During the period July 1, 2013 to June 30, 2014, EUTF made the following plan design change to conform to ACA:

 Eliminated the High Deductible Plan and replaced it with the HMSA 75/25 plan.

Additionally, EUTF eliminated the Kaiser Basic Plan and replaced it with the Kaiser Standard plan.

* HSTA VB refers to the plans developed in response to Judge Sakamoto’s December 7, 2010 ruling. HSTA VB plans cover only those who were previously covered by the HSTA VEBA plans effective 12/31/10.

**EUTF ACTIVITY IN 2013 – 2014**

On June 30, 2013 EUTF created an Other Post Employment Benefits (OPEB) Trust to provide a mechanism for pre-funding OPEB benefits for the exclusive purpose of
providing benefits to participants. The OPEB Trust maintains separate accounts for each public employer contributions, investment income, expenses and distributions. In FY14, the OPEB Trust was funded with employer contributions made prior to FY14 plus employer contributions during FY14. Included in the FY14 employer contributions was the first contribution from the State of Hawaii in the amount of $100 million.

EUTF implemented Act 226, SLH2013, which prohibited the EUTF from requiring mail order and providing preferential pricing for mail order for maintenance medications, on October 1, 2013 for active employees and January 1, 2014 for non-Medicare retiree plans. As of June 30, 2014, Act 226 had resulted in additional costs to the EUTF of approximately $6M and contributed to a significant portion of the active employees’ prescription drug premium increases starting July 1, 2014.

EUTF implemented Act 027, SLH2013 (death validation bill) by executing a Memorandum of Agreement with the State of Hawaii Department of Health (DOH) whereby DOH will quarterly provide EUTF with death information. The first electronic file included 135,639 records (from the year 2000 to 2014) of which EUTF matched 145 retirees/dependents who had passed away. The quarterly electronic file is expected to save the State and Counties over $176,000 annually because EUTF will receive timely death information and will be able to more timely terminate medical, dental, prescription drug, and/or vision coverage and stop Medicare Part B reimbursements.

INSURED AND SELF-INSURED PLANS

The following plans were fully insured:

- HMSA*
- Kaiser
- Royal State Life insurance
- Chiro Plan through Royal State
- Royal State Supplemental
- HDS Dental*
- VSP Vision*

* Fully insured with premium refund in those years in which premium exceeds incurred claims and expenses.

The following plans were self funded:

- CVS Caremark Prescription Drug (for active employees and non-Medicare retirees) and SilverScript EGWP Prescription Drug (for Medicare retirees)

OPERATIONS

Ongoing Programs and General Operations

The EUTF provides Open Enrollment sessions for active employees each Spring and for retirees each Fall, as well as Departmental Personnel Officer informational sessions each year. EUTF also participates in pre-retirement sessions and new hire orientations conducted by the various employers.
During FY2014, the EUTF Member Services Branch Call Center successfully handled 109,641 phone calls and staff serviced over 8,286 walk-in visitors. Additionally, 73,026 incoming documents were imaged; 59,232 enrollment-related outbound documents were printed in-house and mailed directly to plan participants.

Information Systems handled the following systems issues in addition to normal work flow:

- Provided Benefit Plan cost data for 2013 W-2s in accordance with the Federal Affordable Care Act to State of Hawaii DAGS, City & County of Honolulu, Hawaii Department of Water Supply, Hawaii Public Charter Schools, County of Maui, and County of Kauai.
- Processed retroactive employer/employee premium contributions due to new collective bargaining agreements for Bargaining Units 00, 10, 12 and 13.
- Implemented software updates to process same sex marriages in accordance with the "Hawaii Marriage Equality Act of 2013".
- Implemented an updated HIPAA Security Policies and Procedures to include the newly adopted HIPAA/HIECH Omnibus Rule of 2013.
- Reorganized IS Branch to create 2 Supervisor positions and added 1 Analyst position.

An annual audit of the EUTF, as required by Chapter 87A-25(2), was conducted for the fiscal year July 1, 2013 through June 30, 2014 by Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs LLC. The report is posted on EUTF’s website and attached to this report.

The following pages provide enrollment data as of June 30, 2014.