

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Administrative Committee Meeting
January 22, 2004

TRUSTEES PRESENT

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| Mr. Mark Recktenwald, Chairperson | Mr. Dayton Nakanelua |
| Mr. Gerald Machida | Ms. Katherine Thomason |
| Mr. Will Miyake | Ms. Kathleen Watanabe |

TRUSTEES ABSENT: None

GUEST TRUSTEES

Mr. Harold DeCosta (arrived at 2:15 pm)
Mr. John Radcliffe (arrived at 2:25 pm)

ATTORNEY: Mr. Brian Aburano, Deputy Attorney General

EUTF STAFF

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| Mr. Mark Fukuhara, Administrator | Mr. John Garner, Consultant |
| Mr. Lawrence Nishihara | Mr. Richard Eusen, Consultant |
| Ms. Maria Quartero | Ms. Kathleen Shiroma |
| Mr. Gary Sanehira | Ms. Donna Tonaki |

OTHERS PRESENT

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| Ms. Lynette Arakawa, HDS | Mr. Norbert Mendes, HDS |
| Mr. Tracy Ban, B&F | Ms. Karen Muronaka, HSRTA |
| Mr. Rob Ching, Kaiser Permanente | Mr. Gertrude Nitta, HGEA-R |
| Ms. Monica Engle, VSP | Mr. Ray Sodetani, HSTA-MBC |
| Ms. Venus Gabuyo, MBAH | Mr. Rod Tam, HMSA |
| Ms. Beverly Gotelli, HSTA | Mr. George Yamamoto, HGEA Retirees |
| Mr. Rick Jackson, MDX Hawaii | Ms. Amy Yasuda, UH |
| Mr. Alice Kotake, HSTA-R | |

I. CALL TO ORDER

The meeting of the Administrative Committee was called to order at 1:33 p.m. by Chairperson Mark Recktenwald in Conference Room 1403, Leiopapa A Kamehameha Building, 235 South Beretania Street, Honolulu, Hawaii, on Thursday, January 22, 2004.

II. APPROVAL OF MINUTES

Review of minutes for September 18, 2003.

MOTION was made to approve the minutes for September 18, 2003 as amended to delete Mr. Gerald Machida under Guest Trustees. (Miyake/Thomason)
Discussion held by Trustees.
Vote: Unanimously passed.

III. REPORTS:

A. Administrator: None

B. Deputy Attorney General: None

C. Benefits Consultant
Mr. Garner reported:

1. Colonial Life Insurance was awarded business in South Carolina and in exchange is doing open enrollment at no charge and would like to offer the same to the State of Hawaii. Discussion held by Trustees regarding Colonial Life Insurance, types of insurance that can be offered, and the open enrollment process. Mr. Garner will provide more information. Further discussion by Trustees on open enrollment at no charge offered by Colonial Life Insurance. The concept of having a vendor conduct open enrollment in return for the opportunity to offer one or more of their voluntary products will be addressed at the full Board meeting.
2. Hartford has requested a contract amendment. Mr. Garner stated because Hawaii has adopted the National Association of Insurance Commissioner long-term care model provisions, it prohibits any refund or return of any kind to insureds and the Hartford policy had a provision that once someone satisfied their 90-day elimination period, the premiums they had paid would be refunded. Technically, it was a violation and the Insurance Commissioner wanted the policy changed. Hartford removed the requirement to pay premiums during the 90 days which is better. Mr. Garner stated that it is a minor technical change which constitutes a slight improvement.

IV. UNFINISHED BUSINESS: None

V. NEW BUSINESS

A. Administrative Fee Allocation as of 7/1/04

Mr. Garner reported on the administrative fee allocation (see handout). It was updated from last year to reflect three changes: (1) because of lower programming expenses, the budget is down for the coming fiscal year; (2) current premium and enrollment levels were used rather than estimates; and (3) minor adjustments on bundled and administrative fees need to be made to come out with an even number of cents. Mr. Garner recommended that the Trustees approve the administrative fee allocation in concept and authorize the Administrator to adjust the amounts to come out with an even number. Discussion held by Trustees on the administrative fee allocation.

There being no objections by the Trustees, recommendation was made by the Administrative Committee for the Board to approve the administrative fee allocation in concept and authorize the Administrator to adjust the amounts to come out with an even number of cents.

B. HIPAA Gap Analysis Report

Mr. Garner reported that their finding is that the EUTF is doing quite well compared to most other employers but that they do have some recommendations for improvement. Mr. Euson summarized the HIPAA Privacy Compliance Review and Gap Analysis report (see handout). He explained the recommendations and clarifications that should be made. He stated that the EUTF is not technically in full compliance with all HIPAA requirements. Mr. Fukuhara stated that the EUTF staff generally agrees with Garner Consulting's report and is recommending that the Administrative Committee approve hiring Garner Consulting to assist in making the EUTF fully HIPAA compliant (which would include revising the notice of privacy rules) for an amount not to exceed \$3,500.00 to be completed at the end of April 2004, and to accept the HIPAA Privacy Compliance Review and Gap Analysis report.

There being no objections by the Trustees, recommendation was made by the Administrative Committee for the Board to approve hiring Garner Consulting to assist in making the EUTF fully HIPAA compliant (to include revising the notice of the EUTF's privacy rules) for an amount not to exceed \$3,500.00, to have the Administrator see that this is implemented by the end of April 2004, and to accept the HIPAA Privacy Compliance Review and Gap Analysis report.

C. GASB Exposure Draft on Postemployment Benefits

Mr. Garner reported, for information only, on the GASB exposure draft on new rules regarding postemployment benefits. He stated that the basic rule is that governmental entities begin reflecting the expenses and liabilities associated with benefits on their financial statements. The concept is that retirees earned those benefits during their working careers and that there should be an accrual of that liability while they are working. He stated that there is no final rule or firm effective date. At some point, the EUTF will need to hire an actuary to conduct the valuation of the liabilities with the likelihood that it would be in the billions of dollars. Other states that provide retiree medical benefits are going to have problems of the same magnitude. He stated that Garner Consulting is doing research to see if they can find out how many other states provide fully paid retiree medical coverage. Discussion held by Trustees and consultant regarding the GASB exposure draft. Mr. Aburano reported that when he became aware of the GASB exposure draft he alerted Budget & Finance to look into this issue because if and how it is applied could affect the State's financing. Mr. Aburano stated that his brief reading of the GASB exposure draft indicated that defined contribution plans would have a less adverse affect than defined benefit plans. Mr. Garner stated that if benefits provided to retirees are under the caps it is more like a defined benefit rather than a defined contribution but once we go over the caps then we are more like a defined contribution plan. He added that by the time any of this is effective, it is likely that the EUTF will qualify as a defined contribution plan. In response to a public comment on the State's responsibility, Mr. Garner stated that the GASB exposure draft imposes responsibilities on both multi-employer plans like the EUTF and on the employers themselves. Discussion held by Trustees and consultant

regarding the responsibilities and GASB exposure draft. Guest Trustee DeCosta arrived at 2:15 p.m.

D. Domestic Partners – Imputed Income

Mr. Fukuhara gave an overview on the imputed income for domestic partners. Mr. Aburano stated that an employer's contribution for health benefits coverage for domestic partners that don't qualify as an employee's dependent under federal tax laws create taxable income for the particular employee. He understood that this affects approximately 238 active employees and 42 retirees who should have additional taxable income reported to the IRS as a result of having enrolled a domestic partner without having filed an affidavit certifying that the domestic partner was their dependent. The additional taxable income is also subject to employment taxes that should be deducted from the affected employee's wages. Mr. Aburano stated that a W2 will be sent to affected employees that will show the additional taxable income and how much Social Security and Medicare taxes were deducted from their gross wages – the amount being an increase over what was shown on their last statement with an explanatory letter as to why they are having additional taxes deducted. Retirees who have additional taxable income will be sent 1099's. The EUTF is working with DAGS, ERS, and other public employers to provide them information on a timely basis in order to make the proper reporting of taxable income and deductions for employment taxes. Mr. Aburano recommended that the EUTF hire an outside tax attorney to review and make sure the EUTF forms and procedures are being accurately done because he is not knowledgeable in the tax area and that there are penalties/interest applicable if it is not done correctly. Guest Trustee Radcliffe arrived at 2:25 p.m. Discussion held by Trustees and staff regarding the hiring of an outside tax attorney and the imputed income issue. Further discussion by Trustees and staff on the procedures for obtaining outside legal counsel.

There being no objections by the Trustees, recommendation was made by the Administrative Committee for the Board to approve an inquiry into the cost of hiring an outside tax counsel as recommended by Mr. Aburano.

E. Administrative Rules Clarifications – Contribution Shortages

Mr. Fukuhara gave an overview on the Administrative Rules clarifications on contribution shortages. Mr. Aburano explained the options for the Trustees regarding waiving and amending the Administrative Rules. Discussion held by Trustees and staff regarding amending the Administrative Rules for contribution shortages and procedures and payments for shortages.

There being no objections by the Trustees, recommendation was made by the Administrative Committee for the Board to approve for the EUTF staff to develop proposed amendments to the rules and in the interim to implement the following policy: allow enrollment to be continuous if shortage is paid in full within 30 days and to allow enrollment during open enrollment or other qualifying event if more

than 60 days has passed since the shortage was first due and the shortage is paid in full.

F. Financial Report as of 12/31/03

Ms. Tonaki gave an overview on the financial report (see handout). Discussion held by Trustees and staff regarding the financial report. Trustee Thomason recommended that the EUTF staff provide monthly financial statements with analysis/footnotes.

G. Staffing Plan (see handout) [Deferred to Board]

H. Changes in Phone System – 2 additional ACD's (see handout) [Deferred to Board]

I. RFP for PeopleSoft Consulting Services (see handout) [Deferred to Board]

VI. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES

There was no communication from the public.

VII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

The next Committee meeting will be scheduled at the Board meeting.

VIII. ADJOURNMENT

There being no objections by the Trustees, the Administrative Committee meeting was adjourned at 3:05 p.m.

Respectfully submitted,

/s/

Mark Recktenwald, Chairperson

APPROVED on May 18, 2004.

DOCUMENTS DISTRIBUTED:

1. Draft Minutes for 9/18/03. (3 pages)
2. EUTF 2005 Administrative Cost Allocation & Alternatives dated 1/22/04. (2 pages)
3. EUTF HIPAA Privacy Compliance Review & Gap Analysis dated 1/14/04. (20 pages)
4. EUTF Statement of Net Assets 12/31/03 (Unaudited). (2 pages)
5. Proposed Staffing/Authorization Changes dated 1/16/04. (4 pages)
6. EUTF Changes in Phone System dated 1/22/04. (1 page)
7. Request for Proposal – Scope of Work dated 1/22/04. (1 page)