

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
Minutes of the Board of Trustees  
Wednesday, January 24, 2007

TRUSTEES PRESENT

Mr. Mark Recktenwald, Chairperson  
Mr. Nelson Befitel, Vice Chairperson  
Ms. Elizabeth Ho  
Mr. George Kahoochanohano

Ms. Marie Laderta (arrived 9:10 am)  
Mr. Gerald Machida  
Mr. John Radcliffe  
Mr. Stanley Shiraki

TRUSTEES ABSENT

Ms. Katherine Thomason

ATTORNEY

Mr. Brian Aburano, Deputy Attorney General

EUTF STAFF

Mr. James Williams, Administrator  
Mr. Lawrence Nishihara  
Ms. Maria Quartero  
Ms. Kathleen Shiroma

Mr. John Garner, Consultant  
Ms. Gerti Reagan Garner, Consultant  
Ms. Donna Tonaki

OTHERS PRESENT

Ms. Lynette Arakawa, HDS  
Ms. Sandra Benevides, Kaiser Permanente  
Mr. Bill Corba, Kaiser Permanente  
Ms. Alana Deppe-Mariota, Kaiser Permanente  
Mr. Scott Dunn, SHOPO  
Ms. Monica Engle, VSP  
Mr. Jonathon Freidman, NMHC  
Ms. Elaine Fujiwara, HDS  
Ms. Venus Gabuyo, MBAH  
Ms. Donna Higashi, HSTA-Retired  
Mr. Rick Jackson, MDX Hawaii  
Mr. John Jacobs, HMSA  
Mr. Eleu Kane, Summerlin  
Ms. Ruth Kim, HSTRA  
Ms. Wanda, Kimura, B&F  
Ms. Alice Kotake, HSTA-R

Ms. Doreen Kuroda, DHRD  
Ms. Dori Lieberman, Standard Insurance  
Mr. Tenari, Maafala, SHOPO  
Mr. Marty Magill, NMHC  
Ms. Mary Mitchell, NMHC  
Mr. Maurice Morita, HSTA  
Mr. Michael Moss, HMSA  
Ms. Gertrude Nitta, HGEA-R  
Ms. Sue Oguro, ORTA  
Ms. Kirsten Sanderor, NMHC  
Mr. Kevin Sherry, Standard Insurance  
Mr. Jim Smith, NMHC  
Mr. Rod Tam, HMSA  
Ms. Sharon Urada, HSTA-MBC  
Mr. George Yamamoto, HGEA-Retirees

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 9:03 a.m. by Trustee Mark Recktenwald, Chairperson, in Conference Room 1935, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii, on Wednesday, January 24, 2007.

II. APPROVAL OF MINUTES

The Board reviewed the draft minutes for November 29, 2006.

There being no objections by the Trustees, the minutes for November 29, 2006 were approved as circulated.

### III. ANNOUNCEMENTS

Chair Recktenwald announced that Trustee Tajiri resigned from the Board effective January 16, 2007 due to a change in his employment.

There being no objections by the Trustees, the Administrator will prepare a letter expressing the gratitude of the Board for Mr. Tajiri's service.

### IV. OTHER REPORTS

#### A. Administrator

1. January Update (see written report)
  - a. PeopleSoft Support  
Overview by Ms. Shiroma regarding PeopleSoft support (see Administrator's report).
  - b. Request for Exemption to Extend BST Contract  
Overview by Ms. Shiroma regarding the request for exemption to extend BST contract (see Administrator's report). Mr. Williams clarified (1) this exemption is very much needed due to the system requirements to implement changes for open enrollment; and (2) regarding Board approval, if the EUTF gets the exemption, the Administrator will negotiate the terms of the extension with BST and present it to the Board for final approval at the next Board meeting.
  - c. IT Support by Gartner, Inc.  
Overview by Ms. Shiroma regarding the status of the approvals to Governor and the State Comptroller for IT support by Gartner, Inc. (see Administrator's report).
  - d. Claims Audit  
Overview by Mr. Williams regarding two memoranda from Segal: (1) contract review; and (2) the progress of the claim audit timeline (see Administrator's report). Mr. Williams stated that most of the items that Segal suggested for Rx contracts were addressed through the procurement process with the decisions that the Board made.
  - e. Medicare Part D Prescription Drug Plan  
Mr. Williams reported that the EUTF implemented the Medicare Part D Prescription Drug plan and there were unanticipated consequences that had a heavy strain on our customer service staff that Mr. Nishihara will address. Mr. Nishihara summarized the implementation of HMSA's Medicare Part D

Prescription Drugs (see Administrator's and Assistant Administrator's reports). Discussion held by Trustees and staff regarding the backlog of telephone calls and overtime authorizations for staff to return calls.

- f. EUTF Facilities – Renovation  
Overview by Mr. Nishihara regarding the renovation of the EUTF space (see Administrator's report).
- g. 2007 Legislative Session  
Mr. Williams reported that he presented briefings to the Legislature on the proposed EUTF biennium budget and GASB 43/45. He summarized the procedures for submitting testimonies to the Legislature (see Administrator's report).

By consensus of the Board, the Administrator is authorized to handle legislative testimony as described in the Administrator's report. When Trustees submit testimony to the Legislature they are to be clear to state that they are testifying as an individual and not on behalf of the EUTF Board, unless their testimony has been authorized by the Board.

MOTION was made for the Board to amend the agenda to add HB 393. (Radcliffe/Kahoohanohano) The motion passed unanimously. (Employer Trustees-4/Employee Beneficiary Trustees-4)

Mr. Williams summarized HB 393 providing health coverage for temporary and part-time employees. The Board submitted testimony in 2006 on SB 3020 which basically was the same bill. The Board opposed SB 3020 because the Board already has authority to establish medical plans for temporary and part-time employees but has not done so because of severe adverse selection, i.e., the only temporary and part-time employees who would enroll would be those with health problems and there is a question of whether they could afford paying the required premiums. Mr. Williams recommended that the Board adopt a position opposing HB 393 and to approve the same testimony that was submitted last year. Discussion held by Trustees and staff regarding the Board's authority to establish medical plans for temporary and part-time employees and if it is reasonable to exercise that authority. Mr. Aburano stated that one issue with this bill is that provision of plans for temporary and part-time employees would be at a shared cost to the employers according to Section 87A-32. Section 87A-32 provides that the cost to employers is determined through collective bargaining or Chapter 89C. Mr. Aburano does not know if temporary and part-time employees are currently represented by any collective bargaining units or if Chapter 89C would necessarily cover them.

MOTION was made for the Board to approve for the Administrator to testify in opposition to HB 393 and to add a reference to the cost sharing issue. (Kahooohanohano/Shiraki) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

There being no objections by the Trustees, introduction of new carriers will be taken out of order.

Mr. Garner reported that the EUTF has three new carriers or plan administrators: (1) HMA will administer one of the self-funded PPO plans; (2) NMHC will administer the self-funded prescription drug plans; (3) Standard Life will be providing the group life insurance plans.

Mr. Garner introduced Harris Nakamoto from HMA who introduced his team; Mary Mitchell from NMHC who introduced her team; and Dori Lieberman from Standard Life Insurance who introduced her team.

h. Implementation of FY08 Benefit Plans

Mr. Williams stated that the consultant's report will have more details regarding implementation of FY08 benefit plans. EUTF staff has participated fully in meetings that were held with the prospective insurers and plan administrators. They have been cooperative and everyone is willing to work with each other.

i. Press Release Regarding FY 08 Benefit Plans and Rates

This item is deferred until the Board approves the rates.

j. 2007 Open Enrollment

The EUTF staff recommends that the Board approve holding the 2007 Open Enrollment from April 16, 2007 to May 18, 2007 (see Administrator's report). Discussion held by Trustees and staff regarding clear communication to the beneficiaries and if EUTF will need additional assistance. Mr. Williams stated that if additional assistance is needed for open enrollment, he will bring that up at the next Board meeting. The consultant will address the issue of default plans.

MOTION was made for the Board to approve holding the 2007 Open Enrollment from April 16, 2007 to May 18, 2007. (Radcliffe/Ho) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

k. Implementation of Reimbursement for Out-of-State Employee-Beneficiaries Overview by Mr. Nishihara regarding the implementation of reimbursement for Out-of-State Employee-Beneficiaries under Act 167, 2006 Session Laws

of Hawaii (HRS § 87A-33.5). Mr. Aburano stated that the major reason for the EUTF sponsoring this legislation was to resolve problems related to retirees who enrolled in Kaiser on the mainland. The problems involved procurement and contractual issues. The recommendation for FY 2007-2008 is to restrict the new reimbursement program to Kaiser retirees on the mainland. This will give more time for the EUTF staff to make further studies and recommendations regarding who and what types of policies should be eligible for the program and what conditions the Board should establish for participation in the program. Discussion held by Trustees, staff, and public regarding if other retirees are losing anything. Mr. Williams clarified that this gives Kaiser retirees on the mainland a mechanism to stay with Kaiser; other retirees can sign up for the EUTF HMSA or EUTF HMA plans which will cover mainland participants. Discussion held by Trustees, staff, and carrier regarding Kaiser options. Mr. Williams stated that policy wise this is just an interim solution.

MOTION was made for the Board to approve for the plan year commencing July 1, 2007 and ending June 30, 2008, that the personal health insurance policies that will be eligible for reimbursement under Section 87A-33.5 shall be limited to Kaiser HMO plans, and that as a condition of reimbursement, employee-beneficiaries shall furnish the EUTF with: (a) proof of enrollment in the Kaiser HMO plan for the period of time for which reimbursement is sought; and (b) proof of payment of the premiums for which reimbursement is sought. As a part of this motion, the EUTF administrator is authorized to: (1) determine what documentation shall be sufficient for showing proof of enrollment and payment of premiums; (2) establish procedures for the reimbursement program; and (3) take such other actions as are reasonably necessary to implement this action by the Board of Trustees. (Radcliffe/Laderta) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

l. EUTF Annual Report

Mr. Williams reported that a draft copy of the EUTF Annual Report was circulated to the Trustees and submitted to the Governor for dissemination (see Administrator's report).

MOTION was made for the Board to ratify the draft annual report as submitted to the Governor. (Kahooohanohano/Radcliffe) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

m. GASB 43/45 Valuation

Ms. Tonaki reported that the final report will be completed in March (see Administrator's report). Discussion held by Trustees and staff regarding

deadline dates. Trustee Shiraki requested that the Board be briefed before the report is completed.

n. Benefits Consultant RFP

Mr. Williams reported that Garner Consulting's contract expires June 28, 2007. Further discussion will be addressed in Executive Session.

B. DEPUTY ATTORNEY GENERAL

1. Everson Lawsuit

Mr. Aburano reported that arguments for the State's motion to dismiss were held on December 15, 2006. After the arguments, the Judge met with the attorneys and asked whether the issues might be subject to mediation. The Plaintiffs' attorneys were interested in mediation and said they would write a letter proposing it. Mr. Aburano indicated to the Judge that if the mediation involved any possible payment of money, the State probably would not be interested in mediation. Plaintiffs' letter proposing mediation contained fairly onerous terms for mediation, i.e., terms more appropriate if Plaintiffs had already prevailed in the lawsuit. In consultation with the Attorney General and EUTF Administrator a response will be sent to the Plaintiffs.

2. Status of Contracts for FY 08 Benefit Plans

Mr. Aburano reported that some of the prospective carriers and plan administrators submitted different or additional terms for their contracts with the State (EUTF) and he is working with them, the consultant, and administrator on resolving the various contract issues. Details will be discussed in Executive Session.

C. BENEFITS CONSULTANT

January Report

1. Registered Dieticians

Garner Consulting recommends that the PPO be modified to cover registered dieticians as described in his letter of December 21, 2006 to HMSA. HMSA has indicated that they can administer this effective March 1, 2007 and Mr. Garner recommends that the plan be changed as of that date (see consultant's report). Discussion held by Trustees and consultant regarding the utilization. Mr. Garner stated that he does not expect utilization to be large and the change has the potential to save money if people follow the advice of the dieticians.

MOTION was made for the Board to approve the consultant's recommendation to cover services provided by the registered dieticians effective March 1, 2007. (Kahooahanohano/Ho) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

2. FY08 Benefit Plan Rates and Administrative Fees

This item will be addressed as part of New Business Item F, Rate Tiering.

3. Return of Surpluses

Garner Consulting recommends that the Board request that Royal State and VSP return the surpluses from the 2005-2006 plan year.

MOTION was made for the Board to approve the consultant's recommendation to request return of surpluses for the 2005-2006 plan year by Royal State and VSP. (Shiraki/Befitel) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

4. New Plans/Implementation

Mr. Garner reported that Garner Consulting, the EUTF Administrator and staff met with the insurance carriers and administrators of the new plans and would like to review some of the details with the Board.

The first has to do with the drug plan and formulary in making the transition to NMHC: (1) The first option is to switch as of July 1, 2007 from the HMSA formulary to the NMHC formulary. This would require some people to make higher co-payments or change drugs to get a lower co-payment. It would maximize the savings because NMHC has negotiated favorable contracts with the pharmaceutical manufacturers for drugs that are on their formulary. (2) The second approach is to ask NMHC to mirror HMSA's formulary. This would not capitalize on the favorable contracts but would minimize disruption to participants. (3) A middle ground would be to change to the NMHC formulary but grandfather everyone who is using an HMSA preferred drug and give them the lower co-payment indefinitely into the future or for a limited time. The consultant recommends the third approach, i.e., change the NMHC formulary so anyone getting a new prescription as of July 1, 2007 or later would have to use the NMHC formulary in order to get the lower co-payment and, anyone that is taking a drug that was preferred and is no longer preferred could continue to get that prescription filled at the lower co-payment rate that they have been making so as not to disrupt their medication routine. The consultant also recommends deferring a decision on whether there should be a time limit until the EUTF has some experience and NMHC can report back to the EUTF on how many people are taking the grandfathered drugs and what the costs are to continue grandfathering. Discussion held by Trustees and consultant regarding the time limit and comparisons of HMSA and NMHC formulary. Garner Consulting recommends 6 months to collect data. Mr. Garner will report at the next board meeting on how the HMSA and NMHC formularies compare. Discussion held by Trustees, staff, consultant, and public regarding the process in the determination of the drug plan. Mr. George Yamamoto stated his concerns about negotiating over the drug plan now. Mr. Williams stated that this is not negotiations but a policy determination. These kinds of decisions are what the Board bought by moving to self-insured

plans; under insured contracts, Mr. Yamamoto would be right. Being self-insured this kind of decision can be made by the Board which is an advantage to the Board in terms of making sure the participants' needs are being addressed. Further discussion held by Trustees, staff, consultant, public, and NMHC regarding retirees with Medicare and pharmacy networks. NMHC will provide a list of the pharmacies. Mr. Williams clarified that it is transparent to participants, if a participant already has a prescription for a drug that is on the HMSA formulary but not on the NMHC formulary, the person will go to the pharmacy, who will submit through the computer system and will pay \$15 co-payment and the participant will never know. It becomes an issue only if the Board decides to end the grandfathering.

MOTION was made for the Board to approve converting to NMHC's formulary as of July 1, 2007, to grandfather people currently taking medications that are on the HMSA formulary, and to revisit this matter at the November 2007 Board meeting to make a decision on whether to end or continue the grandfather approach. (Radcliffe/Machida) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

Mr. Garner stated that another issue is what is known as special pharmacy items. These are mainly injectables (biotech drugs) that tend to be very expensive. NMHC has what appears to be a very good program to manage these and would like the Board to consider it at some point in the future. To minimize disruption, it would be best to leave things the way they are at this time. HMSA for the most part covers the specialty drugs under the medical benefits not the pharmacy benefits. Garner would like to defer a decision until later.

Mr. Garner stated a possibility with creating the new plans would be to reset calendar year deductibles and maximums as of July 1, 2007. The approach would be that this is a self-funded and new plan and everything would start over. For people who have satisfied a deductible or an out-of-pocket limit that would be negative, but for people who have met some sort of maximums such as limit on mental health benefits that would be a positive. Garner Consulting does not recommend that approach but recommends the approach that this is the EUTF plan and that everything continues forward. It will require that HMSA provide data to HMA for anyone who transfers to the new PPO administered by HMA, which can be done. Garner Consulting's recommendation is to leave all the calendar year amounts in place as of July 1, 2007 and carry them forward.

Mr. Garner stated that they have had discussions with all the new administrators for the self-funded plans regarding the claims appeals process. The EUTF staff and Garner Consulting are working to create a uniform appeal process for the EUTF self-funded plans. The Board will need to make decisions on: (1) delegating to the plan administrators the authority to make decisions on appeals,

the consultant envisions that the administrators would handle the first level of appeals and after that there are a number of choices; (2) exceptions (such as air ambulance to the mainland) that are not a covered benefit under the plan but there maybe times when, given a patient's condition, there is a request for an exception; as a self-funded plan, the Board has the authority to make those exceptions, but there should be a process; and (3) determination of the amount of eligible expenses when participants go to out of network providers. The Board needs to decide if they want to continue HMSA's approach and how to instruct HMA on how to make those calculations.

5. Default Plans

Overview by Ms. Garner regarding default plans (see consultant's report). Garner Consulting recommends automatic default assignments for employee-beneficiaries who don't make a positive enrollment (see Automatic Assignment sheet provided as part of consultant's report). Discussion held by Trustees, consultant, staff, and public regarding positive enrollments. Overview by Mr. Garner on other options for enrollment. Trustee Radcliffe stated that there are a number of options with pros and cons and this is only for a minority of people who forget to enroll. Discussion held by Trustees and consultant regarding the enrollment instructions that will be given to employee-beneficiaries. Ms. Garner stated that the instructions will say "if you are currently in Kaiser and you want to stay in Kaiser you do not have to do anything, if you are in one of these plans where there is an option and you want to do something different, you will need to fill out the form". Mr. Williams stated that part of the communication is to highlight the new options people have; the materials would highlight that there are new additional choices, and the vendors are being invited to draft materials that go into what those choices are. Discussion held by Trustees and staff regarding communication by vendors. Mr. Williams stated that the vendors have different options to communicate. The EUTF asks that they not communicate to beneficiaries until the EUTF makes the initial open enrollment announcement and that they provide an advance copy for the EUTF to review so the EUTF can check for misrepresentations. Discussion held by Trustees, staff and HDS regarding concerns about not having dual coverage for HDS if an election is not made. Mr. Williams stated that the premiums are quite a bit higher for the regular dental than the dual coverage. The EUTF cannot recommend defaulting participants into the regular dental which costs much more. An assumption cannot be made that they would want to pay more. The Board has determined that this benefit plan will not be offered. Discussion held by Trustees, consultant and HMA regarding whether employee-beneficiaries could change plans if they were not satisfied with the default enrollment. Mr. Garner stated that is a problem because of cafeteria plan regulations and changes in payroll deduction amounts. The IRS regulations on cafeteria plans that applies to the pre-tax contributions that most employees make, say that participants must make an election before the beginning of the year and cannot make changes during the

year except in certain specified circumstances. Being unhappy with the plan is not one of those circumstances. The regulations also allow "evergreen" elections so participants make a choice once and that rolls forward into the future. It is consistent with what Garner Consulting is recommending on the automatic default assignment. There would be a question if EUTF were to take people and randomly put them into some other plan whether that would meet the "evergreen" election provision.

MOTION was made for the Board to approve the consultant's recommendation for FY08 plan year participants to be being enrolled in the plan most comparable to their present plan as set forth in the Automatic Assignment sheet provided to the Board unless they submit an enrollment form selecting a different plan option. (Kahoochanohano/Radcliffe) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

6. Open Enrollment

This item was addressed in the Administrator's report (see consultant's report).

Recessed at 10:35 a.m. and reconvened at 10:48 a.m.

7. Draft of Garner Annual Report

Mr. Garner summarized the Garner Annual Report. Discussion held by Trustees and consultant regarding comparisons for 2005. Trustee Shiraki requested that comparisons for 2005 and historical information by bargaining unit be included in the Annual Report.

6. Garner Consulting Bulletins – November/December 2006

Mr. Garner stated that the Federal Government made changes on High Deductible plans (see bulletins).

D. Financial Report as of November 30, 2006

Overview by Ms. Tonaki regarding the financial report as of November 30, 2006 (see written reports). On the Statement of Net Assets, there is an error on the general cash amount; the correct amount is \$48,880,760.00.

E. Carrier's Reports

1. HDS

Written report submitted. Ms. Arakawa wished the Board and their families a Happy New Year. Also thanked the Board for awarding the dental contract to HDS.

2. HMSA

No report submitted. Mr. Tam thanked the EUTF staff for doing a good job in servicing the retirees. HMSA will do more communication and training on their side to help take care of calls and not bounce callers back and forth between the

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EUTF and HMSA.

3. Kaiser Permanente

Written report submitted. Ms. Benevides introduced Mr. Bill Corba, Vice-President for the business development department at Kaiser.

4. MBAH

No report submitted. Ms. Gabuyo wished the Board a Happy New Year; she is also representing Royal State today and has nothing to report.

5. Royal State Insurance

Written report submitted.

6. VSP

Written report submitted. Ms. Engle also wished the Board a Happy New Year.

IV. UNFINISHED BUSINESS: None.

V. NEW BUSINESS

A. Election of Secretary-Treasurer

Trustee George Kahoohanohano was nominated as Secretary-Treasurer. (Radcliffe/Ho)

MOTION was made to elect nominee Trustee George Kahoohanohano as Secretary-Treasurer. (Machida/Radcliffe) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

B. Registered Dieticians

This item was addressed during the Administrator's report.

C. Request for Return of Surpluses from Carriers

This item was addressed during the Consultant's report.

D. 2007 Open Enrollment Dates

This item was addressed during the Administrator's report.

E. Contract Terms for FY08 Benefit Plans

This item will be addressed in Executive Session.

F. Rate Tiering

Mr. Radcliffe said that the issue of rate tiering has been discussed several times over the years. He and others feel that under a two-tier rate structure, two party households have to carry the bigger burden of others and that this is an unfair burden. It is for the relief of these two-party households that he is making the motion even though the family and single rates will go up.

MOTION was made for the Board to adopt a three-tier rate structure (single, two-party, family) for EUTF FY08 benefit plans for actives and retirees to be phased in

over a two year period for actives only, and that the Administrator, consultant, and deputy attorney general are authorized to take the necessary actions to implement this decision. (Radcliffe/Befitel)

Overview by Mr. Garner regarding the rates. Discussion held by Trustees, staff, and consultant regarding the Kaiser rates, contributions, 1-2-3 ratio, and the large impact on the single or self rates. Mr. Garner stated that it is possible that the ratio between the single and family premiums that Kaiser is charging now is inappropriate. Garner Consulting does not have all the data that Kaiser has, so Garner cannot confirm that it is inappropriate. The 1-2-3 ratio makes sense and the difference between self and family premiums right now seems "out of whack". Chair Recktenwald summarized the difference if the EUTF stayed with the two-tier rate structure. Mr. Garner stated that another concern is he can calculate whatever rates the Board wants on the self-funded plan but does not have control over the Kaiser rates. Discussion held by Trustees regarding the difference in Kaiser rates. Mr. Williams clarified that the motion includes the phasing in over a two year period. The plans that are not being phased are Royal State (chiropractic), VSP, and HDS. Discussion held by Trustees, staff, and consultant regarding the enrollment numbers. The last report submitted showed that there were more family participants (employee-beneficiaries with two or more dependents) than two-party participants (employee-beneficiaries with only one dependent) enrolled in the EUTF plans. The report presented to the Board today shows that there are more two-party participants than family participants. Mr. Garner stated that he could not confirm that these current numbers are correct. The Trustees are concerned about not having the correct enrollment numbers.

Further discussion held by Trustees, staff, and consultant regarding the Kaiser rates. The consultant will show a comparison with current rates as opposed with the proposed rates.

By unanimous consent of the Trustees, this item is deferred until Friday, January 26, 2007.

- G. 2007 Open Enrollment – Default Enrollment  
This item was addressed during the Consultant's report.
- H. Implementation of Reimbursement for Out-of-State Employee-Beneficiaries  
This item was addressed during the Administrator's report.
- I. EUTF Annual Report  
This item was addressed during the Administrator's report.
- J. Establishment of Separate Benefit Plans for Police/Firefighters  
SHOPO President, Maafala Tenari requested that the EUTF establish a separately rated benefit plan for SHOPO. In his presentation, he described various unique

circumstances and factors that he said justified separate rates for SHOPO. He also argued that historically SHOPO has had lower utilization and their rate experience is better than the rest of the bargaining units in the EUTF.

MOTION was made for the Board to establish separately rated plans in the EUTF's self-funded PPO medical plans and self-funded prescription drug plans for active employees who are members of bargaining unit 12, to be effective from and after July 1, 2007. As a part of this motion, that the EUTF administrator be authorized by the EUTF Board to negotiate and execute such contracts and take other actions as are reasonably necessary to implement the Board's decision to establish these separately rated plans (Kahoohanohano/Radcliffe)

Overview by Mr. Garner regarding SHOPO rates. Mr. Garner stated that the experience period that they used for setting the EUTF's self-funded PPO rates for FY08 was not the same as the experience period in the draft annual report. The draft annual report covers FY06. A more recent time period (October 1, 2005 thru September 30, 2006) was used for setting the EUTF's self-funded PPO rates and for the separate SHOPO rates presented today. For this more recent time period, the SHOPO experience is virtually identical to the rest of the group. Based on this recent 12 month data, if Garner were to rate SHOPO separately, SHOPO would actually get a larger increase than the rates already set. This illustrates the advantage of pooling everyone together because when you break down a small group they are subject to fluctuations over time. Discussion held by Trustees, consultant, and public regarding SHOPO's experience and whether to rate HFFA separately as well. Mr. Garner stated that compared to the rates already proposed for FY08 which are down from FY07; separately rating SHOPO with HFFA would decrease their rates by approximately 5.5 percent. Technically, this would result in an increase for the rest of the group of about six tenths of one percent. Further discussion by Trustees and consultant regarding the increase for others. Chair Recktenwald inquired what if other bargaining units want to do the same. Mr. Garner stated he is concerned that this might set a precedent, because whenever you are rating a group together one of the principles of insurance is to spread the risk.

Discussion held by Trustees, consultant, and public regarding the inclusion of HFFA. It was suggested that HFFA should be contacted to find out if they wanted to be separately rated with SHOPO.

By unanimous consent of the Trustees, this item is deferred until Friday, January 26, 2007.

K. Administrator Evaluation, Contract and Salary Adjustment  
This item will be addressed in Executive Session.

L. FY08 Benefit Plan Rates and Administrative Fees  
Overview by Ms. Garner regarding the administrative fees. Ms. Garner stated that

methodology for the two-tier administrative cost allocation is the same process that Garner Consulting has used in prior years. Taking the total administrative cost that needs to be allocated, Garner first allocated that cost by plan, then allocated it by the number of enrollees, and then split it between single and family. For the three-tier administrative cost allocation, Garner took a slightly different approach. They allocated it using a 1-2-3 ratio. The single-party administrative fee for each particular benefits plan was multiplied by two for the two-party and three for the family. Ms. Garner stated both designs are based on the latest enrollment information she had.

MOTION was made for the Board to approve the two-tier administrative cost allocation and the three-tier administrative cost allocation depending on the rate structure adopted by the Board and to authorize the Administrator to make minor adjustments such as rounding. (Radcliffe/Ho) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

By unanimous consent of the Trustees, the FY08 benefit plan rates are deferred until Friday, January 26, 2007.

M. Press Release Regarding FY 08 Benefit Plans and Rates

By unanimous consent of the Trustees, this item is deferred until Friday, January 26, 2007.

N. Benefits Consultant RFP

This item will be addressed in Executive Session.

O. Medicare Part D Prescription Drug Plan Rates

Overview by Mr. Garner regarding the proposed rates for HMSA Medicare Part D Prescription Drug plan. Mr. Garner stated that a letter from HMSA dated January 17, 2007 is in the Trustee's packet with rates that reflect a decision to have a Medicare Part D plan effective January 1, 2007.

HMSA stated that a small population of the group is eligible for low-income subsidies under Part D. The Centers for Medicare and Medicaid services normally expects these people to pay a small premium. HMSA wants to make sure that the Board is acknowledging that the EUTF is responsible for the portion that is not covered by CMS. Mr. Garner stated that this item is only a point of information for the Board. The information that HMSA is communicating now was part of the assumptions made by Garner when Garner and the Board discussed approval of the HMSA Medicare Part D Prescription Drug plan. People will not pay more because of this change. Mr. Garner recommended that a motion be made to approve these rates. Discussion held by Trustees, staff, consultant, and public regarding already implementing the program and then approving the rates. Mr. Garner stated that when the approval was made, we knew the general economic impact but did not have

precise rates.

MOTION was made to approve the proposed rates for HMSA Medicare Part D Prescription Drug plan for the period January 1, 2007 to June 30, 2007. (Kahooohanohano/Ho) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

- P. 2007 Kaiser Plan Options and Rates  
This item will be addressed in Executive Session.

VI. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES  
Mr. George Yamamoto commended the Trustees for looking to improving the benefits for retirees but sometimes in terms of communication it creates a problem such as the issuance of new cards for the HMSA Medicare Part D Prescription Drug plan. Some retirees were confused by the issuance of the new cards as well as the implementation of the new plan. He also stated many of EUTF retirees joined United Healthcare and he understands it is supposed to be a seamless transfer. Mr. Yamamoto also inquired who has oversight for VEBA. Mr. Williams stated that the Legislature has the oversight.

- A. Request from SHOPO to Negotiate Health Benefits Separately  
This item was addressed under New Business.

VII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

Board meeting is scheduled for Wednesday, February 28, 2007, 9:00 a.m., CFT-room 1935.

VIII. EXECUTIVE SESSION

MOTION was made to go into Executive Session at 1:08 p.m. for the reasons stated on the agenda. (Befitel/Ho) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

MOTION was made to move out of Executive Session at 2:00 p.m. (Befitel/Machida)  
The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-3)

The chair reported that the Board has taken the following actions in Executive Session:

1. Approval of November 29, 2006 Executive Session minutes.
2. Approval of Kaiser Low Option plan.
3. Benefit Consultant RFP deferred to February Board meeting.
4. Approval of Administrator's evaluation, extension of contract for one additional year, and proposed objectives for 2007.

Recessed at 2:05 p.m. and will reconvene on Friday, January 26, 2007, 7:30 a.m., CFT, room 1935.

Documents Distributed:

1. Draft Minutes for November 29, 2006. (13 pages)
2. Memorandum to BOT from Administrator regarding January Administrator Report dated 1/17/07. (4 pages)
3. Memorandum to BOT from Administrator regarding HMSA's Medicare Part D Prescription Drug Implementation. (3 pages)
4. Letter to BOT from Garner Consulting regarding January Benefit Consultant Report dated 1/17/07. (3 pages)
5. Letter from Garner Consulting to HMSA regarding Registered Dieticians dated 12/21/06. (2 pages)
6. Garner Consulting Bulletin for November 2006. (3 pages)
7. Garner Consulting Bulletin for December 2006. (2 pages)
8. EUTF Statement of Net Assets (Unaudited) dated 1/10/07. (1 page)
9. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 5 Months Ended 11/30/06 (Unaudited) dated 1/11/07. (1 page)
10. EUTF Statement of Cash Flows 5 Months Ended 11/30/06 (Unaudited) dated 1/11/07. (1 page)
11. Letter from SHOPO regarding request to consider negotiating separate rates. (1 page)
12. The High Road - December 2006. (2 pages)
13. OIP OpenLine – October-November 2006. (2 pages)
14. Approved Minutes for October 25, 2006. (7 pages)

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
Minutes of the Board of Trustees  
RECONVENED - Friday, January 26, 2007

TRUSTEES PRESENT

Mr. Mark Recktenwald, Chairperson	Ms. Marie Laderta
Mr. Nelson Befitel, Vice Chairperson	Mr. Gerald Machida
Ms. Elizabeth Ho	Mr. John Radcliffe
Mr. George Kahooanohano	Mr. Stanley Shiraki

TRUSTEES ABSENT

Ms. Katherine Thomason

ATTORNEY

Mr. Brian Aburano, Deputy Attorney General

EUTF STAFF

Mr. James Williams, Administrator	Mr. John Garner, Consultant
Mr. Lawrence Nishihara	Ms. Gerti Reagan Garner, Consultant
Ms. Maria Quartero	Ms. Donna Tonaki
Ms. Kathleen Shiroma	

OTHERS PRESENT

Ms. Lynette Arakawa, HDS	Ms. Ruth Kim, HSTRA
Ms. Sandra Benevides, Kaiser Permanente	Ms. Wanda Kimura, B&F
Mr. Bill Corba, Kaiser Permanente	Ms. Doreen Kuroda, DHRD
Ms. Alana Deppe-Mariota, Kaiser Permanente	Mr. Tenari Maafala, SHOPO
Mr. Scott Dunn, SHOPO	Ms. Mary Mitchell, NMHC
Ms. Monica Engle, VSP	Mr. Maurice Morita, HSTA
Ms. Elaine Fujiwara, HDS	Mr. Michael Moss, HMSA
Ms. Venus Gabuyo, MBAH	Ms. Celeste Nip, HFFA
Mr. Rick Jackson, MDX Hawaii	Ms. Gertrude Nitta, HGEA-R
Mr. John Jacobs, HMSA	Mr. Rod Tam, HMSA
Mr. Eleu Kane, Summerlin	Mr. George Yamamoto, HGEA-R

I. CALL TO ORDER

The regular meeting of the Board of Trustees was reconvened at 7:38 a.m. by Trustee Mark Recktenwald, Chairperson, in Conference Room 1935, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii, on Friday, January 26, 2007.

The following items were deferred on January 24, 2007 and action taken today:

V. NEW BUSINESS

F. Rate Tiering

Upon further review, Mr. Garner stated that the EUTF enrollment count for family is larger than the two-party count. Ms. Garner stated that even though the enrollment numbers presented changed, the rates did not change because when they made the rate calculations they did have the right numbers. The impact is not great other than verification that there are more families than two-party groups.

As a baseline for today, we are only talking about rates; none of the numbers will include administrative fees. When the rates are approved, the administrative fees that were approved will be added.

Overview by Ms. Garner regarding rate tiering on a two-tier basis, three-tier basis, and three-tier basis with a two-year phase-in. In simple terms, Garner divided the differences between the two-party and family rate in half so that the two-party gets half of their savings in the first year and the family only has half the increase in the first year (phased in). Mr. Garner stated that it is not known what the rates will be for FY09. If experience is bad the increase could be bigger than anticipated. Discussion held by Trustees and consultant regarding the large increase for Kaiser, HMSA decrease for self, and why phasing results in a bigger hit in the first year for the family.

Mr. Clesson Pang, Kaiser's underwriter stated that there are two considerations when they calculate rate structure: (1) the ratio itself, and (2) the subscriber rate. Mr. Pang stated that Kaiser provided phase-in rates for the Board's consideration. Chair Recktenwald cannot understand why it is not constant and phasing is worse. Mr. Garner stated that for the most part, the phase in is to soften the blow for the families. With Kaiser, the big hit on the non phase-in was the single, so the phase-in softens the blow for the singles but has the impact of pushing up the family rate even more. For the three-party structure, if it is not phased in, the single person in Kaiser would have an increase of almost forty-two percent in contributions. If it is phased in, they have an increase of under twenty percent and that lost revenue has to come from somewhere and it comes from the family.

Chair Recktenwald asked the consultant if the EUTF is achieving the objective of minimizing the effect on our working families and single people by phasing in. Mr. Garner responded for the self-funded plans we are. If we stay with the two-tier and do not go to three-tier then the increase for Kaiser is twenty percent for single and family. The two-party will have virtually no change. Mr. Garner stated that the phase in is workable. This is a good year to go to three-tier because the self-funded rates are coming down, and it will be easier to swallow the changes in rates. If it should go up next year because there are a lot of unknowns, there might be a bigger

increase than expected for the families.

Mr. Williams and the consultant would like to clarify what was the intent of the motion regarding retirees. For most retirees it would not make a difference because the employer pays hundred percent, it would only affect retirees that pay a portion. Mr. Garner stated that Kaiser does not have rates for the phase in for the retirees. Mr. Garner is recommending not to phase in three-tier rates for the retirees. Discussion held by Trustees and consultant regarding the possibility of having two and three-tier rates for Kaiser. Mr. Garner stated that it would distort the contributions and produce illogical results. Discussion held by Trustees, consultant, deputy attorney general regarding the caps for retirees. Mr. Garner stated that all the plans are under the cap and one is close to the cap. Mr. Garner calculated what the contributions would be for Kaiser assuming the employer contributions are sixty percent of the PPO administered by HMSA. If EUTF were to have a three-tier PPO and a two-tier rate with Kaiser, it would mean that the two-party Kaiser people would pay \$547.95/month but a family with Kaiser would pay \$331.43/month. Discussion held by Trustees, staff and consultant regarding whether it is an option for the Board to elect a two-tier structure with Kaiser and a three-tier structure for the self-funded plans and concerns about making decisions with unknowns about collective bargaining.

Motion restated

MOTION was made for the Board to adopt a three-tier rate structure (single, two-party, family) for EUTF FY08 benefit plans for actives and retirees to be phased in over a two year period for actives only, and that the Administrator, consultant, and deputy attorney general are authorized to take the necessary actions to implement this decision. (Radcliffe/Befitel) After discussion by the Trustees, the motion passed. (Employer Trustees-4/Employee-Beneficiary Trustees-3 yes-Ho, Machida, Radcliffe; 1 no-Kahoohanohano)

#### J. Establishment of Separate Benefit Plans for Police/Firefighters

Ms. Celeste Nip apologized for not attending the Board meeting on January 24, 2007 because she was in negotiations and would like to know what the proposed rates are. The information was provided to Ms. Nip.

Overview by Mr. Garner regarding the three-tier rates for SHOPO. The calculations actually show no change in the rates based on the most recent 12 months of experience (actually, it shows a 0.3 percent increase if SHOPO were rated on their own). Mr. Garner recommends that the EUTF not adjust rates at the 0.3 percent because in calculating the rates there are a number of assumptions. Discussion held by Trustees and consultant regarding SHOPO's low experience throughout the years, having a high spike recently, and SHOPO probably will have good experience in the future. Mr. Maafala is concerned that the time period that Garner Consulting is using

is too narrow. Mr. Garner stated for a large group such as EUTF, one year of data is certainly valid. For smaller groups, it is not uncommon to base rates on a longer period of time, but this creates difficulty if EUTF is setting rates for one group based on a year and other groups based on more than one year. In the future it would be possible to make calculations based on longer periods of time. Setting the rates this year does not necessarily set a precedent.

Mr. Garner stated that combining SHOPO and HFFA would mean a 5.52 percent decrease in the PPO administered by HMSA and generally similar numbers for the other self-funded plans. SHOPO and HFFA would have virtually the same rates from Kaiser as for SHOPO alone. Discussion held by Trustees, staff, consultant, and public regarding SHOPO being rated separately for self-funded plans and not for Kaiser. Mr. Williams stated that the enrollment count is significant and believes that a higher percentage of SHOPO members are enrolled in Kaiser than the general population.

Ms. Celeste Nip from the HFFA stated that at this time they do not want to be rated separately and want to remain with the rest of groups under the EUTF.

Discussion held by Trustees and consultant regarding the rates. Mr. Garner stated that on the self-funded plans they would have the same rates as everyone else. For Kaiser it would be a decrease in rates about thirteen percent lower for SHOPO and the rest of the group would go up. If SHOPO is rated separately the rest of the group would be at \$281.88 for the self only. Further discussion held by the Trustees, staff and consultant regarding the comparison of Kaiser rates and if the EUTF gives SHOPO separate rates what would be the long term affect on the whole EUTF. Mr. Garner stated that for the long term he would expect the SHOPO rates to go down compared to the rest of the group and it would cause the rest of the group's rates to rise. SHOPO is a relatively small percentage of the total. It might be a five percent decrease for SHOPO which would be less than a one percent for the rest of the group for the self-funded plans. Discussion held by Trustees and consultant regarding SHOPO's option for the VEBA. Mr. Shiraki stated that there may be adverse selection in the future and that he wants to be sure SHOPO understands, because when a spike does occur, they may want to come back into the whole group. Discussion held by Trustees and consultant regarding table 9 of Garner's Annual Report. Some groups do have double digit surpluses and deficits, even in the regular plans which have a much larger population than the dual-coverage plans.

Chair Recktenwald clarified that the motion is to establish differential or separate rates for SHOPO based on one year's experience, and that separate rating for SHOPO would be the plan practice going forward in the good and bad years. In the current year, the effect would be so small that the consultant recommends that we not have a differential rate. There would be differential rates for Kaiser and this would have the effect of raising rates for other Kaiser enrollees.

Motion Restated

MOTION was made for the Board to establish separately rated plans in the EUTF's self-funded PPO medical plans and self-funded prescription drug plans for active employees who are members of bargaining unit 12, to be effective from and after July 1, 2007. As a part of this motion, that the EUTF administrator be authorized by the EUTF Board to negotiate and execute such contracts and take other actions as are reasonably necessary to implement the Board's decision to establish these separately rated plans (Kahooahanohano/Radcliffe) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

L. FY08 Benefit Plan Rates and Administrative Fees

Ms. Garner reviewed the rates that the Board is to approve (see charts):

Ms. Garner stated that this was not discussed previously, but implicit in the discussion that the SHOPO separate ratings are for actives only. Mr. Maafala confirmed that the request was for SHOPO actives only.

MOTION was made for the Board to approve the benefit plan rates as presented by the consultant. (Radcliffe/Kahooahanohano) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

M. Press Release Regarding FY08 Benefit Plans and Rates

MOTION was made for the Board to authorize the issuance of the Press Release by the Administrator subject to review and input by the Trustees. (Radcliffe/Ho) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-4)

Mr. Williams stated as part of the process, the Press Release is sent to the Governor's office for review.

IX. ADJOURNMENT

There being no objections by the Trustees, the meeting adjourned at 8:45 a.m.

Respectfully submitted,

/s/

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George Kahooahanohano, Secretary-Treasurer

APPROVED on February 28, 2007.