HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Special Meeting of the Board of Trustees
Monday, February 5, 2007

TRUSTEES PRESENT
Mr. Mark Recktenwald, Chairperson
Mr. Nelson Befitel, Vice Chairperson
Mr. George Kahoohanohano, Secretary-Treasurer
Ms. Elizabeth Ho
Ms. Marie Laderta
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
Mr. John Garner, Consultant
Ms. Kathleen Shiroma
Ms. Donna Tonaki

OTHERS PRESENT
Ms. Charlene Acohido, HSTA-MBC
Ms. Lynette Arakawa, HDS
Mr. Gary Asato, Kaiser Permanente
Ms. Sandra Benevides, Kaiser Permanente
Mr. Terry Cano, HFFA
Mr. Bill Corba, Kaiser Permanente
Ms. Alana Deppe-Mariota, Kaiser Permanente
Mr. Scott Dunn, SHOPO
Ms. Monica Engle, VSP
Ms. Elaine Fujiwara, HDS
Ms. Venus Gabuyo, MBAH
Mr. Mike Golojuch, C&C
Mr. John Jacobs, HMSA
Mr. Jun Jao, Summerlin
Ms. Jeri Kakuno, MDX Hawaii
Mr. Eleu Kane, Summerlin
Ms. Ruth Kim, HSTRA
Ms. Alice Kotake, HSTA-R
Mr. Paul Matsuo, HGEA-R
Ms. Mary Mitchell, NMHC
Mr. Maurice Morita, HSTA
Mr. Michael Moss, HMSA
Ms. Celeste Nip, HFFA
Ms. Gertrude Nitta, HGEA-R
Mr. Clesson Pang, Kaiser Permanente
Ms. Susan Pestana, HSTA-MBC
Ms. Jody Serikawa, C&C
Mr. Rod Tam, HMSA
Ms. Michele Tamaye, HSTA-MBC

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 3:05 p.m. by Trustee Mark Recktenwald, Chairperson, in Conference Room 1520, City Financial Tower, 201 Merchant Street, Honolulu, Hawaii, on Monday, February 5, 2007.

II. OTHER REPORTS

A. Administrator - Follow up on Board decisions regarding benefit plans and rates

Mr. Williams reported that staff did transmit rates that were approved to employer/employee organizations; he then realized that the Board may need to consider changes and recalled it. The Press Release was not issued and is on the agenda today. In the materials given today is a memorandum with tables on rates that Ms. Tonaki prepared that will be presented after the consultant's report.

B. Benefits Consultant – FY 08 Benefit Plan Rates

1. Presentation of revised information regarding rates for separately rated benefit plans for police/firefighters and possible resulting change in rates for other active employees

   Mr. Garner stated that he was making some unrelated calculations and discovered an error in the information provided to the Board two weeks ago regarding the SHOPO experience. The SHOPO experience is indeed better than the rest of the group and revised rates have been calculated based on that differential. Mr. Garner expressed his apologies to the Board and thanked them for making the time for this special meeting.

   Mr. Garner presented the revised information on the rates. Chair Recktenwald clarified that this does not relate to Kaiser and only relates to the PPO plans. The SHOPO rates are based on SHOPO's experience under the comparable HMSA plan over the last 12 month period. The numbers submitted the last time showed that SHOPOs experience was quite close to everyone else in the EUTF over that time period in regards to the HMSA plan. The numbers submitted today show that SHOPO's experience in the HMSA plan was actually better over that time period that what was previously presented. The question this revised information raises is whether there should be an adjustment for the PPO plan rates for SHOPO and rest of EUTF that were previously approved. Mr. Garner responded that this is a fair summary and confirmed that SHOPO's experience is approximately five percent lower than everyone else. Mr. Garner stated that overall it would have an impact on the rest of the group of less than one percent, and he does not recommend making a change in rates for an amount that small.

   Mr. Garner stated that the same mistake was made for the HFFA calculations and presented revised information on PPO plan rates if HFFA were rated separately. Mr. Garner also presented revised information on PPO plan rates if SHOPO and HFFA were rated together but separately from all other employees. In this instance, if the EUTF were to do that, it would have a significant impact on the rates for the rest of the group. Chair Recktenwald clarified that if the EUTF looked at rating only HFFA separately, based on HFFA's experience in the comparable HMSA PPO plan, there would be a twenty percent reduction in HFFA's rates for FY08. If SHOPO and HFFA are put in the same group, then there would be an aggregate reduction of ten percent or slightly more. The financial impact of SHOPO and HFFA combined would be more significant than if SHOPO alone were separately rated. Mr. Garner confirmed that the foregoing was correct. Mr. Garner stated that if SHOPO and HFFA were rated together, Kaiser would modify their rates by less than one-half percent for the remainder of the group and just pennies if only SHOPO were separately rated. In sum, separate rating would represent a reduction in rates for the HFFA.

Mr. Williams stated that the memorandum from the Administrator has two attachments: (1) EUTF Rate Summary with Administrative Fees; and (2) EUTF Rate Summary with Employer/Employee contribution. These numbers are based on the same base rate information received from Mr. Garner.

Overview by Ms. Tonaki regarding the EUTF Rate Summary with Administrative Fees. Page 1- active employees. Ms. Tonaki stated that chiropractic needs to be deleted from the HMSA HDHP/PDP and the rates will be corrected.

Overview by Ms. Tonaki regarding the EUTF Rate Summary with Employer/Employee Contribution. Page 1 – active employees. Ms. Tonaki stated for the 2006-07 year, the employer rates were from the collective bargaining agreements, i.e., sixty percent of the HMSA rates plus one hundred percent of the administrative fees. For the 2007-08 employer contributions, the same assumptions are used off of the HMSA rates and administrative fees. This is for illustrative purposes only as the actual 2007-08 employer contributions are still subject to collective bargaining. Mr. Williams clarified that the total minus the employer contribution equals the employee contribution. Ms. Tonaki stated that currently the employer pays 100% for children's dental and that is why the 2007-08 employee contribution is the same for two-party (assuming two-party is employee plus spouse) and family. Page 2 – SHOPO. Ms. Tonaki stated that the same assumptions are used except for the SHOPO employer contribution; 2007-08 is based off of the SHOPO HMSA plan. The employer contribution is a little lower because the rates are lower than the others. Mr. Williams stated that the EUTF is not saying this is how it will be negotiated. Staff thought that the Board would be interested in what it might look like. What was prepared is as close as possible to what the bargaining units have now. Mr. Williams added that there were a lot of questions at the previous meeting about what the employer/employee contributions would look like and what the percent changes are from year to year.

2. Presentation of information regarding rates approved for retiree benefit plans
   Overview by Mr. Garner regarding the EUTF Rate Summary with Employer/Employee Contribution for retirees. Referencing the HMSA premiums for non-Medicare and Medicare, Mr. Garner stated the Board will find that the ratio of single to family in the 2006-07 plan year is quite high (3 to 1 and less than 3 to 1 for non-Medicare retirees). Given the fact that almost all retirees have only one dependent, that relationship is illogical. For the self-funded plan rates on a three-tier basis, Garner used a 1-2-3 relationship so that the two-party would be twice the single and the family would be three times the single. In making that change in order to have the total premium come out the same, there had to be a

substantial increase in the single retiree rate. For most retirees it does not make a difference because their rates are paid in full by the employer, but some retirees will notice because they pay part of the premiums. There is another issue for the Medicare retirees. Compared to the HMSA rates for January 1, 2006 to June 30, 2007, there is a seventy-five percent increase on the single and forty-eight percent increase on the family. Most of that increase on the single is related to the new 1-2-3 ratio just discussed. The other factor is that Garner used the rates that were tentatively approved at the November 2006 meeting and simply adjusted them from being two-party to three-party. Another change that occurred at the November 2006 meeting was the approval of the Medicare Part D plan. There might have been a reduction but Garner did not think it was a good idea because at the same time Garner was preparing the numbers for the Garner Annual Report and in the process discovered that retiree prescription drug experience has deteriorated significantly. Table 26 of the draft of the Garner Annual Report shows that the benefits paid per participant per month for retiree drug coverage in FY06 were thirty-five percent higher than they had been in FY05. The two percent trend assumption that Garner was using does not seem applicable for this group in light of the actual trend. The differential between the actual trend and the trend assumption that Garner was using is roughly equal to the amount of the Medicare Part D credit. The EUTF has the Medicare Part D credit for the first six months of 2007 that has been negotiated with HMSA. The amount that was negotiated with HMSA comes close to equaling the amount of the retiree drug subsidy that the employers would receive for the entire year. Mr. Garner stated that though the rates were already approved, Garner wanted to explain what the assumptions were. If in fact those assumptions prove to be too conservative and the savings from the Medicare Part D plan do materialize despite increasing trend on the retiree prescription drug coverage, then the money could be used to offset future employer contributions. Trustee Shiraki stated when discussions were held about going from two-tier to three-tier that it was cost neutral and asked if the numbers were double-checked. Mr. Garner confirmed that the numbers were checked and it is cost neutral. Mr. Williams stated that Ms. Tonaki also checked the numbers.

III. UNFINISHED BUSINESS: None

IV. NEW BUSINESS

A. Rate Tiering

Chair Recktenwald stated that the agenda reflects the decisions that were made at the last Board meeting and provides the opportunity for any Trustee to move to change those decisions in light of the new information presented today. A motion may be made for discussion purposes.

There being no motion by the Trustees, the Board's decision on rate tiering will stand.

B. Establishment of Separately Rated Benefit Plan for Police/Firefighters

Chair Recktenwald stated that in light of the new information presented today if any Trustee would like to rescind or modify the decision to provide separate rates for SHOPO, this would be the time to make such a motion. Discussion held by Trustees, staff, consultant, and public regarding concerns about whether granting SHOPO their own rates would set a binding precedent for other bargaining units and whether there would be any adverse effect on retirees. As to the second concern, Mr. Williams stated, as far as the decision the Board made, he does not believe there is any effect on retirees. The Board did not make any decision related to separately rating retirees and there was no proposal for that. Mr. Aburano clarified that when the Board separately rates SHOPO within the EUTF, it is not taking them out of the EUTF. If SHOPO were to form its own VEBA, then SHOPO would go completely out of the EUTF and the SHOPO retirees presumably would have the same rights as HSTA retirees to exit the EUTF. Discussion held by Trustees and consultant regarding the consultant's recommendation at the last meeting not to have separate rates for SHOPO and what is his recommendation now. Mr. Garner stated that his recommendation has nothing to do with the numbers, whether they have the same rates or if they have five percent lower rates. It is the concept of keeping the group together so the EUTF does not wind up in the situation where the group with the best experience leaves, which drives the rates up for everyone else, and then someone else wants a lower rate too. There is always going to be someone that is better than average until you get down to the final group that is the worst of all. In concept, Garner prefers to see all of the EUTF stay together. Mr. Garner stated that there is another way to look at it. If a group is not allowed to be separately rated, they might break away and have their own VEBA as HSTA did. If that were to happen that would be worse than having them separately rated within the EUTF group. As long as they are within the EUTF, there is still the bargaining power in dealing with vendors, of having a larger group, and a larger number of people over whom the fixed cost of administration is spread. It depends on the viewpoint taken. In absolute terms it would best to keep everyone together, but if the alternative is having a VEBA or separately rated group within the EUTF, then having a separately rated group within the EUTF would be better. Discussion held by Trustees that the risk primarily falls on SHOPO, they are a small unit that has had good experience in the past but could be subject to fluctuating experience in the future. SHOPO knows they are taking the risk, whereas HFFA does not want to take that risk. Further discussion by Trustees that if SHOPO is rated separately and their rates skyrocket would they be allowed back into the whole EUTF group. The sentiment of the Trustees is that SHOPO made that decision and would not be allowed back into the whole EUTF group. A position cannot be taken that when times are good we want to be separately rated and when times are bad we want to get back in. Trustees expressed their concern about other units requesting to have separate rates and if the Board is obligated to approve such requests. Mr. Williams stated that unique circumstances were presented to the Board about SHOPO. It might cause other units to ask, but the Board was not automatically saying that anyone who asks can have the EUTF create separate rates for them. They would have to present unique circumstances either different from or similar to those of BU12. The administrator was not assuming that it would automatically apply to other units. Mr. Aburano stated that in respect to future bargaining units requesting to be separately rated, the Board should consider and examine the circumstances of each request. If there was a rational ground to not have the bargaining unit separately rated, then the Board could support its decision that way. The key, as with all the Board decisions, is to have good and supportable reasons for what the Board decides to do. To the extent that the Board has good and valid reasons for its decisions, the easier it is for the Department of the Attorney General to argue in favor of those decisions and have them approved by a court. Discussion held by Trustees and deputy attorney general about whether the law allows any bargaining unit to apply to be separately rated within the EUTF. Mr. Aburano stated that the EUTF statutes give the Board the right to establish health benefit plans and, based on legislative history, the EUTF has interpreted those statutes as giving the Board the discretion to design and establish such plans. There is nothing in the EUTF statutes that says you cannot have separately rated plans for different bargaining units. Comments made by Mr. Scott Dunn, SHOPO Lobbyist, in favor of SHOPO being separately rated and SHOPO's understanding of the risks of being separately rated. Chair Recktenwald clarified the risk that Mr. Dunn talked about is the risk that SHOPO may actually have a bad year and SHOPO's claims experience and their rates may go up more than the rest of the EUTF group. Mr. Dunn stated that SHOPO understands this.

Recessed at 3:55 p.m. and reconvened at 4:05 p.m.

MOTION was made for the Board to rescind the motion for SHOPO to have separately rated plans. (Ho/Machida) After discussion by the Trustees, the motion failed. (Employer trustees-4 no- Befitel, Recktenwald, Laderta, Shiraki/Employee-Beneficiary trustees-1 yes-Ho, 3 no-Kahoohanohano, Machida, Radcliffe)

Chair Recktenwald asked that in view of the new information that was presented, if there is any interest in including the HFFA or offering separate rates for the HFFA. At the last Board meeting, HFFA advised the Board that they were not interested in being rated separately.

Ms. Celeste Nip confirmed that HFFA will remain with the whole EUTF group.

C. FY 08 Benefit Plans and Rates

Chair Recktenwald stated that the benefits consultant has recommended a change to the rates for the PPO plan.

Chair Recktenwald clarified that at the moment there are separate rates for SHOPO for Kaiser but not for the self-funded PPO plans because the Board was under the mistaken assumption that SHOPO's experience and the experience for the rest of the EUTF group in the HMSA plan, which was used as the baseline to come up with the self-funded PPO rates, were essentially the same. The Board received new information from Mr. Garner today that SHOPO's experience is approximately five percent better than the rest of the EUTF group. This raises the question of whether the Board wants to modify the rates that the Board adopted at the last Board meeting to give a better rate to SHOPO for the self-funded PPO plans.

Chair Recktenwald understands that Garner recommended that there not be a current increase in rates for the rest of the EUTF group and asked the consultant to explain.

Mr. Garner explained that SHOPO is a small enough group that when they are taken out and rated separately, the impact on the rest of the group in order to keep total premiums the same is less than one percent. Given all the other assumptions that go into making all these rates, a less than one percent difference gets lost in the maze of assumptions. Mr. Garner recommendation for FY08 is to leave the rates for everyone else the same.

MOTION was made for the Board to leave all the rates for the EUTF group the same and approve the five percent reduction of rates for SHOPO that is reflected in Garner Consulting's letter dated February 2, 2007, on the page entitled "Changes from Rates Approved at January 26, 2007 Board of Trustees meeting if SHOPO Only is Separately Rated" for the PPO plan. (Kahoohanohano/Machida) After discussion by the Trustees, the motion passed unanimously. (Employer trustees-4/Employee-Beneficiary trustees-4)

D. Press Release
There being no objections by the Trustees, the Administrator will send an updated draft of the press release to the Trustees. A copy of the draft will be sent to the Governor's office for review, if any significant changes are made, the Board will be informed. If road blocks develop, then the Administrator will not issue the press release until the next meeting so that the Board can reconsider.

V. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES
None

VI. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

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

VII. EXECUTIVE SESSION: None

VIII. ADJOURNMENT

There being no objections by the Trustees, the meeting adjourned at 4:20 p.m.

Respectfully submitted,

/s/

George Kahoohanohano, Secretary-Treasurer

APPROVED on February 28, 2007.

Documents Distributed: None