

Hawaii EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Board of Trustees
Wednesday, February 25, 2009

TRUSTEES PRESENT

Ms. Marie Laderta, Chairperson
Ms. Barbara Annis, Vice Chairperson
Ms. Elizabeth Ho, Secretary-Treasurer
Mr. Ronald Boyer
Mr. Darwin Ching

Dr. Carl Daeufer
Mr. Guy Fujio
Mr. George Kahooohanohano
Mr. John Radcliffe
Mr. Stanley Shiraki

TRUSTEES ABSENT: None

ATTORNEY

Mr. Russell Suzuki, Deputy Attorney General

EUTF STAFF

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

Mr. Timothy Nimmer, Consultant (via conference call)
Mr. Mark Fukuhara, Consultant
Mr. Justin Kindy, Consultant (via conference call)
Ms. Joni Tamayo-Wilson, Consultant

OTHERS PRESENT

Ms. Lynette Arakawa, HDS
Ms. Nikki Bassett, NMHC
Ms. Sandra Benevides, Kaiser Permanente
Terry Cano, HFFA
Ms. Ethel Date, HGEA-R
Ms. Monica Engle, VSP
Ms. Elaine Fujiwara, HDS
Ms. Venus Gabuyo RSN
Ms. Susan Goya, HGEA
Ms. Vanelle Hirayasu, HMA
Ms. Fran Kagawa, HGEA-R
Ms. Bonny Kahalewai, Standard Insurance

Ms. Ruth Kim, HSRTA
Ms. Wanda Kimura, B&F
Ms. Alice Kotake, HSTA-R
Ms. Doreen Kuroda, DHRD
Mr. Derek Mizuno, HGEA
Ms. Celeste Nip, HFFA
Ms. Gertrude Nitta, HGEA-R
Ms. Katherine Richard, DOH-HHI
Mr. Rod Tam, HMSA
Ms. Millie Saito, HGEA-R
Ms. Jennifer Tobin, C&C
Ms. Valerie Trechter, Kaiser Permanente

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 9:00 a.m. by Trustee Marie Laderta, Chairperson, in EUTF Conference Room, 201 Merchant Street, Honolulu, Hawaii, on Wednesday, February 25, 2009.

Chair Laderta announced that Deputy Attorney General Russell Suzuki is sitting in for Deputy Attorney General Brian Aburano.

II. APPROVAL OF MINUTES

The Board reviewed the draft minutes for January 28, 2009.

Amendment made to January 28, 2009 minutes: page 11, line 18 after must add "be".

There being no objections by the Trustees, the minutes for January 28, 2009 were approved as amended.

III. COMMITTEE REPORTS

Investment Committee

Trustee Boyer reported that the Investment Committee held a two hour workshop with Mercer Consulting yesterday to go over the review of investment strategies. The Investment Committee recommends that the Board approve for Mercer Consulting to initiate the process of procuring a custodial search.

MOTION was made upon the recommendation of the Investment Committee that the Board approve for Mercer Consulting to initiate the process of procuring a custodial search. The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

IV. OTHER REPORTS

A. Administrator

1. February Update (see written report)

a. PeopleSoft Support

Overview by Ms. Shiroma regarding PeopleSoft support (see Administrator's report).

b. Vitech Systems Group, Inc. – V3 Benefits Administration System Implementation

Overview by Ms. Shiroma regarding V3 Benefits Administration System Implementation (see Administrator's report).

c. Utilization of Additional Space

Overview by Ms. Shiroma regarding the utilization of additional space (see Administrator's report).

d. IT Support by Gartner, Inc. –SPO Approved Vendor

Ms. Shiroma reported that the fourth project oversight and risk assessment report will be presented at the next Board meeting (see Administrator's report).

Discussion held by Trustees and staff regarding if there are any potential time problems for PeopleSoft support. Ms. Shiroma stated that they are working on options if there is any delay in some of the process. Mr. Williams clarified if the plans (there may be different rates and features within the plans) stay the same that is less of an issue, if the Board adds one more plan than there is greater risk in terms of whether ICSD can have the system adjusted by July 1.

e. Implementation of Dependent Eligibility Audit During FY 2009

Mr. Williams reported that he met informally with the State Procurement Officer (SPO), Aaron Fujioka and subsequently did prepare a request for exemption to contract with one vendor, Aon (see Administrator's report). Mr. Fujioka did say the request will be considered but given the EUTF's situation he was not optimistic that it would be approved. Mr. Williams stated he subsequently found that certain responsibilities are delegated downward through the Department of Finance and others are not. The Request for Exemption has not been delegated to the EUTF administrator, so it requires the signature of the Director of Finance's. The request was sent to the Director. A meeting was scheduled yesterday but cancelled, and so it is unclear whether it was sent to the SPO. In the meantime, the staff is working on the RFP as directed by the Board, and that will be addressed in Executive Session today.

f. Planning for the 2009 Open Enrollment Period for Active Employees
Overview by Mr. Williams regarding the planning of the 2009 Open Enrollment period for active employees and the memorandum from Aon (see Administrator's report). Overview by Mr. Fukuhara regarding Aon's memorandum for providing assistance for open enrollment.

Mr. Williams stated as mentioned earlier that the meeting with the Director of Finance was scheduled by Chair Laderta at his request and he still hopes to have that meeting. He does not believe that the request to contract with Aon has not been submitted to the Governor. Depending on what happens today, the EUTF staff may be reporting some radical adjustment on how we do open enrollment given the situation the EUTF is facing.

g. Accounting Issues

Ms. Tonaki reported that the collection issue with CMS is still in dispute with the collection agency and the collection of the account has been suspended (see Administrator's report). Discussion held by Trustees and staff regarding the proposed rule change.

h. Investment Consulting Activities

Ms. Tonaki reported that the Investment Committee meeting was held yesterday and Trustee Boyer already gave an update (see Administrator's report).

i. Proposed Rule Change

Mr. Williams stated that Brian Aburano and Donna Tonaki are working on the proposed rule change and no action needs to be taken today. Overview by Ms. Tonaki regarding the proposed rule change (see Administrator's report).

j. Proposed Legislation

Mr. Williams gave an update and recommendations on proposed legislation affecting the EUTF for House and Senate bills (see "Proposed Legislation Affecting EUTF" for House and Senate). Overview by Mr. Williams regarding HB 1287, HD 1, and he recommends that the Board reaffirm their position to oppose HB 1287 in the form of HD 1.

MOTION was made for the Board to approve the administrator's recommendation to reaffirm their position to oppose HB 1287 in the form of HD 1. (Daeufer/Boyer) The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

Discussion held by Trustees and staff regarding if the Board previously voted on HB 6. Mr. Williams stated that the Board previously took no action on HB 6.

k. Department of Health Initiative on Worksite Wellness

Overview by Mr. Williams regarding worksite wellness initiated by the Department of Health (DOH). A meeting was held yesterday at which Nicole Wong and Grace Moore represented the EUTF on behalf of the administrator. Mr. Williams will get an update from Nicole Wong regarding the meeting and report back at a future meeting. Mr. Williams stated it is a positive development that the DOH wants to work with the employers, union, EUTF and any other stakeholders to see what can be done in terms of worksite wellness.

l. Recruitment for Vacant Positions

Update by Mr. Williams regarding recruitment for vacant positions (see Administrator's report).

B. DEPUTY ATTORNEY GENERAL

1. Everson Lawsuit

Mr. Suzuki stated there is nothing new to report in the Everson lawsuit.

C. BENEFITS CONSULTANT

1. February Report

a. Annual Report for Fiscal Year Ending 6/30/08

Mr. Fukuhara stated that the annual report was distributed to the Trustees and public this morning. General overview by Mr. Fukuhara regarding Aon's annual report. Discussion held by Trustees and benefits consultant regarding how Aon determined Kaiser's HMO medical costs. Mr. Fukuhara stated Aon based it upon Kaiser's methodology of applying fee schedules for services they render which is not really true claim costs. Discussion held by Trustees

and benefits consultant regarding reasons listed for increases for Kaiser's HMO plan. Mr. Fukuhara stated Aon is not rendering an opinion as to costs but basically there is higher utilization in costs compared to premium revenues. Trustee Shiraki expressed his concern that the Trustees should know when there is a large deficit and what causes it.

There being no objections by the Trustees, the benefits consultant will provide information on the reasons for large deficits. Mr. Fukuhara stated Aon will prepare an analysis and report back to the Board. Discussion held by Trustees and benefits consultant regarding the types of reasons such as large claims or higher usage than anticipated.

Trustee Annis stated that in January, the Board requested as to the drug plan that Aon report back as to whether the utilization and cost increases and how that might have a bearing pursuant to the contract that the EUTF entered into. Mr. Fukuhara stated they do not have that information today. Aon has requested a report from NMHC and will report back to the Board at the next Board meeting. Aon will be comparing, whether NMHC has met the contractual savings that they submitted in their proposal, and will conduct a high level analysis to see where the costs are coming from. Some Trustees expressed that it appears to be a big factor in the increase that the Board needs for this year's rates and how critical it is to have that information. Chair Laderta asked the benefits consultant when Aon will be able to provide that information. Mr. Fukuhara stated that he will check but it will probably be early next week. Discussion held by Trustees, staff and benefits consultant regarding receiving quarterly reports with year to date figures for costs from the vendors other than the Annual report from Aon, so the Board is alerted and not surprised at the end of the year. Mr. Fukuhara stated that Aon will provide that information. Mr. Williams stated that all carriers do submit quarterly reports that generally do have year to date figures to Aon for review.

Mr. Fukuhara continued his general overview of the Annual Report. Mr. Fukuhara stated that a copy of information with the breakdown that Trustee Kahooohanohano requested back in December was distributed to the Trustees this morning. Aon will be working on something similar to that information provided today for all the various bargaining units but will need to request additional information from the EUTF.

Discussion held by Trustees, staff and benefits consultant regarding an update on the Hoana Lifebed costs for reimbursement and if there are any indicators that it is working. Aon will provide a report to the Board at its next meeting.

b. Recent Federal Legislation

Overview by Mr. Fukuhara regarding recent federal legislation (see Consultant's report). Mr. Fukuhara stated that Aon will inform EUTF staff by e-mail that there is going to be an Aon web cast tomorrow and Friday on COBRA. Local carriers were contacted to find out what they are planning to do regarding the new COBRA subsidy. Aon will inform the EUTF staff as they receive more information and updates. Discussion held by Trustees and benefits consultant regarding if and how much money Hawaii would get regarding the new State Children's Health Insurance Program (SCHIP) law. Will it help the EUTF and can Aon review if there are any benefits for the EUTF? Mr. Fukuhara stated one of the main ways it would impact the EUTF would be to expand eligibility for children that would qualify for this program then they would come off of the EUTF and join the SCHIP plan, therefore, the cost of claims would fall to SCHIP. Another impact would be when they lose eligibility for SCHIP or get subsidy money for the premium then parents may want to enroll their children in the EUTF plan. Discussion held by Trustees, staff and benefits consultant regarding that SCHIP will be funded from the increase in cigarette sales effective April 1st and the effect of that will diminish \$10 million to the State from the tobacco settlement and result in a net loss to the State. Mr. Williams stated none of the SCHIP monies will come directly to the EUTF because the EUTF does not administer that program. Except for the indirect impact that Mr. Fukuhara just described, the EUTF is not affected. One could ask if the State gets money from the Federal government then therefore does not have to pay State money will that free up money in the budget? That may be a question the EUTF would be interested in but he does not know the answer. Aon is not in a position to have all that information. Mr. Fukuhara stated Aon does not have information to estimate how many children currently enrolled might be impacted. Discussion held by Trustees, staff and benefits consultant regarding what Aon is able to provide regarding SCHIP. Mr. Fukuhara stated he would need to ask other Aon consultants with expertise in governmental programs. Other than that, Aon will need to try to get information from the local Medicaid/Quest program. Discussion held by Trustees, staff and benefits consultant regarding if anyone in the State will get anything. Mr. Williams stated he does not think we are able to do that. Mr. Williams stated in regards to COBRA, it will affect the State and the EUTF. The employer has to pay the 65% subsidy and collect it back from the Federal government for affected employees. The EUTF will need to give some information to the employers but we do not know which employees on COBRA may be subject to this legislation. It is those employees which basically were laid off or terminated. Discussion held by Trustees and staff regarding who the employee pays their premiums for COBRA. Mr. Williams stated currently it is paid to the carriers.

c. NMHC Update

Overview by Mr. Fukuhara regarding the NMHC update (see Consultant's report). Discussion held by Trustees and benefits consultant regarding information from NMHC to assess cost savings. Mr. Williams stated Aon has access to as much information as they want and they get direct claims files as needed. Mr. Fukuhara stated Aon has access to claim information. Chair Laderta asked when the Board would get information. Mr. Fukuhara stated Aon would try to provide information by the end of the week or early next week.

d. HMSA Update

Overview by Mr. Fukuhara regarding the HMSA update (see Consultant's report). Mr. Fukuhara stated that Mr. Rod Tam from HMSA would be able to provide verbal information regarding the relative cost of fully-insured medical/Rx plans versus self-funded plans.

Mr. Tam from HMSA stated he is speaking in general terms that the claims would be the same. The difference would be in the administrative costs. Under fully-insured plans, the retention would be higher than the retention, or administrative costs, for self-insured plans. That would be taking into account the risk the carrier would be taking for a fully-insured program. In general, fully-insured plan premiums would be higher. Chair Laderta asked if the administrative retention cost would be negotiable. Mr. Tam stated a lot of that is fixed according to what HMSA believes they need to run the business. Mr. Williams stated if the EUTF were to do that there would be a procurement process. We generally do not negotiate; we do have a best and final offer as part of the procurement process. If one carrier was the only one to bid then you would have the authority to negotiate. Discussion held by Trustees, staff and Mr. Tam regarding if the cost is based on risk and is it flexible. Mr. Tam stated it depends on what types of risk arrangements the EUTF would get into with the carrier. If the Board were to look back at the RFP HMSA submitted initially, you would see that the administrative costs for the self-insured are a set amount. If you move down to different risk arrangements that were requested, you will notice that the retention changed. The carrier would be taking that risk at their comfort level. Discussion held by Trustees, staff and deputy attorney general regarding concerns that when asking HMSA for this information they may not be able to provide the exact amount because procurement laws may not allow this and it may be perceived as a pre-determined deal with HMSA. Mr. Suzuki stated that is correct because they are going to participate in the solicitation. Discussion held by Trustees, staff and deputy attorney general regarding since only HMSA offers fully-insured plans and have an existing contract with HMSA would the EUTF be able to modify the HMSA contract. Mr. Suzuki stated it depends on what the solicitation initially was. You cannot convert the contract which was solicited

for one type of procurement and modify the contract to convert it into a different type of contract. Others could have potentially submitted a proposal knowing that was a possibility. Discussion held by Trustees and Mr. Tam regarding some of the risk being part of the administrative costs. Mr. Tam stated the claims would be the same and the administrative costs would be higher and would be the components of the rate. Discussion held by Trustees and Mr. Tam if HMSA could give a ball park figure of the percentage. Mr. Tam stated no. Discussion held by Trustees and Mr. Tam regarding if HMSA checks fully-insured claims closer than self-insured claims. Mr. Tam stated that HMSA has one claims processing system, so HMSA does not segregate self-insured and fully-insured claims or check fully-insured claims more vigorously. Discussion held by Trustees, staff and deputy attorney general regarding whether Trustee Ho's motion is out of order. Mr. Williams stated that this subject is under "New Business" and normally is addressed under reports. Mr. Suzuki stated a motion should be made to take this item out of order.

MOTION was made for the Board to approve item IV.A. Procurement of Insured Medical and Prescription Drug Plans be taken out of order. (Radcliffe/Fujio) The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

V. New Business

A. Procurement of Insured Medical and Prescription Drug Plans

MOTION was made for the Board to direct the Administrator to get a ruling from the State's Procurement Officer, Aaron Fujioka, as to whether or not EUTF must go through the procurement process to obtain HMSA's insured rates when we already have an existing contract with HMSA and are simply seeking information to possibly consider modifying the contract at the next special or regular Board meeting of the Board of Trustees.

The Board further directs the Administrator and Aon to obtain a quote from HMSA on their Comp Med Plan and when requesting the quote, also inform HMSA that should we adopt this plan; any excess premiums will be put in a "stabilization reserve". (Ho/Fujio)

Discussion held by Trustees, staff and deputy attorney regarding if there are any other legal requirements other than what was described earlier. Mr. Suzuki stated that it is okay to ask the State Procurement Officer. Discussion held by Trustees and deputy attorney general regarding clarification of what the motion is asking. Trustee Ho stated based on the information she received from the deputy attorney general, the EUTF is unable to get exact amounts from HMSA due to the procurement laws. Mr. Suzuki stated if you go through a new procurement and solicit information

directly from a potential participant in the solicitation, the challenger or a disgruntled competitor would argue that you got inside information to tailor the procurement that would directly benefit HMSA. That is why we would have to make sure it is just general information and not direct information that would give the Board the ability to tailor the contract for solicitation to favor HMSA. This question is not asked of any provider that has this kind of information. Mr. Williams stated he understands that part of the motion is to ask to get the rates then it says that we are simply seeking information to possibly consider modifying the contract. That implies that the administrator should also ask if we can and do get the rates and like the rates, can we also modify the contract to switch it over. Trustee Ho stated yes. Mr. Williams asked if the second paragraph is contingent on a positive answer. Trustee Ho stated yes. Discussion held by Trustees, staff and Mr. Rod Tam regarding that the HMSA Comp Med plan is 80/20 and the current EUTF plan is 90/10. Mr. Tam stated if the second part of the motion is implemented, HMSA would need more clarification on Comp Med because there are different variations. The stipulation that any excess would be put into stabilization, that would be up for negotiations. If there is any risk sharing that would determine what the rates would be and whether a rate stabilization reserve is established. There are all types of scenarios the Board needs to look at. Mr. Tam stated the attorney general is looking out for anyone the EUTF would go to directly which is HMSA in this case, even if the attorney general okays, the challenges would come from another carrier. That is why HMSA is providing only general information. Mr. Suzuki stated that is why even if Mr. Fujioka would say it is okay, it could be challenged. Ms. Benevides from Kaiser stated when the EUTF plans to modify plan structures it may change the pool and if there are changes, Kaiser would also look to modify their plans to remain competitive as well. Mr. Nakamoto stated that its sister company, Summerlin, also has a Comp Med plan that is fully insured. Discussion held by Trustees and staff regarding some concern that this may be problematic. Trustee Radcliffe stated that people and the unions are asking why did or didn't the Board do that and it is up to the Board how they want to handle it. Discussion held by Trustees and staff regarding how the administrator would handle this motion and how long it would take. Mr. Williams stated he would have an initial meeting with the SPO to ask what form or format is needed and what information needs to be included and then he would draft a letter to the SPO with assistance from the deputy attorney general. Discussion held by Trustees and staff regarding the HMSA contract. Mr. Williams stated the Board approved HMSA's 2-year extension until June 30, 2011. Discussion held by Trustees regarding going back to review if the EUTF should be self or fully insured next year and this is the first step, whether the EUTF gets the approval or not. Discussion held by Trustees regarding making a friendly amended motion to change "HMSA" to "providers or provider" and to clarify that if the answer is affirmative to the first part then the Board further directs the administrator to do the second part.

MOTION TO AMEND for Board to approve to change “HMSA” to “providers or provider” and to clarify that if the answer is affirmative to the first part then the Board further directs the administrator to do the second part. (Boyer/Shiraki) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

MAIN MOTION AS AMENDED was for the Board to direct the Administrator to get a ruling from the State’s Procurement Officer, Aaron Fujioka, as to whether or not we must go through the procurement process to obtain providers’ insured rates when we already have an existing contract with a provider and are simply seeking information to possibly consider modifying the contract at the next special or regular Board meeting of the Board of Trustees.

The Board further directs the Administrator and Aon to obtain a quote from a provider on their Comp Med Plan and when requesting the quote, also inform the provider that should we adopt this plan; any excess premiums will be put in a “stabilization reserve”. If the answer to the first part is affirmative then the Board further directs the administrator to do the second part. After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

d. HMSA Update

Mr. Fukuhara continued the HMSA update and reported that HMSA provided benefit changes effective January 1, 2009 for its community rated plans which are in the Board’s packet. Aon recommends Board approval for an effective date of July 1, 2009 to be consistent with changes in the community (see Consultant’s report). Discussion held by Trustees, staff and Mr. Tam regarding summary of changes.

MOTION was made for the Board to approve the consultant’s recommendations for HMSA benefit changes effective July 1, 2009. (Radcliffe/Ho) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

Mr. Fukuhara stated on HMSA’s report they mention the on-line care program and HMSA is asking the Board to consider adding this benefit to all HMSA administered plans effective July 1, 2009. Currently HMSA is subsidizing the fee. Mr. Tam explained that the member pays \$10 and currently HMSA pays the balance of \$25.00 (from January 1, 2009 to June 30, 2009). HMSA is asking the Board to continue it as a benefit. Discussion held by Trustees and Mr. Tam regarding if this is an option. Mr. Tam stated if the EUTF decides not to implement, the EUTF members will still have access as a HMSA non-member, but the co-pay will be more. Discussion held by Trustees and

Mr. Tam regarding whether on-line care is used in lieu of an office visit and actually results in a savings. Mr. Tam stated HMSA has not determined yet (because it just started in January) if it is replacing the office and emergency visit because that is the purpose. Discussion held by Trustees, staff and Mr. Tam regarding prescribing of prescription drugs, different ways to access HMSA on-line care and how much usage there has been so far. Mr. Tam stated the doctor is able to prescribe prescription drugs. Members can access on-line care through a web cam or can just chat or pick-up the phone. The usage has been less than HMSA hoped. Mr. Suzuki asked if this is a cost modification of the existing contract. Mr. Williams stated it is not a change to the HMSA contract. Self-funded plans are what the EUTF offers in their self-funded benefits. If the Board approves the changes, it would be added to the benefit plan. Discussion held by Trustees that they would like to see some findings on the actual benefits and to address it later in the year.

There being no objections by the Trustees, this item is deferred until the next Board meeting. Mr. Tam stated that he will have the utilization thus far at the next Board meeting.

Recess at 10:50 a.m. and reconvened at 10:55 a.m.

e. Fully Insured Plans Effective 7/1/09

Mr. Fukuhara stated this item will be addressed in Executive Session (see Consultant's report).

Mr. Fukuhara stated on break he spoke to Justin Kindy and would like to correct when Aon will be able to submit an analysis that was requested earlier. Aon is unable to provide the NMHC analysis this week or early next week because it takes about a month to compile the information. Aon will try to complete before the next Board meeting.

f. Self-funded Plans Effective 7/1/09

Overview by Mr. Kindy regarding the 7/1/2009 active and retiree rate increase and reserve reconciliation (see updated letter dated February 17, 2009). Discussion held by Trustees and Mr. Kindy regarding if it is possible that the 2% prescription drug contract change may disappear. Mr. Kindy stated yes, if there are contractual issues discovered, the 2% prescription drug contract change of 2% could be reduced or mitigated. Discussion held by Trustees and Mr. Kindy regarding the trend. Mr. Kindy stated Aon uses methodology that blends the Hawaii specific and the EUTF specific with the national or average trend. What is driving the increase more so is the EUTF specific experience. Discussion held by Trustees and Mr. Kindy regarding other firms using 8% to 9% trends. Mr. Kindy stated it is more on the aggressive side. Aon sees national trends of 10% to 12%. Discussion held by Trustees and Mr. Kindy

regarding the percentage of trends and what is driving the trends. Mr. Kindy stated the largest part of the EUTF experience that is driving that trend is the prescription drug trend. Not only are there specific line items for the prescription drug contract change but also the underlying trend is up as well. Mr. Kindy stated in the more detailed portion of Aon's letter that language was amended. The line items other than the excess reserve rate catch-up which was due to the buy down on actives' rates, Aon had originally estimated trends to come in a little lower than what they are now utilizing for trends. So the part that Aon knew about which is the majority of that trend line, with the exception of those two costs (excess reserve rate catch-up and trend), the other costs in those line items were unknown associated costs to the EUTF plan or were due to the volatility that the plan experienced over the past 12 to 18 months. The shortfall has essentially been going on for the past 19 to 20 months and will continue for another 4 or 5 months until the new rates are established. The incurred rates were established with experience roughly 18 months ago. As a result, there essentially is a gap between funding and experience costs of \$64 million over a two year period. Roughly between \$30 to \$35 million annually and that is in addition to the \$20 million of reserve buy down used through the last rate setting. That is why the reserve estimates have been dropping as dramatically as we have seen. Trustee Shiraki asked the carriers what kind of trend they are looking at. Ms. Benevides stated Kaiser uses 5% for medical and drug. Mr. Nakamoto stated HMA uses 8% to 9%. Mr. Tam stated HMSA uses 9.9% for medical only.

Overview by Mr. Kindy regarding the State employee healthcare benchmarking analysis (see letter dated February 25, 2009). Discussion held by Trustees and Mr. Kindy regarding several areas contacted in the Pacific Northwest, which medical plans were paid by the employer and the retirees paid their own and if Aon took this into consideration. Mr. Kindy stated that part of the analysis included Oregon that certainly has a rich benefit plan for actives and very limited, if any, contributions. They do expect to do more cost sharing for retirees. Discussion held by Trustees and Mr. Kindy regarding the front end being paid by employer with no active contributions. Mr. Kindy stated yes that describes the Oregon plan which the employer pays for actives very close to 100% and the retirees are asked to pay more. Aon did look at Oregon and did not have any information on Washington. Discussion held by Trustees and Mr. Kindy regarding that it is a mismatch and Hawaii has a selling point for State employees which is work for us at cheaper pay and we will take care of you when you retire. Mr. Kindy stated relative to other state plans that is accurate. Mr. Kindy continued his overview of the benchmarking analysis for employee contributions. Discussion held by Trustees and Mr. Kindy regarding what "CDHP" stands for. Mr. Kindy stated it means consumer driven health plans. These plans have high deductibles and the employer may contribute money into health savings accounts. The

theory behind these plans because there is more cost sharing upfront, they anticipate the employees will become better purchasers of health care and make wiser choices resulting in lower utilization of the plans. Mr. Williams stated that the EUTF version is the High Deductible Health Plan (HDHP) with no employer contribution. Mr. Kindy continued his overview of the benchmarking analysis for administrative expenses. Mr. Kindy stated that Hawaii's 5.2% is in line with the overall administrative expense. Mr. Williams clarified that this is the administrative cost by the carriers or the plan administrators not of the EUTF. The EUTF's is well below 1%. Mr. Kindy continued his overview of the benchmarking analysis for actions taken by other State plans to address the high costs of healthcare. Discussion held by Trustees and Mr. Kindy regarding if Aon identified the cost drivers for the EUTF. Mr. Kindy stated that Aon can address the cost drivers at the next Board meeting. Discussion held by Trustees and Mr. Kindy to include if the costs drivers are specific to Hawaii or a nationwide problem. Mr. Kindy stated yes, Aon will provide that information.

Overview by Mr. Fukuhara regarding the revised copy of the "Benefit Summary/Comparison" charts.

Mr. Fukuhara stated the first four slides regarding options were presented to the Board previously but are formatted differently to make it easier for Trustees to review. Trustee Ho is requesting if rates could be calculated for Option III which is the 80/20 plan with the same deductible in our current benefits, current co-payment, current out-of-pocket maximum, HMSA Comp Med \$2,500 and \$7,500 and prescription drugs. Option III would be 6% versus the 29% but what would it be without the deductible. Mr. Fukuhara requested clarification that the request is for Option III without the deductible, to be same as Option I with no lifetime maximum, annual out-of-pocket maximum of 2,500 and \$7,500 in addition to our current benefit maximums of \$2,000 and \$6,000, and HMSA Comp Med coinsurance levels. Mr. Williams asked Mr. Fukuhara to work with Trustee Ho after the meeting to clarify what she is requesting and then Aon can prepare. Chair Laderta stated if any of the other Trustees would like Mr. Fukuhara or Mr. Williams to address similar details they may talk to them after the meeting. Trustee Annis inquired if Aon could provide the effect of the deductible and the effect of the out-of-pocket maximums so they could work with it along those lines. Mr. Fukuhara suggested that Aon could breakdown each category of benefit change and provide the corresponding percentage impact on the rates. Overview by Mr. Fukuhara regarding pages 4 and 5 of the slides. Trustee Shiraki asked Aon to provide rates and costs for two years. Mr. Fukuhara stated in the past Aon provided quite a lot of information but can narrow it down to one or two options and focus on two year projections for those. Trustee Ho asked whether Aon can add a column to include the modified Comp Med Plan on

the Benefit Summary/Comparison charts. Mr. Fukuhara stated yes they can. Discussion held by Trustees and benefits consultant regarding providing similar information for retirees. Mr. Fukuhara stated Aon previously submitted reports for retirees and will provide a similar format like the actives for retirees at the next Board meeting.

Trustee Radcliffe summarized background information for submitting this motion.

MOTION was made for the Board to approve the following approach for establishing the rates and benefits for EUTF self-funded plans for active employees for the 2009-2010 plan year, effective July 1, 2009:

1) Change to HMSA community prevalent plan	-3.4%
2) Change eligibility rule (applies to all plans)	-1%
3) Prescription drug provisions (already adopted)	-0.5%
4) Reserve margin of 3% (80% confidence level)	-2%
5) Eligibility audit (per Trustees decision)* (applies to all plans)	-2%
6) Mandatory wellness incentives/disincentives	-10%
Total Rate Reduction	-19.0%
Net Self Funded Plans Rate Increase	29.4%-19.0% = 10.4%

*Trustees have directed administrator to get audit done as soon as possible. Motion includes 2% savings even if not "certified" by actuary.

The Board directs the consultant to prepare rates, brief summaries, cost estimates and any other documentation needed for final approval at the next special or regular meeting of the Board of Trustees. The Board directs the administrator to assist with and take any other actions necessary to implement this decision of the Board. (Radcliffe/Ho)

Discussion held by Trustees, staff and benefits consultant regarding the mandatory wellness incentive/disincentives and how Trustee Radcliffe got the 10%. The information was provided by Aon and charts regarding the motion were distributed to Trustees this morning. Discussion held by Trustees, staff and benefits consultant regarding requesting additional information on Vitality's credibility and experiences with other employers, clarification of motion, concerns that this program does not save money in the first year and may take 2 to 3 years. The 10% is a large amount to bank on and is there some guarantee. Mr. Kindy stated regarding the savings over 2 to 3 years is specifically tied to the savings on the claims side. You will start to see changes on the claims side due to members taking care of themselves in

making healthy decisions. The reason Vitality is able to guarantee savings in the first year is likely due to the contributions side. Mr. Kindy stated his opinion is not everyone will be engaged so certain individuals will have to pay more meaning that the EUTF will pay less. That is where the savings for the first year will be generated. However, if every single person is engaged and does comply with what is required by Vitality, they provide a performance guarantee that will cover any shortfall of 10% regardless if that is in excess of what the EUTF is paying Vitality to provide the service. Discussion held by Trustees, staff and benefits consultant regarding if a contract needs to be executed with Vitality or Aon. Mr. Kindy stated it would be with Vitality and this is where he is not sure if an exemption is needed or to issue an RFP. Mr. Williams stated the EUTF would need to assess if this is sole source. Are there any other companies that can do this. If there truly are not then the EUTF can seek sole source and have a pretty good chance. If there are other companies then an RFP will be issued. The RFP would have the same provisions and whoever bids would have to guarantee the 10% savings. Trustee Radcliffe stated this approach decreases benefits significantly. That will cause employees grief or increase premiums dramatically that causes a different kind of grief to stay in shape and it is a third alternative that works. Discussion held by Trustees, staff and benefits consultant regarding what parameters Vitality is using because there are some doctors in Hawaii that say police and firemen are overweight and could create a problem. It is important to know the parameters because it might be detrimental to different employees. Discussion held by Trustees, staff and benefits consultant if unions are in agreement with the wellness program. Trustee Radcliffe stated it is not a given that the unions would agree with this. Mr. Derek Mizuno from HGEA stated the union is not aware of this and not in agreement. Trustee Radcliffe stated he has been trying to deal with this issue and has been putting everything he can out in the open or in writing. The alternatives are clear and time is short. One of the unions did a poll of their shop stewards and they said they would pay the 29.4% to keep their benefits. Discussion held by Trustees that Trustee Radcliffe did a great job but there are concerns about the mandatory wellness program that actives and retirees will not make it and assume a deficit in the first year. Mr. Radcliffe stated the retirees are not included. Aon stated it is a guarantee that Vitality would have to pay any shortfall of 10% savings. Discussion held by Trustees and deputy attorney general if there are any legal issues. Mr. Suzuki stated there are some legal issues that Aon has raised about confidentiality and sole source that they are working on. He believes that there are other entities out there. Trustee Radcliffe stated that the Board has to do something other than request more information. This Board has to decide and has a fiduciary responsibility to move. Trustee Radcliffe is ready to decide and prepared to move and if fellow Trustees are not prepared to move and stop the plan then he is on record. Mr. Suzuki reminded the Board it generally requires two attempts

before going into mediation. Up or down the Board could take some action today to possibly start it. Mr. Derek Mizuno from HGEA clarified what he said earlier, Trustee Radcliffe did mention to them about the wellness program but not about penalizing a member. Concerns expressed that members would not have an opportunity to meet the criteria without adequate time, what is the criteria, and how good is the guarantee with Vitality. Discussion held by Trustees, staff and member of the public regarding who would monitor the program. Mr. Williams stated the company that administers the plan would monitor the program. The proposal on the table is for actives not retirees. Trustee Radcliffe stated his intent is not to touch the retirees at all. Ms. Benevides from Kaiser stated that major carriers already offer wellness programs.

MOTION (restated) for the Board to approve the following approach for establishing the rates and benefits for EUTF self-funded plans for active employees for the 2009-2010 plan year, effective July 1, 2009:

1) Change to HMSA community prevalent plan	-3.4%
2) Change eligibility rule (applies to all plans)	-1%
3) Prescription drug provisions (already adopted)	-0.5%
4) Reserve margin of 3% (80% confidence level)	-2%
5) Eligibility audit (per Trustees decision)* (applies to all plans)	-2%
6) Mandatory wellness incentives/disincentives	-10%
 Total Rate Reduction	 -19.0%
 Net Self Funded Plans Rate Increase	 29.4%-19.0% = 10.4%

*Trustees have directed administrator to get audit done as soon as possible. Motion includes 2% savings even if not “certified” by actuary.

The Board directs the consultant to prepare rates, brief summaries, cost estimates and any other documentation needed for final approval at the next special or regular meeting of the Board of Trustees. The Board directs the administrator to assist with and take any other actions necessary to implement this decision of the Board.

After discussion by the Trustees, the motion failed. (Employer Trustees-5 No-Annis, Boyer, Ching, Laderta, Shiraki/Employee-beneficiary Trustees-4 Yes-Daeufer, Fujio, Ho, Radcliffe, 1Abstain-Kahoohanohano)

MOTION was made for the Board to approve the proposed retiree rates for self-funded plans presented by Aon on the report titled “FY 2010 Plan Options and Cost Implications for Retirees, Governor Briefing,

January 14, 2009,” page 5, Option I (no change to plan provisions) are hereby approved by the Board of Trustees, effective July 1, 2009 through December 31, 2009. Stand alone medical and prescription drug rates shall be calculated by the Consultant consistent with the aforementioned rates. The EUTF Administrator is directed to take the necessary actions to implement this decision, including informing employers and the Legislature of the estimated costs of these approved benefit plan rates. (Daeufer/Radcliffe)

Trustee Daeufer summarized his concerns that delaying action is not a viable action. It is important to maintain benefits due to the extreme vulnerability some retirees have when benefits are diminished because they were paid low wages but were promised good benefits when they retire, and the importance of no reductions in benefits which would affect wellness concerns for retirees. Chair Laderta clarified that this motion has no benefit changes and this is what we currently have. Discussion held by Trustees, staff and benefits consultant regarding concerns about voting for this proposal because we are at a time when there are no monies and would the stimulus plan affect the EUTF. Mr. Williams stated from what he read there is Medicaid money for the State which is basically welfare related, and he is not aware of additional Medicare money. So the EUTF would not receive stimulus money. Aon would be a better source. Mr. Fukuhara stated Aon’s understanding is the same as Mr. Williams. Discussion held by Trustees, staff and benefits consultant regarding the Medicare subsidy paid to the State. Mr. Williams stated he should report some information received by Budget and Finance (B&F). In previous meetings, he reported that on the active side the State has taken a position that the contribution won’t increase and did not budget for any increase. For retirees, B&F did project increases and put increases in the proposed biennium budget. He shared proposed rate information with B&F on a confidential basis because it included some insured rate proposals so they could calculate the difference. For example, if the proposed rate increases were passed what those costs would be compared to what they budgeted. The difference is \$16.8 million. They would be \$16.8 million short what the cost would be compared to what they budgeted. If the projected increase with Aon would continue January 1 then the shortfall in the second year of the biennium would be \$8.7 million compared to what they budgeted. The budget amount does not start at zero for the retirees as for the actives. Mr. Williams reminded the Board that whatever the Board approves, the employer has to pay. Trustee Daeufer stated why hesitate, we have a social obligation to these people. Discussion held by Trustees, staff and benefits consultant regarding Chapter 87A that the costs should be affordable to both sides. Trustee Daeufer stated he does not see it as unreasonable and in his view affordable is in the eyes of the beholder and asked what the alternatives are for retirees. Senator Hanabusa and Mayor Hanneman stated that they will take care of the retirees and this Board should take care of the retirees too. Trustee Kahoohanohano

stated that he spoke to the Mayor of Maui County and she will back her commitment to the retirees and actives. Mayor Hanneman has stated the same. He only heard the Governor's liaison say it is a zero. He asked why the EUTF is only taking one side because there are four other payers. Ms. Susan Goya from HGEA stated she agrees with Trustee Daeufer that it would affect the retirees' budget and be a hardship for retirees. Ms. Gertrude Nitta, Ms. Millie Saito, Ms. Fran Kagawa, and Ms. Ethel Date stated some of their concerns that their pensions are minimal, higher prescription drug costs, and how increase in co-pays would be a hardship. Chair Laderta thanked the retirees for their services and sacrifices to the State and sharing their concerns. On behalf of the Board of Trustees, Chair Laderta stated that the Board will endeavor to take care of the retirees and this Board will do whatever it can to accomplish that. The Board has many issues and among them are the rates for actives. While some Trustees may agree with Trustee Daeufer's motion, they may have to wait to consider retirees' benefits and rates together with the actives. Chair Laderta stated she is not quite in that position today but does not mean they do not agree with the motion.

MOTION (restated) for the Board to approve the proposed retiree rates for self-funded plans presented by Aon on the report titled "FY 2010 Plan Options and Cost Implications for Retirees, Governor Briefing, January 14, 2009," page 5, Option I (no change to plan provisions) are hereby approved by the Board of Trustees, effective July 1, 2009 through December 31, 2009. Stand alone medical and prescription drug rates shall be calculated by the Consultant consistent with the aforementioned rates. The EUTF Administrator is directed to take the necessary actions to implement this decision, including informing employers and the Legislature of the estimated costs of these approved benefit plan rates. After discussion by the Trustees, the motion failed. (Employer Trustees-5 No-Annis, Boyer, Ching, Laderta, Shiraki/Employee-beneficiary Trustees-5 Yes-Daeufer, Fujio, Ho, Kahooohanohano, Radcliffe)

D. Financial Report as of December 31, 2008

Overview by Ms. Tonaki regarding the financial report as of December 31, 2008 (see revised financial reports). Discussion held by Trustees and staff regarding unrestricted and excess reserves, administrative fees, and contract encumbrances. In the future, administrative fees (expenses and balances) will be included in the report and submitted quarterly beginning July 1, 2009.

E. Carrier's Reports

1. HDS

Written report submitted. Ms. Arakawa stated that a copy of the Executive Summary of the survey was included in their report and also explained the recent enhancement to their website.

2. HMSA
Written report submitted.
 3. HMA
Written report submitted.
 4. Kaiser
Written report submitted. Ms. Benevides reported on Kaiser's Health Works program.
 5. NMHC
Written report submitted.
 6. Royal State Insurance
Written report submitted.
 7. Standard Insurance
Written report submitted.
 8. VSP
No written report submitted.
- VI. UNFINISHED BUSINESS
- A. Self-Funded Plans Rates and Benefits Effective 7/1/09
This item was addressed during the Consultant's report.
 - B. Fully-Insured Plan Rates (Kaiser, Royal State, ChiroPlan, HDS, VSP, Standard) Effective 7/1/09
This item will be addressed in Executive Session.
- VII. NEW BUSINESS
- A. Procurement of Insured Medical and Prescription Drug Plans
This item was addressed during the Consultant's report.
 - B. Current Investment Direction – Investment Committee Recommendation
This item was addressed during the Investment Committee report.
 - C. Investment Timeline – Investment Committee Recommendation
This item will be addressed at a later time.
 - D. Custody Search and Procurement – Investment Committee Recommendation
This item was addressed during the Investment Committee report.
 - E. Proposed Rule Change (Rule 5.02) Payment to Begin on Effective Date
This item was addressed during the Administrator's report.
 - F. Request for Proposed Legislation
This item was addressed during the Administrator's report.

G. Positions on Proposed Legislation
This item was addressed during the Administrator's report.

H. Proposed Benefit Changes (HMSA administered plans)
This item was addressed during the Consultant's report.

VIII. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES
Mr. Williams reported that 71 e-mails were received from employees from the University of Hawaii relating to their health benefits and decision of the Board. A list of names and a sample letter were distributed to the Trustees

IX. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

A. April 1, 2009 – Regular Board meeting.

MOTION was made for the Board to approve holding a special Board meeting on March 18, 2009, 9:00 a.m. (Boyer/Kahoohanohano) The motion passed unanimously. (Employer Trustees-5/Employee-beneficiary Trustees-5)

X. EXECUTIVE SESSION

MOTION was made to go into Executive Session at 1:05 p.m. for the reasons stated on the agenda. (Annis/Fujio) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-5)

The Executive Session adjourned at 1:37 p.m.

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

- (1) Motion to approve proposed active rates and benefit plans for July 1, 2009 – June 30, 2010, Option 1 page 9 failed.
- (2) Motion to approve proposed retiree rates and benefit plans for July 1, 2009 – December 31, 2009, Option 1, page 15 failed.

XI. ADJOURNMENT

There being no objections by the Trustees, the meeting adjourned at 1:38 p.m.

Respectfully submitted,

/s/

Elizabeth Ho, Secretary-Treasurer

APPROVED on May 20, 2009 as amended.

Documents Distributed:

1. Draft Minutes for January 28, 2009. (19 pages)
2. Memorandum to BOT from Administrator regarding February Administrator Report dated 2/18/09. (4 pages)
3. Proposed Legislation Affecting EUTF, House Bills Introduced in 2009 Session dated 2/18/09. (5 pages)
4. Proposed Legislation Affecting EUTF, Senate Bills Introduced in 2009 Session dated 2/18/09. (2 pages)
5. Letter to BOT from Aon Consulting regarding February 2009 Benefit Consultant Report dated 2/19/09. (2 pages)
6. Aon Alert regarding expansion of SCHIP dated 2/10/09. (1 page)
7. Aon Alert regarding COBRA dated 2/16/09. (4 pages)
8. HMSA PPO Summary of Changes Effective 1/1/09. (1 page)
9. HMSA PD Summary of Changes Effective 1/1/09. (1 page)
10. HMSA Health Plan Hawaii Plus Summary of Changes Effective 1/1/09. (1 page)
11. Letter to BOT from Aon regarding 7/1/2009 Active and Retiree Rate Increase and Reserve Reconciliation dated 2/17/09. (4 pages)
12. Letter to BOT from Aon regarding State Employee Healthcare Benchmarking Analysis dated 2/25/09. (5 pages)
13. Benefit Summary Comparison prepared by HMSA 12/17/08 and submitted by Aon. (3 pages).
14. Updated Charts by Aon regarding Options. (7 pages)
15. EUTF Statement of Net Assets (Unaudited) dated 2/19/09-Revised. (1 page)
16. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 6 Months Ended 12/31/08 (Unaudited) dated 2/13/09. (1 page)
17. EUTF Statement of Cash Flows 6 Months Ended 12/31/08 (Unaudited) dated 2/13/09. (1 page)
18. Charts Prepared by Aon for Trustee Radcliffe regarding his Proposal and Vitality Guarantee. (4 pages)