HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Board of Trustees
Wednesday, May 19, 2010

TRUSTEES PRESENT
Mr. George Kahoohanohano, Chairperson
Mr. Bobby Lee, Vice Chairperson
Mr. Stanley Shiraki, Secretary-Treasurer
Ms. Barbara Annis
Mr. Ron Boyer
Mr. Darwin Ching
Ms. Marie Laderta
Dr. J.N. Musto
Mr. Randy Perreira

TRUSTEES ABSENT: None

ATTORNEY
Ms. Diane Erickson, Deputy Attorney General

EUTF STAFF
Ms. Sandi Yahiro, Acting Assistant Administrator
Ms. Maria Quartero
Ms. Donna Tonaki
Mr. Timothy Nimmer, Consultant
Mr. Justin Kindy, Consultant
Ms. Joni Tamayo-Wilson, Consultant
Mr. Rod Tam, Consultant

OTHERS PRESENT
Ms. Lynette Arakawa, HDS
Ms. Sandra Benevides, Kaiser Permanente
Ms. Monica Engle, VSP
Mr. Mark Fukuhara, Akamai Benefits
Ms. Susan Goya, HGEA-R
Ms. Wendy Hamada, HMA
Mr. Clark Hirota, C&C
Ms. Bonny Kahalewai, Standard Insurance
Mr. Jack Katahira, HGEA-R
Ms. Ruth Kim, HSRTA
Ms. Doreen Kuroda, DHRD
Mr. Blaise Liu, Royal State
Mr. Harris Nakamoto, HMA
Mr. Michael Moss, Kaiser Permanente
Mr. Lawrence Nishihara, Akamai Benefit
Mr. Tony Saguibo, HMSA
Mr. Jerry Shipken, informedRx
Mr. Phil Takaba, HMSA
Ms. Valerie Trechter, Kaiser Permanente
Mr. Justin Wong, HSTA-R
Mr. Greg Wiles, Advertiser

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 9:01 a.m. by Trustee George Kahoohanohano, Chairperson, in EUTF Conference Room, 201 Merchant Street, Honolulu, Hawaii, on Wednesday, May 19, 2010.

Chair Kahoohanohano introduced Deputy Attorney General Diane Erickson who is attending for Deputy Attorney General Russell Suzuki.

II. APPROVAL OF MINUTES

The minutes for March 18, 2010 is still being reviewed by Deputy Attorney General Russell Suzuki.

III. REPORTS

A. EUTF Staff Reports

1. May Update

a. Vitech Systems Group, Inc. – VS Benefits Administrative System
Written report submitted (see IT Operations Report).

b. IT Support by Gartner, Inc. – SPO Approved Vendor
Gartner will present their ninth project oversight and risk assessment report later on the agenda (see IT's Operations report and Gartner's report).

c. Update on Contract for Custodian Services
Overview by Ms. Donna Tonaki regarding the update on contract for custodian services (see Accounting Operations Report).

d. Update on GASB Actuarial Valuation Contract Extension
Overview by Ms. Tonaki regarding the update on GASB Actuarial Valuation contract extension (see Accounting Operations Report).

e. FY09 Financial Audit
Overview by Ms. Tonaki regarding the status of the FY09 Financial Audit (see Accounting Operations Report).

f. Accounting Issues
Overview by Ms. Tonaki regarding accounting issues (see Accounting Operations Report).

g. Financial Services Branch
Overview by Ms. Tonaki regarding the Financial Services Branch (see Accounting Operations Report).

h. Recruitment for Vacant Positions
Overview by Ms. Sandi Yahiro regarding the recruitment for vacant positions. Ms. Yahiro reported that the EUTF had 6 vacant positions not including the vacant administrator and assistant administrator positions. All 6 vacant positions have been filled with 89-day hires at this time. Discussion held by Trustees and Ms. Yahiro regarding the Senior Health Benefits Analyst position.

B. Project Oversight and Risk Management Assessment – Gartner, Inc.
Ms. Rosy Spraker presented the Project Oversight and Risk Management Assessment report (see report).

C. Deputy Attorney General
   1. Base Monthly Contribution
      Overview by Ms. Diane Erickson regarding the base monthly contributions under the EUTF statute. Ms. Erickson reported that in the past there was only one number to deal with but now with the Federal law there are three numbers. The Attorney General's office will be working with the EUTF staff to provide a recommendation to the Trustees to determine what the rate should be before July 1 at the next Board meeting.

D. Benefits Consultant
   1. May Report
      a. Fully-Insured Benefit Design Options for Active Plan Benefits and Rates Effective 7/1/2010 through 6/30/2011
         This item will be addressed in Executive Session.

      b. Self-Funded Benefit Design Options for Active Plan Benefits and Rate Effective 7/1/2010 through 6/39/2011
         Overview by Mr. Nimmer regarding Aon's recommended rate increase, additional information received over the weekend and before the Board meeting, the unrestricted assets and the reasons the EUTF has extra money from January to March 2010 and the IBNR going up in March. Mr. Nimmer reported that the good news is that the EUTF is seeing unrestricted assets and that the Board should understand why the EUTF is seeing unreserved increases. The additional good news is that with the updated claims information, the claims have improved. When looking at the EUTF trends cost, on average, the trend rates were in the low teen then spiked to the mid teen then held around 14% for a good period of time. Aon is beginning to see early indications of those trends coming down, therefore; Aon can consider lowering their projected increase for FY2011. Mr. Nimmer summarized Aon's recommendation for active rate increases for 7/1/10-6/30/11 of 22.1% (see Consultant's report). Mr. Nimmer stated should the Board consider increasing the rates at 22.1%, another question that is often asked is what would that do for our rate increase next year. For next year, if the average trend continues as it has been demonstrated for the past three years since 2006, Aon expects that number to be between the 10% - 11% range but because we are rebuilding reserves and the reserves will have been rebuilt by next summer then the EUTF would not need that level of rate increase for FY11 anymore (the 10% to 11% minus 4.4%). In total we are looking at the rate increase somewhere in the mid single digits should the Board adopt the 22.1% increase for this year. When the EUTF is walking along this line without having the excess reserves to smooth the experience to protect ourselves in setting rates, the changes of the small incremental changes in the underlying plan experience is highly leverage which would be affected. Aon

not clear, please clarify. A 1% difference could make a significant overall change to the financial picture. For example, the benefit claims was low for January 2010 for HMSA actives at approximately $11.5 million and another month that had a high of $20 million and can see the significant bearings from month to month. Aon wants to make sure they smooth that out to protect that they are not making decisions from a one month snap shot. Trustee Annis asked if the Board decides to approve the 12.7% did Aon do any calculations for projections next year. Mr. Nimmer stated Aon recommended that should the EUTF move forward to make minimum increases, the EUTF would need a trend increase of 10% to 11% plus if there were any adverse claims experience throughout the year. Should the IBNR be underfunded, the EUTF would again need to re-build that portion that is what creates the solvency or insolvency component. Should the Board maintain that same policy they would not need to have a margin for the 95% security level. If it is the Board's policy to remain at a 50% confidence level, then we can cover cost at any given year. It would be the trend and to refund and re-build the IBNR reserve. For the record, Aon does not recommend that because it does place the Board and the Fund at a high level of risk. Dr. Musto asked how projections will be made for the approximately 14,000 VEBA population that will be brought in January 1. Mr. Nimmer stated information before the Trustees now does not include the VEBA population. Aon has only received half the data of the VEBA population. Should the VEBA population join the group, the EUTF has options. For the self-funded plans, what some States have done in a similar situation when a new group joins in that size and magnitude, the EUTF could set their rates independently of the EUTF for one to two years and then merge them in with the EUTF rate structure within time. If the underlying population is similar to the EUTF it might be a percent or two different, if the population is significantly different there have been situations where it could be as much as 10%. It just depends on what that underlying information tells Aon. Trustee Shiraki asked when the EUTF would be insolvent and what does insolvency mean. Mr. Nimmer stated the technical definition of insolvency is when the IBNR (incurred but not reported) is underfunded. Even if it is only one dollar under-funded, if June 30th, the IBNR is underfunded, then the definition would say the plan was insolvent meaning the plan could not meet the financial obligations of paying claims incurred but have not seen claims yet. Trustee Shiraki stated that if the Fund stops, the money would be exhausted but if the EUTF does not stop the Fund, the EUTF would still pay bills and that makes a difference. Mr. Nimmer stated there are two ways that the IBNR would be utilized: (1) if the fund stops; and (2) if the Fund shows a different funding mechanism, so instead of self-funded the Fund would move all the people to fully-insured. Dr. Musto stated that the 22.1% applies to EUTF's current membership and does not include factoring in the VEBA members. Mr. Nimmer stated he is not sure how the EUTF would handle the financials between the two entities.

The EUTF staff needs to be asked if it would be two separate financial statements for the EUTF and VEBA or joined. Discussion held by Trustees and benefits consultant regarding when the VEBA comes over on January 1, 2011 that the EUTF will not pick-up the IBNR and who will be responsible to ensure that will not happen. Mr. Nimmer stated it often happens when other States bring on another population. There are certain elements of the Board's decision and policy making that would impact how funded the new group would be. Should the EUTF fund all of the recommendations to build the reserves, then the EUTF would have price fluctuation reserve, meaning the EUTF rates would support 95%. The 95% confidence level is that you will cover claims in any given year. The EUTF would have a reserve that will cover the IBNR and another reserve that would cover potential adverse experience. The new group joins and the decision made by the Board at that time is do they come on at the EUTF rates which the Boards often times are not fully sold on that philosophy because the rest of the population has built those reserves and funded their future. Some Boards would say they would want a separate rating structure for one to three years or whatever the Board chooses to bring two populations in a similar funding position before the Fund totally moves the new population in entirely. A group of 14,000 people is a significant population with an incurred impact to the plan's solvency. Those are the types of decisions Boards grapple with when bringing on a group of that size. Trustee Musto wanted clarification that claims incurred prior to January 1, 2011 that carried over after January 1, 2011 would be paid on a pro-rated basis – VEBA pays for the part of the claim prior to January 1, 2011 and EUTF pays for the part of the claim starting January 1, 2011. Mr. Nimmer stated that is correct, there is an element of risk. Aon wants to make sure to review the data with as much information up front and should they see an abnormal high level claim (using an extreme amount of $1 million), Aon would bring it to the Board and the Board would make the decision to bring them on to the plan at the current rate or as in happened in another State that the required rate level was more than a 10% difference and the Board decided to give it a three year time horizon before co-mingling the two populations. It would be a policy decision of the Board. Aon will have some insight of what it would look like but there is always a risk that someone on January 2 would have a boating accident and the claim would be $1 million. Dr. Musto asked what if this was not a self-funded plan and we were buying health insurance from an entity effective January 1. Mr. Nimmer stated that you would lose flexibility going fully-insured vs. self-funded, decisions such as the Board is considering today, you would not have that flexibility, and the carriers would say what the rate increases would be. In terms of reserves, the carriers would make those decisions for the Board. We have other things such as premium taxes, contingency reserves and they also must require, to be in a financial position such as this, you cannot do that as a carrier because of the risk based capital surplus requirements, so their reserve requirement would be much higher meaning they would have already build that into the rates. The Board would lose some flexibility. On average it would cost the Fund more and industry studies would prove that out. However, some entities do say they do not sleep well at night carrying that risk themselves. With the group the size of the EUTF, the risk is not the same. Dr. Musto stated it is fair to say it is easier to go from fully-insured to self-funded then it would be from self-funded to fully-insured. Mr. Nimmer stated in terms of the flexibility that is true. Dr. Musto stated it is easier to go from a financial position where you are paying premiums to an insurance company to one where it is self-funded. Going the other direction not so much anymore, what risk you took on as a self-funded group now transfers to the insurance company and is a costly transition. Mr. Nimmer stated that is correct and disclosed that as far as other States, Aon does not have any States that are 100% fully-insured. They have certain elements of HMOs that might have a few 100 people or a couple of thousands in certain locations that are fully-insured. Aon does have one U.S. Territory (Guam) that is fully-insured for the entire population. Trustee Shiraki stated that the EUTF did an RFP for fully-insured plans and it came in much higher than the self-insured plans and asked the Attorney General's office if the EUTF can have different rates when the VEBA comes over. Ms. Erickson stated that she will get back to the Board. Trustee Shiraki stated that a VEBA representative is here and is asking why the EUTF is not getting the information they are requesting. Ms. Susan Pestana, ATPA VEBA Trust Administrative Office, stated they met with Rod Tam from Aon last week and gave them information. More information is coming in and they are working with the consultant in getting information to Aon. Ms. Yahiro stated a letter was sent earlier and also a month ago to HSTA. Since that time the EUTF only received information for HMSA. Ms. Yahiro spoke to Rod Shinno from ATPA this morning and asked why the EUTF have not received the HMA information. Mr. Shinno will be speaking to Paul Tom today to find out why the EUTF have not gotten HMA's information. Ms. Yahiro spoke to Harris Nakamoto from HMA this morning and he informed her that he never received a request to supply information to EUTF from HSTA VEBA. Ms. Pestana will follow-up with Paul Tom and Rod Shinno. Chair Kahoohanohano stated he is very concerned about the lack of communication and informed Ms. Pestana that it is imperative that the EUTF get that information to make a smooth transition and that Ms. Pestana work with Ms. Yahiro so the information can be provided. Trustee Shiraki stated that when the VEBA moved out of the EUTF a lot of coordination was done and information was provided very quickly to VEBA and now the EUTF is not getting the same assistance. Chair Kahohanohano requested that Ms. Yahiro keep him updated on this situation. Trustee Shiraki stated that the Board has to do something about these rates and hopefully a decision can be made today. Chair Kahoohanohano stated he agrees because if nothing is done after June 30, 2010 there will be no health coverage. He stated that if the Board needs to make modifications, he suggests that it be done at this meeting. Dr. Musto stated regardless of any rate increase, if it is effective July 1, there will be no opportunity for employee-beneficiaries to have an open enrollment to make a decision to terminate or change insurance carriers. Ms. Yahiro stated if there is a significant rate increase approved today effective July 1, the EUTF could have a hardship open enrollment. Last year a hardship open enrollment was held more than a month earlier. Now that it is late, the EUTF will not be able to process all the payroll deductions and information to the carriers by July 1. If the Board approves rate increases today, Ms. Yahiro recommends that the date be effective August 1, 2010 to give the EUTF staff time to process. Trustee Shiraki asked if people can drop plans. Ms. Tonaki stated if people are in PCP, they are locked in but if someone is not in PCC they may drop at anytime. Trustee Shiraki asked if a hardship open enrollment is held can the EUTF do it. Ms. Yahiro stated it would be pushing it but it can be done. Certainly it can be done in September but August is better than July. Dr. Musto asked what percentage is in the 80/20 versus the 90/10. Mr. Justin Kindy stated, very roughly, 80% of the active population is in the 80/20. Dr. Musto asked what the rate differential is between the two plans currently. Mr. Kindy stated it is 3.3%. Dr. Musto stated in the 21.1% rate increase Aon has not made any differential change between the 80/20 and 90/10 and asked if Aon is confident that both of those from prior years are really established at the right ratio. Dr. Musto also asked if Aon has any proof or evidence of claims and costs. Mr. Kindy stated that there are two techniques that Aon could utilize to price between the plans. One is based on the plans specific experience, so there is a likelihood the healthier lives are in the 80/20 plan and less healthier lives in the 90/10 plan. From a pure experience basis it is approximately 3.2% but Aon has priced it on an actuarial value of benefits basis so that does not change. Mr. Nimmer stated if you have 20% versus 80% of the people, the volatility between the two groups, Aon wants to make sure they keep the differential based on an actuarial difference as opposed to 100% claims experience because it would bounce around a little. Historically, it has been to keep the differential more consistent. Chair Kahoohanohano stated there is not much information on the 90/10 plan because it has been only a few months. Trustee Perreira stated that the urgency that Aon is suggesting for a rate increase is based on what Aon actuarially computes to what is called insolvency or insufficient reserves to meet the anticipated claims and asked if that is correct. Mr. Nimmer stated that is correct. Trustee Perreira asked approximately how much money will be expended by June 30, 2010, total premiums paid by the State for both the actives and retirees population. Mr. Nimmer stated the total premiums taking in consideration all revenue sources it is roughly $38 million per month. Mr. Kindy stated it is roughly $479 million per year. Trustee Perreira asked if it includes the employee portion. Mr. Nimmer stated yes, it includes

everything. Trustee Perreira stated because employees are paying 50% of the cost and the employer bears the other half and asked if anyone knows the line item appropriation for the Department of Budget and Finance for the EUTF. Ms. Tonaki stated it is $421 million. Trustee Perreira stated on July 1st the numbers will become $478 million. If the employer is now baring approximately half the cost and there is a question of insolvency would it not behoove the Board to go to the Governor because so much money was appropriated under the line item of B&F to fund the reserves and alleviate the crisis where there is arguably a lot of unanswered questions with respect to the VEBA population and plan designs to make it reasonably affordable. Trustee Perreira stated that he does not question the actuarially figures but it seems to him to be the Board's responsibility to make prudent decisions based on all the information available which would be the inclusion of the VEBA population. As the Chair suggested several meetings ago, the Governor should be approached to have her release funds because it has already been appropriated by the Legislature to cover this anticipated shortfall. Trustee Musto stated just to be clear that Aon's recommendation for next year for the 80/20 and 90/10 benefit that the rate increase is 17.7% that includes the 5% margin. All other things off of the table is that a prudent decision.
Mr. Nimmer stated if it started tomorrow with none of the history, yes it would still be Aon's recommendation. Dr. Musto asked if it would still be 17.7%. Mr. Nimmer stated yes, should the Board choose to remain 95% confident, that is what the 5% margin is for. Dr. Musto asked how many State plans does Aon know of that have front end deductibles. Mr. Nimmer stated Aon works with approximately 60% of the States, just about all of them have front end deductibles. Because of the decision making policies over the past 12-18 months due to the financial positions of most States, those deductibles have been increasing significantly. If you would look at studies over the past 12-24 months they would indicate the deductibles from a year or two ago. The averages were running $200-$500 roughly speaking. Over the last 12-18 months, the deductibles have been increasing significantly so it may have gone up $300 to $750 or $1,000. Some States are considering exclusively High Deductible plans that is truly based on their financial position of their funds and choose to make decisions based on changing benefits and contributions. Dr. Musto asked if those plans, when they have a high end deductible, do they tie into major medical. Mr. Nimmer stated the deductible is front end plus the first $500 then pay out the 90/10 for the next. Trustee Laderta asked if the rates being presented today is based on the current benefits. Mr. Nimmer stated that is correct. Trustee Shiraki stated that Dr. Musto mentioned about the prudent man's decision, 100% would be a prudent man's decision if you put it the other way, would a 0% be a prudent decision. Mr. Nimmer clarified that the prudent man decision was based on the contingent assumption that we start it brand new with none of the history behind us. Mr. Nimmer stated to have a 0% increase, in his opinion, would

not be a prudent man decision because you would fall into an insolvency position. As your Actuary, the number one objective is to make as solvent a plan for the participants and to protect the Board as fiduciaries. Trustee Annis stated on Trustee Perreira's comment on the line item for B&F, that part of that budget amount of $478 million is for the increase for retirees and is based on other rate increases as well. The other problem, as comments have developed, there is a timing issue and if the Board does not come up with something today we are running close to the plans ending, so what we do after we establish plans and rates is one thing but does not think this can wait to make this decision. There are a lot of complexities. Trustee Perreira asked if it is regarding the release of funds. Trustee Annis stated yes but there is a timing issue and would not like it held up by some hope that we can work something out.

Recessed at 10:30 a.m. and Reconvened at 10:41 a.m.

Chair Kahoohanohano stated there are questions in the audience and clarified that the Board is discussing the active employees' plans and not the retiree plans at this point.

Trustee Laderta stated, along the lines of Trustee Annis' comments, as to how much the employer/employee should pay is a matter for collective bargaining and not for this Board to determine. Discussion held by members of the public and benefits consultant regarding Aon's recommendation of the rate increase, the prudent man decision, the need to have all information to do an analysis for the VEBA population and bringing in reserves of a new, larger population.

MOTION was made for the Board to approve the self-funded benefit plan designs and rates for active employees effective July 1, 2010 for total increase of 22.1% as presented by the consultant (Shiraki/Annis) After discussion held by the Trustees, the motion failed. (Employer Trustees-5 YES-Annis, Boyer, Ching, Laderta, Shiraki/Employee-Beneficiary Trustees-4 NO-Kahoohanohano, Lee, Musto, Perreira)

Discussion held by Trustees and deputy attorney general regarding a motion made for approval fully-insured plans is out of order.

MOTION was made for the Board to approve to amend the agenda to take out-of-order the issue of fully-insured benefits and premiums effective July 1, 2010. (Musto/Perreira) The motion failed. (Employer Trustees-5 NO-Annis, Boyer, Ching, Laderta, Shiraki/Employee-Beneficiary Trustees-4 YES-Kahoohanohano, Lee, Musto, Perreira)

Discussion held by Trustees regarding the motion for a 17.7% increase, concerns expressed about notification to participants to be able to express, the importance setting rate increases now and month to month extensions.
Dr. Musto stated he would vote against the motion for an 17.7% increase because it is substantial and he would like to discern if employee-beneficiaries who would be the bearers of this entire increase would in some way have the option to express their views to change their benefits to a front end deductible that would lower the premium cost or continue their benefit level. Until that time Dr. Musto recommends that the Board do like the last year in continuing on a month to month extension for a time. Trustee Annis stated she understands what Dr. Musto is saying regarding giving the option for feedback from participants but the longer the Board postpones the rate increase, the bigger the hole is. We have not recovered from the major plan changes that were made in the last open enrollment. She hopes any plan changes will take place sometime after the EUTF has VEBA on board, approximately six months to a year. Trustee Annis asked the Trustees to take that into consideration for decision making. Trustee Perreira stated he agrees with Dr. Musto and that he thinks they have taken it into full consideration but at the same time, as representatives of the employees, it is totally impractical for them to take another large increase. As Mr. Nimmer stated we will continue to face increases because the costs continues to rise. At some point the Board will either make that hard decision, whether it be deductibles or changes, and make it soon or else we are going to price our own employees out of this plan. It will serve no purpose in escalating the premiums for people who cannot afford it. Trustee Laderta stated that she understands what Dr. Musto has articulated. She has felt for the past year and the half that the Board needs to scrutinize benefit levels and look at deductibles and believes they have. Aon has given a variety of options in the past when the Board had some different labor Trustees. However, the Board was never able to come to agreement with any of those options. We are now pressed for time and she realizes that there may be hardships but would like to know how much time is needed and how long will month to month extensions be needed. Chair Kahoohanohano stated that years ago health benefit plans were designed by the State and County to attract employees in lieu of high paying jobs. Now at this juncture, the State is saying the employees pay for everything. It needs to be an even keel. At one of the Board meetings, in public session, the Governor said they will not pay any more increases, we will take 29% deductions in benefits. It is wrong to now say the employer will not pay anymore. Union and Administrative hats need to be left outside and become a Trustees meeting in what is best for everyone. Chair Kahoohanohano asked for a meeting with the Governor and himself because something needs to be done. Trustee Annis stated that she did not see Trustees at the last legislative session when bills that had an impact to the EUTF were addressed. She reminded the Trustees that the structure of this Board is charged with

designing plans and rates. The Trustees are not charged with collective bargaining and any aspects of who pays what. The Board has a June 30, 2010 deadline to insure that all participants have coverage. The Board needs to decide now on plans and costs for July 1, 2010. Dr. Musto stated he tried to make a motion to create a plan and set premium rates. He needs to understand how best to represent the balance between premium rates and benefit coverage and to speak to the active employee groups that are affected.

MOTION was made for the Board to approve the self-funded benefit plan designs and rates for active employees effective July 1, 2010 for an increase of 17.7% as presented by the consultant (Annis/Boyer) After discussion held by the Trustees, the motion failed. (Employer Trustees-5 YES-Annis, Boyer, Ching, Laderta, Shiraki/Employee-Beneficiary Trustees-4 NO-Kahoohanohano, Lee, Musto, Perreira)

Discussion held by Trustees regarding the motion for a 12.7% increase. Trustee Boyer stated that he voted against rate increase based on the fact that he wanted to take any rate increase in conjunction with the possibility of offering to membership some other kind of affordable plan and also concerned about VEBA coming in. Trustee Boyer agrees with Trustee Annis that if we make rate and plan modifications we should take the VEBA population into account. The Board is going to have to increase rates at some point and offer other plans. Trustee Annis stated, in the EUTF's experience, when extending on a month-to-month basis, it was believed, it was related to the spike in usage because the membership does not know what is going to take place. That is why Trustee Annis is very concerned about any month to month extensions.

MOTION was made for the Board to approve the self-funded benefit plan designs and rates for active employees effective July 1, 2010 for an increase of 12.7% as presented by the consultant (Annis/Shiraki) After discussion held by the Trustees, the motion failed. (Employer Trustees-5 YES-Annis, Boyer, Ching, Laderta, Shiraki/Employee-Beneficiary Trustees-4 NO-Kahoohanohano, Lee, Musto, Perreira)

Discussion held by Trustees regarding the motion to extend the current plans for a six (6) month period. Trustee Perreira stated that the motion is made fully confident in what Mr. Nimmer has suggested that it will likely raise the possibility, depending on the experience in the coming months, the rates proposed will be the higher. There are different factors that need to be accounted for, one is as Dr. Musto suggested because the lives of so many individuals will be impacted, that participants need a forum to be able to voice their concerns. Trustee Perreira stated that he does not wish to be subjected to upset employee-beneficiaries with making decisions without all the information being available. He does not think it would take Aon that much longer, assuming the VEBA provides all the information to complete the analysis to provide all the information to the Trustees. In addition, there is pending legislature that the Governor has to consider as to how any Governor can deal with money already appropriated to the EUTF. If that legislation becomes law it does impact how any State administration would deal with the issue of monies that have been appropriated. Trustee Perreira agrees with the employer Trustees' earlier comment that month to month with uncertainty will lead to greater anxiety. As long as it is adequately communicated, not only by the EUTF, but by all the representatives here internally, then he thinks we can avoid the prospect of spikes and usage because of uncertainty. Trustee Annis stated that she has one concern beyond the dollar amount, if the EUTF were to have open enrollment at the year end that is the same period we would have open enrollment for the retirees and the adding of 13,000 VEBA people all at the same time, how it could be handled administratively. Trustee Perreira totally agrees but it is a no win situation. Trustee Laderta asked Aon if the EUTF were to extend for six (6) months, what is the point of insolvency. Mr. Nimmer stated the probability that the plan would go insolvent by the definition would increase dramatically if the EUTF does not change rates. Clearly you can visualize that if we are underfunded it is just a matter of time before you get into the IBNR. The question that has come up by Trustees from the past several months is the on-going operations, the paying claims. Insolvency means that our IBNR would not be fully funded so that is different than what I am gathering many of the Trustees ask from a cash flow prospective. How long can we keep paying the machine into the future. The way to consider that is that we are looking at the active population running at roughly, lets call it $300 million for simplicity, and for each month the trend continues to increase about another percent so each month it costs us another $3 million than the month before. On top of that if we are beginning July 1 with not enough money we have to take how far we are in the hole to begin with then for July we would be down $3 million plus then August another percent, so it would be three plus three plus the July 3 plus the money we are short. It is compounded and highly leveraged in terms of each month that we wait so the faster we would fall in that hole. It is like a credit card, if you do not pay it off or pay the fee then interest compounds on itself and it just creates a bigger problem. That is what happens in the medical insurance because the interest rate is about 12%. We are highly leveraged because we do not have the money on the side to offset those loses. Trustee Laderta stated she appreciates the explanation but the question of when has not been answered. Mr. Nimmer stated Aon just received the financial information before getting on the plane to Hawaii and would need time to give pinpoint accuracy and is unable to give a specific date on when insolvency would occur. Trustee Laderta asked for a best estimate based on what Aon has so far. Mr. Nimmer stated what he has given is a theorical explanation and will try to add practicality for purpose of discussion, probably late summer or fall.

Trustee Laderta asked if it would be in August. Mr. Nimmer stated he just received data for the past three months, the good news is that Aon saw the increase in revenues and unrestricted reserves. Mr. Nimmer needs to understand what is happening behind the scenes with the claim costs and financials. A pretty reasonable time period would be late summer or early fall. Trustee Laderta stated based on the information we have without the new information it would be late summer or early fall. Mr. Nimmer stated that is correct. Trustee Laderta stated that it is important, so the Trustees can make decisions, to know the best estimate. It is the Trustees fiduciary obligation not to make decisions that will run into technical insolvency or otherwise.
Mr. Nimmer stated that we are discussing only the active group. The retiree rates are sufficient. The actives are essentially taking money from the retirees because the excess is being used to pay the shortfall of the active population. When asking Aon to pinpoint an answer, Mr. Nimmer was elated to see the most updated information on the unrestricted reserve. Just before entering this room Mr. Nimmer saw the April cash flow numbers. Unfortunely April looks more like what they saw before they had the information on the weekend. While the unrestricted reserves just increased, in a matter of minutes Aon was able to explain where most of those monies came from and how it does give a sense of false security because the IBNR has to be increased and we have all those members that were on the plan paying premium but we have not seen the claims yet. Just as the Trustees have a fiduciary responsibility to the plan, Mr. Nimmer has his professional obligation and code of ethics and to pinpoint a date on the record would be very dangerous and expose him to professional liability. He has given the Board a broad range. Trustee Laderta stated she understands and is not asking for a specific date because early summer could be June. Mr. Nimmer stated based on the direction he has seen from the Trustees thus far, if the Trustees choose to adopt a no rate increase through December 31, 2010, the probably of insolvency will increase significantly. Mr. Nimmer stated his professional opinion is that it would place this plan in position of insolvency by the end of this year. If the Trustees were to adopt the premium increase as of July 1, 2010 of the 17.7%, Aon's professional opinion would be that it would protect the EUTF from insolvency. Discussion held by Trustees and staff regarding options for the VEBA plan and open enrollment and concerns that decisions are normally made by the end of the year so there is enough time for open enrollment in April.

MOTION was made for the Board to approve to extend the current plans for a period of six (6) months until December 31, 2010, during that time conduct an Open Enrollment to be determined by the EUTF staff. (Perreira/Musto) After discussion held by the Trustees, the motion failed. (Employer Trustees-2 YES-Annis, Boyer, 3 NO-Ching, Laderta, Shiraki/Employee-Beneficiary Trustees-4 YES-Kahoohanohano, Lee, Musto, Perreira)

Discussion held by Trustees regarding how much time would be needed to discuss and communicate with employee-beneficiaries about proposed increases and concerns about spikes and usage by employee-beneficiaries.

MOTION was made for the Board to approve to extend the current plans for a period of three (3) months until September 30, 2010. (Boyer/Musto) After discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-4)

c. Health Care Reform – Early Retiree Reinsurance
Mr. Nimmer stated that there was an article in the newspaper yesterday regarding health care reform. One of the items was about the retiree reinsurance and disclosed that there was an error in the article. The retiree reinsurance is really from $15,000 to $90,000 not $15,000 to $75,000. Nevertheless the principles were accurate. What this program does is it allows the Trust or Fund to recoup money on behalf of the early or pre-Medicare retirees from age 55 to 64. If they have claims cost from $15,000 to $90,000 we can apply to receive approximately 80% of that money back from the Federal Government. The reason why the term approximately was used is because there is a limited amount of funds set aside by the Federal Government of $5 billion. We do not know how long that will last or how many people will apply. Aon does know that there are several large employers, most notably State governmental groups, large portion with 150 employers, major trust fund union group around the country that are planning to apply. There is an urgency on this particular item, the reason is that the money is handed out on a first come first serve basis. The application process begins June 1. Aon has developed an internal process for their clients to go after that money. Although it is not a guaranteed amount from the Federal Government, Aon knows there will be a significant amount of money.
Mr. Nimmer stated that an opinion was asked of the Attorney General's office on whether or not Health Care Reform applies to the State of Hawaii. This is an item that the Board needs to take into consideration based on the Attorney General's opinion. Ms. Diane Erickson stated she has not been able to track down the request for such an opinion and put a feeler out in her office on who can address that issue in the Attorney General's office. Further discussion on this item will be addressed in Executive Session. Discussion held by Trustees and benefits consultant on how far back it would go. Mr. Nimmer stated technically it would go back to January 1, 2010. There is one technical item in the legislation that says you receive credit up to $15,000 for claims January 1 to June 1. The reason why he stated is that if someone had incurred $25,000 worth of claims you would only get credit for the reinsurance program up to the $15,000 as of June 1. Discussion held by Trustees and benefits consultant regarding if the Aon attorney has an opinion on who qualifies. Mr. Nimmer stated that the EUTF does qualify for the reinsurance

program, the concern is does the State of Hawaii recognize Health Care Reform applicable to the State. For some State clients, their Attorney General's office has stated publicly that it does not apply to their State. The State of Missouri is taking it to a vote of the people. Some States have chosen not to adopt certain items of Health Care Reform until the Attorney General's opinion goes through the process.

d. Health Care Reform – Dependent Eligibility to Age 26
Mr. Nimmer stated he understands some local carriers are changing their insurance program to comply with this element. This particular component of Health Care Reform does not apply to this coming fiscal year. When making plan design changes, the regulation stipulates that it is six (6) months after the enactment date which was March 23, 2010 so it would be September 23, 2010, it would be your next plan year after that. It would be July 1, 2011 for the EUTF. The Board has an option of whether or not to adopt the dependent eligibility component of health care legislation now or wait until the plan is required to do so effective July 1, 2011. Dr. Musto asked what would be the costs? Mr. Justin Kindy stated Aon is seeing somewhere from 2-4% impact to gross cost, generally the cost in the health care industry. Chair Kahoohanohano stated that a letter is in the Trustees packet from HMSA regarding dependent eligibility to age 26. Discussion held by Trustees and staff regarding seeking the Attorney General's opinion. There being no objections by the Trustees, Ms. Yahiro will request for the Attorney General's opinion.

e. EUTF HMO and HDHP Administered by HMSA – Step Therapy Programs
Overview by Mr. Rod Tam regarding implementing step therapy for three specific therapeutic classes of drugs. HMSA estimates that the implementation of this program will save approximately $35,000 annually. Discussion held by Trustees regarding concerns about the pharmaceutical process and dispensing of medication, pharmacists telling people what drugs they should take, implementation of this program without adequate information being provided to employees that are being affected, savings of only $35,000, and what HMSA's plan would be to notify and educate employees. Mr. Saguibo from HMSA stated that the $35,000 only applies to one therapeutic class, they were trying to address the changes going into effect one by one which is the time frame that is projected. It is part of a long series of changes that is scheduled over a full year. HMSA will be reaching out directly to the affected member and explaining to them about the options available. HMSA will also be contacting the doctors and pharmacies. Trustee Laderta stated that before making a decision that HMSA's letter needs to provide more information and requested that HMSA also provide which drugs are not allowed.

MOTION was made for the Board to approve step therapy programs as requested by HMSA for EUTF HMO and HDHP plans. (Annis/Shiraki)

After discussion held by the Trustees, Trustees Annis withdrew the motion and Trustee Shiraki withdrew his second to the motion.

MOTION was made for the Board to approve that HMSA provide additional information and do presentation for the step therapy program at the next Board meeting. (Laderta/Perreira) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-4)

E. Financial Reports as of February 28, 2010 and March 31, 2010
Overview by Ms. Tonaki regarding the financial reports for February 28, 2010 and March 31, 2010. Mr. Tonaki stated that at the next meeting the Board will be adopting the IBNR but that IBNR will probably have an increase of approximately $17 million that will affect the unrestricted reserves on the next financial report. Although we do have the $18 million now it will decrease. The retirees' reserves shows surpluses but in the future it will show a deficit. Ms. Tonaki summarized experience report distributed to Trustees.

F. Carriers
1. HDS
   Written reports submitted.
2. HMSA
   Written reports submitted.
3. HMA
   Written reports submitted.
4. informedRx (NMHC)
   Written reports submitted.
5. Kaiser
   Written reports submitted
6. Royal State Insurance
   Written reports submitted.
7. Standard Insurance
   Written reports submitted.
8. VSP
   Written report submitted.

IV. UNFINISHED BUSINESS
A. Administrator Recruitment Activities
This item will be addressed in Executive Session.

B. Fully-Insured Benefit Design Options for Active Plan Benefits and Rates Effective 7/1/2010 through 6/30/2011

This item will be addressed in Executive Session.

C. Self-Funded Benefit Design Options for Active Plan Benefits and Rates Effective 7/1/2010 through 6/30/2011
This item was addressed during the Consultant's report.

D. Options for Finishing Dependent Eligibility Audit
This item will be addressed in Executive Session.

E. Dependent Eligibility Audit – Amendment to Segal Contract
This item will be addressed in Executive Session.

V. NEW BUSINESS

A. Health Care Reform – Early Retiree Reinsurance
This item will be addressed in Executive Session.

B. Health Care Reform – Dependent Eligibility to Age 26
This item was addressed during the Consultant's report.

C. EUTF HMO and HDHP Administered by HMSA – Step Therapy
This item was addressed during the Consultant's report and has been deferred until the next Board meeting.

D. Gartner Extension
This item will be addressed in Executive Session.

E. Implementation of VEBA Members to the EUTF
Overview by Ms. Yahiro regarding options to transition VEBA members into the EUTF plans effective 1/1/11. Discussion held by Trustees, staff and carrier regarding mapping of VEBA members to same plan in the EUTF by plan and holding an open enrollment. There being no objections by the Trustees, this item is deferred until the next Board meeting. Ms. Yahiro

VI. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES

A member of the public asked what action was taken for fully-insured plans. Chair Kahoohanohano stated no motion was made. Mr. Jack Kitahira expressed concerns by retirees about the EUTF staff not answering phones and e-mail. A stronger position needs to be taken to beef up the staff, get rid of the backlog and handle the next business as it comes along. What is happening now is that the EUTF is not catching up with the old business and he does not know what else to do. People who have applied for Medicare are in limbo right now and do not know what the EUTF is doing about it. Chair Kahoohanohano stated that Ms. Yahiro is pushing to get it done but it is not as easy as said. Ms. Yahiro stated that the biggest backlog is the computer processing and is asking carriers if they are able to assist. HMA has already agreed and is awaiting HMSA and Kaiser's response.

VII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

A. June 16, 2010 – Regular Board meeting

Discussion held by Trustees and benefits consultant regarding agenda items for the next Board meeting. Dr. Musto stated that what the Board is discussing does not just apply to active employees but because of the nature of our law, the retiree benefits are tied to the benefits received by the active employee even though the entire premium is paid by the State for retirees. If we make any reductions in the benefit level we, in fact, are cost-shifting to the retirees. The other piece that everyone should be aware of is if we went with a deductible that applied to an active employee it would reset the standard for the retiree. Trustee Ching asked the deputy attorney general to confirm, in regards to Dr. Musto's comments, if the Board actually can lower the benefits of the retirees. Ms. Erickson stated she will need to check and get back to the Board.

VIII. EXECUTIVE SESSION

MOTION was made to go into Executive Session at 12:50 p.m. for the reasons stated on the agenda. (Laderta/Boyer) The motion passed unanimously. (Employer Trustees-5/Employee-Beneficiary Trustees-4)

Executive Session adjourned at 2:50 p.m.

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

1. Approval of Gartner extension.
2. Approval of Aon Supplemental Contract for Retiree Early Retiree Reinsurance subject to Governor's approval.
3. Approval to ask fully-insured carriers to extend benefits and rates for three (3) months.

IX. ADJOURNMENT

There being no objections by the Trustees, the meeting adjourned at 2:50 p.m.

Respectfully submitted,

/s/

George Kahoohanohano, Secretary-Treasurer

APPROVED on November 24, 2010.

Documents Distributed:

1. Memorandum to BOT from IT Systems Analyst Regarding May IT Operations Report

dated 5/11/10. (1 page)

2. Memorandum to BOT from Financial Management Officer Regarding May Accounting Operations Report dated 5/11/10. (2 pages)
3. EUTF Benefits Administration System Project Assessment Report 9 Summary Presentation for the Period 12/1/09-2/28/10 submitted 5/11/10. (15 pages)
4. Memorandum to BOT from Aon Regarding May 2010 Benefit Consultant Report dated 5/18/10. (2 pages)
5. Memorandum to BOT from Aon Regarding 7/1/2010 Active Rate Increase dated 5/18/10. (2 pages)
6. Health Care Reform's Early Retirement Reinsurance by Aon dated 4/28/10. (2 pages)
7. Health Care Reform's Early Retirement Reinsurance by Aon dated 5/7/10. (3 pages)
8. EUTF Statement of Net Assets (Unaudited) dated 4/29/10. (1 page)
9. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 8 Months Ended 2/28/10 (Unaudited) dated 4/28/10. (1 page)
10. EUTF Statement of Cash Flows 8 Months Ended 4/28/10 (Unaudited) dated 4/29/10. (1 page)
11. EUTF Statement of Net Assets (Unaudited) dated 5/12/10. (1 page)
12. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 9 Months Ended 3/31/10 (Unaudited) dated 5/12/10. (1 page)
13. EUTF Statement of Cash Flows 9 Months Ended 3/31/10 (Unaudited) dated 5/12/10. (1 page)