

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
Minutes of the Board of Trustees
Tuesday, October 8, 2002

TRUSTEES PRESENT

Mr. Sam Callejo, Chairperson	Ms. Kathryn Matayoshi
Ms. Audrey Hidano, Vice-Chairperson	Mr. Neal Miyahira
Ms. Joan Lewis (Arrived - 9:23 a.m.)	Mr. Will Miyake
Mr. Gerald Machida	Mr. Davis Yogi (Left - 10:26 a.m.)

ATTORNEY

Mr. Brian Aburano, Deputy Attorney General

HEUHBTF STAFF

Mr. H. Mark Fukuhara, Administrator	Ms. Gerti Garner, Consultant
Mr. Lawrence Nishihara	Ms. Maria Quartero
Mr. Leslie Ozawa	Ms. Donna Tonaki

OTHERS PRESENT

Ms. Jean Aoki, HSRTA	Ms. Elaine Fujiwara, HDS
Ms. Lynette Arakawa, HDS	Ms. Ruth Kim, HSTA-R
Mr. George Butterfield, HSTA-R	Ms. Gordon Murakami, Royal State
Ms. Nani Crowell, HSTA MBC	Ms. Karen Muronaka, HSRTA
Ms. Alana Deppe-Mariota, Kaiser Permanente	Mr. Michael Moss, HMSA
Ms. Monica Engle, VSP	Mr. George Yamamoto, HGEA-Retirees

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order when there was a quorum at 9:24 a.m. by Trustee Sam Callejo, Chairperson, in Conference Room 405, Leiopapa A Kamehameha Building, 235 South Beretania Street, Honolulu, Hawaii, on Tuesday, October 8, 2002.

II. APPROVAL OF MINUTES

Trustee Miyake, Secretary-Treasurer Pro Tem, reviewed the minutes for August 6, 2002 and made the following amendments:

- a. Page 2, lines 30-31 – plans ~~to be offered to employees and retirees~~ finalists considered for review by the Board.
- b. Page 2, line 32 – plans finalists.
- c. Page 2, line 34 – plans finalists.

PUBLIC COMMENT

G. Butterfield stated Gordon Murakami's name on the first page should be corrected. Chair Callejo noted that correction should be made to Page 1, line 26 – Gordon Murakami, Royal State.

MOTION was made to approve the minutes for August 6, 2002 as amended. (Matayoshi/Miyake) The motion was passed unanimously. (Employer trustees-5/Employee-Beneficiary trustees-3)

Trustee Miyake stated that there was no Secretary-Treasurer Pro Tem for the August 20, 26, 2002 minutes and suggested that the minutes be deferred and reviewed by the new Secretary-Treasurer in detail.

Chair Callejo deferred the August 20, 26, 2002 minutes to the next meeting.

III. COMMITTEE REPORTS

A. ADMINISTRATIVE COMMITTEE:

1. Trustee Matayoshi reported that there were eight Third Party Administrator presentations. The committee will continue its discussion about this matter at tomorrow's meeting.

Trustee Matayoshi asked that the Board adopt the program structure and measures of effectiveness recommended by the committee. Discussion held by Trustees.

MOTION was made to adopt the program structure and measures of effectiveness. (Matayoshi/Hidano) The motion was passed unanimously. (Employer trustees-5/Employees-Beneficiary trustees-3)

Chair Callejo left at 9:49 a.m. and returned at 9:58 a.m.
Trustee Lewis left at 10:21 a.m. and returned at 10:22 a.m.

2. Trustee Matayoshi reported and recommended that the Board approve the Biennium Budget FY 2004-FY2005. Administrator Mark Fukuhara explained the budget in detail. Discussion held by Trustees and staff. There was further discussion on administrative costs. Trustee Miyake wanted to know if some costs such as computer expenses and system maintenance could be absorbed by other departments to reduce the Trust Fund's budget. Trustee Matayoshi said that the computer system is under the Trust Fund's budget because it is used exclusively by the Trust Fund. Trustee Lewis was concerned as to whether start-up costs were being passed on to the plan participants. There was a discussion as to whether the Trust Fund could or should seek an appropriation of general funds for the Trust Fund's start-up costs - particularly the cost of converting the current computer system so that the Trust Fund can use it. Trustee Miyake was concerned about keeping costs down because the administrative expenses of the Trust Fund are borne by the participants. He asked if there can be written assurances that the Trust Fund would not be charged for the services of the Deputy Attorney General or ICSD. Chair Callejo said there are no guarantees because a new administration is coming in.

MOTION was made to approve the dollar amount of the Biennium Budget FY2004-FY2005. (Matayoshi/Hidano) After discussion, the motion was passed unanimously. (Employer trustees-4/Employees-Beneficiary trustees-3)

PUBLIC COMMENT

G. Butterfield asked if the Trust Fund is planning to bind/reprint every year. He stated that PEHF currently prints the book one time and then prints supplementary information in the next or couple of years. Mr. Fukuhara replied no. Mr. Fukuhara also stated that he felt that the best way to project the total costs was by taking the last four years of actual expenses (which varied) and adding 5% to the overall expenses.

J. Aoki asked if the administrative costs that are allocated to the beneficiaries would be refigured every budget year. Chair Callejo stated that it should be based on actual costs as the budget changes.

G. Yamamoto asked if the calculation is done on individual year or by fiscal year. Chair Callejo responded that it is on the fiscal year, '03 is different because we are still on the PEHF budget and '04 and '05 Biennium should be accurate. Mr. Fukuhara stated that it would be discussed further at the Administrative Committee meeting tomorrow.

R. Kim asked if an overage exists, will the individuals be refunded, and how it would be handled. Chair Callejo responded that based on the actual number, if it is not large, it would seem that it would be carried over to the next year and the adjustment made accordingly.

Trustee Miyake stated that if administrative expenses are on a year to year basis he is assuming that for FY04, \$3.12 million would be added to total premium dollars and for FY05, \$2.9 million would be added to the premium dollars. Chair Callejo said yes. Trustee Miyake asked what would happen if there is an adjustment. Chair Callejo stated that it is up to the Trust Fund how they would handle it. Once the budget is approved and we move forward, it makes sense to make the adjustment in the succeeding years rather than try to make the adjustment in the current year. Trustee Matayoshi mentioned that there are important issues to discuss at tomorrow's Administrative Committee meeting, e.g., cash flow issues, reserve questions, and overages/underages. She stated that the overall financial plan has not been prepared which is technically required.

Recess 11:02 a.m. to 11:10 a.m.

MOTION was made to amend motion to approve the dollar amount of the Biennium Budget FY2004-FY2005 and to include items that would fall under the category of transition or start-up costs as a separate legislative item. (Lewis/Miyake) After

discussion, the motion was passed unanimously. (Employer trustees-4/Employees-Beneficiary trustees-3)

Further discussion on motion to amend. There was a discussion as to how transition and start-up costs would be identified. Trustee Lewis felt that the staff should identify these costs. Even if it wasn't approved, she wanted it on the record as to what the start-up costs were. Trustee Machida asked if the Board could submit the budget as written with a proviso showing the start-up costs as a line item for general funds, with a justification that the legislature initiated this program and the start-up costs are not for year-to-year operations. Based on the budget statutes, Mr. Aburano said that when you submit a budget, you are supposed to identify the source of funding for each item whether you are requesting an appropriation or not. Trustee Miyahira said it was possible to submit a budget as suggested by Trustee Machida. Trustee Matayoshi said she was okay with the proposed amendment so long as it was understood that the staff would be coming back to the Board with their identification of the start-up costs. Trustee Machida was concerned about separating items from the budget. If you submit two separate items, you may get one but not the other. However, if the total budget is submitted, you will get it. The funding portion should be separate.

3. Trustee Matayoshi reported that on Administrative Fees Allocation, Gerti Reagan, Garner Consultant, would be doing a presentation of several different allocation methodologies at the Administrative Committee meeting tomorrow and invited everyone to attend.
4. Trustee Matayoshi reported that there is a list of legislative proposals (see handout) that will be discussed at the Administrative Committee meeting tomorrow. She said that before the Administrative Committee reviews, they need some parameters on what kinds of legislation the Board would want to consider and submit. Trustee Miyake stated that the Committee should just look at it and recommend what they think is best for the Trust Fund. Trustee Matayoshi suggested that the Board should let the Committee know if they strongly support or do not support a certain proposal. Trustee Miyake stated that if any Board member is interested, they should attend the meeting tomorrow.

B. RULES COMMITTEE:

Trustee Miyake reported on behalf of Trustee Yogi that the Rules Committee reviewed all the comments or concerns that were submitted to the Committee, have sent out the rules for review to the various organizations on the list for final comments/concerns, and is asking that the Board put it on the agenda for the October 24, 2002 Board meeting for final action or consideration from the Board. Mr. Fukuhara made a correction that we are awaiting final comments from the Rules Committee members and the updated rules will be sent out today or tomorrow.

C. BENEFITS COMMITTEE

Trustee Lewis stated that there was discussion about combining meetings and that she is open to it. The Benefits Committee meetings are scheduled for October 17, 24, 25, 28, 29, 2002, and the Board's meetings are attached to the October 17, 24, 29, 2002 Benefits Committee meetings; it also continues similarly into November. The presentations are scheduled for the morning and then Board deliberations follow. Trustee Miyake would like to limit the meetings by combining them. After further discussion, it was decided that the Board meetings would be scheduled on October 17, 24, 2002, at 9 a.m. and the only item on the agenda would be the Benefits Committee. It will be decided at the October 17, 2002 meeting if the meetings on October 25, 28, 29, 2002 will be needed. The Board meetings scheduled for November 6 and 7, 2002 are canceled. The new Board meetings are on November 1, 2002 from 9 a.m. – 12 noon and to reconvene at 2:30 p.m. if needed and November 4, 2002 at 1:30 p.m.

PUBLIC COMMENTS

G. Butterfield expressed a concern that if all of the foregoing Board meetings are closed to the public, the public won't have the opportunity to react until the selection of carriers and plans comes up for a final vote of the Board. Mr. Aburano stated that to address Mr. Butterfield's concern, the Board could meet in a public session on October 17 or 24 to talk about what kinds or types of plans were seriously being considered versus those that were not. He noted that those dates would be the only time prior to the carriers' presentations to the Board when the public could give their input, i.e., the only time where the public could tell the Board whether it should or should not be considering certain types of plans.

There was a discussion with the Deputy Attorney General as to why the meetings at which the Board discussed the prices and details of the carriers' proposals needed to be closed to the public. Gerti Reagan suggested that the Board plan the presentations on October 17 and 24 to begin at 9 a.m., to spend an hour discussing the plans and the plan designs in general terms and maybe discussing them in general cost terms if there is a recommendation to eliminate something because of costs, and then go into closed session. Mr. Aburano stated that the Board could do what Gerti mentioned in an open session on October 17 and 24, i.e., have the consultant explain its recommendations as far as types of plans (not the specific carriers), then have a period of time for public input, and then go into executive session to determine which are going to be final applicants. That will give the public an opportunity to hear what the consultant is thinking about in terms of types of plans and some chance of input. The Board agreed with Mr. Aburano's suggestion. Chair Callejo stated that the Board meetings on October 17 and 24 will start with the consultant doing a one hour presentation on the types of plans to be discussed in general and to allow public input and then go into executive session to make a decision as to which ones the Board will invite to make presentations.

IV. OTHER REPORTS

A. ADMINISTRATOR

- Mr. Fukuhara reported for the Board's information that the Trust Fund submitted a report for the Governor's Quarterly Accomplishments Report (see handout). Trustee Miyake asked if it was a requirement to submit this report. Chair Callejo stated that each department is required to submit a quarterly report to the Governor.
- Mr. Fukuhara reported on actual Expenditures (see handout) that were updated to show the August 2002 expenses. He stated the main difference is that August reflects the Administrator's salary. The total expenditure for August was \$32,594 compared to July, which was \$28,551.
- Mr. Fukuhara gave an update on the staffing and space situation. He announced the hiring of Leslie Ozawa, Communication and Regulatory Specialist. He also notified the Board that three finalists for the Information Systems Analyst position were interviewed, a decision would be made next week, and the position should be filled by November 15, 2002. Trustee Miyake inquired if any member of the Board is involved in the hiring process because he is concerned about the hiring procedures. He also asked if there were procedures to ensure that the Trust Fund was not violating any personnel rule or law such as those prohibiting discrimination. Chair Callejo stated that these matters had been delegated to the Administrator. Mr. Fukuhara explained the procedure for hiring applicants. He added that Karen Tom, temporary EUTF staff from the Department of Human Resources, reviewed procedures and questions and confirmed with colleagues before approving the questions for the applicants. Mr. Aburano noted that the Board delegated discretion to the Administrator to do the hiring; some trustees were adamant that the Administrator should have that kind of discretion and the Board should not get overly involved in hiring decisions.

Mr. Fukuhara reported on the space situation. Staff has met several times with the architect and DAGS to move forward with negotiations for space at the City Financial Tower on the 15th floor. The contemplated space is contiguous with the current space occupied by the PEHF. We are going ahead with separate leases. A lease with the current space and lease with the additional space so if it were decided in the future to move forward with a TPA it would not block us in for the total space. We are looking to move in February 2003.

- Mr. Fukuhara reported on the EUTF/PEHF Transition. He stated that the PEHF Board is meeting on October 10, 2002 and the PEHF is trying to get approval for an imaging RFP. The Board reduced the scope of the Imaging RFP to not include anything to do with scanning and capturing data on the Trust Fund enrollment form to be automatically put in the HFIMS. The scope of the project was limited to what Health Fund needs to do to image their documents to assist them to meet HIPAA privacy requirements. The Trust Fund will need to develop a professional services contract with that vendor or another vendor to do the programming required to have the system

read our forms and allow the information to be put into our system electronically. The PEHF Board will discuss and may approve the Trust Fund's recommendation to extend the eWorld Solutions contract to improve configuration changes that are necessary to support open enrollment in Spring 2003. Trustee Miyake stated that if they scaled back, who would pay to get our goals accomplished. Mr. Fukuhara stated that the Trust Fund would need to pay. Trustee Miyake asked if it was included in this budget. Mr. Fukuhara stated that monies were found in our current FY03 budget and until actual costs are known, we are assuming it will be under \$100,000. Mr. Fukuhara also reported that the staff is in the process of reviewing all forms that PEHF currently uses and the number of forms will be reduced as well as simplified. He stated that the staff is also in the process of developing a communications plan as well as a list of frequently asked questions to put on our website. The staff is also participating along with the PEHF at various pre-retirement sessions. Bert Nishihara from the PEHF has agreed to move forward on payment for their audit for this final year and to ask for his Board's approval at their next Board meeting. The Trust Fund assisted the PEHF to find the funding in the current budget to pay for the audit. Mr. Fukuhara submitted Segal's 4th Quarter Report to the PEHF (see handout). He gave an overview of the summary of the various health plans gains and/or losses.

- Presentation of the administrator's 9-month plan was deferred to next Board meeting (see handout).

PUBLIC COMMENTS

G. Yamamoto asked what is the difference between EUTF and HEUHBTF. Trustee Lewis stated that EUTF is our short name. Mr. Yamamoto suggested that we use EUTF as our acronym.

B. DEPUTY ATTORNEY GENERAL

Brian Aburano handed out a memo regarding Mutual Benefit Society (see handout). The memorandum relates to an issue that Mr. Higa raised as to whether or not the Trust Fund was a mutual benefit society subject to regulation by the insurance commissioner. In preparing this memorandum, Mr. Aburano reported that he had discussed the issue with the deputy attorney general who generally represents the insurance division, and that the deputy attorney general had obtained some input from people in the division. Mr. Aburano gave an overview of his memorandum, which concluded that the Trust Fund was not a mutual benefit society subject to regulation by the insurance commissioner. Chair Callejo deferred any decision to waive the attorney-client privilege as to the memorandum to the next Board meeting.

MOTION was made to waive the attorney-client privilege for the Deputy Attorney General's memorandum regarding Section 78-4, HRS, and Incompatible Public Offices. (Miyake/Lewis) The motion passed unanimously. (Employer trustees-4/Employee-Beneficiary trustees-3)

Trustee Miyahira left at 12:40 p.m.

C. BENEFITS CONSULTANT

Gerti Reagan reported that 10 carriers responded to the RFP. She said that for each of the carriers they are preparing a document that shows the basis for their recommendations - so they would be able to explain to the Board their evaluations.

Mr. Fukuhara offered to have the proposals delivered to the Trustees. Chair Callejo asked the Board who wanted the proposals to be delivered to them. The proposals will be delivered to Trustees Callejo, Davis, Hidano, Miyahira, and Miyake. Trustees Lewis, Machida, and Matayoshi will pick-up the proposals.

V. UNFINISHED BUSINESS: None

VI. NEW BUSINESS:

1. Chair Callejo asked to add a new agenda item for an appointment of a new Secretary-Treasurer to replace Trustee Williams who will then review the minutes for August 20 and 26, 2002. There being no objections, the new agenda item was added.

MOTION made to appoint Joan Lewis as new Secretary-Treasurer. (Miyake/Machida)
The motion passed unanimously. (Employer trustees 3/Employees-Beneficiary trustees 3)

Chair Callejo stated that the Board also needs to appoint replacement Trustees to the Administrative Committee and Rules Committee.

MOTION made to appoint Trustee Miyake to the Administrative Committee and Trustee Machida to the Rules Committee. (Lewis/Hidano) The motion passed unanimously. (Employer trustees 3/Employees-Beneficiary trustees 3)

2. Trustee Miyake asked if any action was taken by the Board on the report that was presented by Andy Keowen, Garner Consulting, on the Trust Fund Tiering vs. State Auditor's Report that appeared to refute the data used by the Legislative Auditor's Report at the last meeting. He suggested that the data be forwarded to the Legislative Auditor and the Legislators. (Trustee Miyahira returned at 12:55 p.m.) Trustee Matayoshi said that this related to the PEHF and not the Trust Fund, and that the Board should not go back and analyze or refute what the Legislature did to pass the law that created the Trust Fund. After further discussion, Chair Callejo asked that Mr. Fukuhara and Mr. Aburano look at the Auditor's report and identify what the Auditor said and what was actually found. Chair Callejo directed Mr. Fukuhara to prepare a draft on this matter for the Board to review at the next meeting.

PUBLIC COMMENTS

G. Butterfield stated that one of the issues in a Transition Report by the Administrator to be submitted to the new administration that had not been reviewed by the Board deals with

the possible legislation with VEBA trusts and its impact on the Trust Fund. If the administrator reports back that Trustee Miyake's statement of Garner Consulting data refuting the Legislative Auditor's findings regarding family size (i.e., cherry picking) is true, then the Transition Report will need to be revised as well. Mr. Fukuhara stated that the Transition Report pointed out potential issues that could affect the Trust Fund including potential legislation such as the exemption from Chapter 87A for VEBA trusts.

3. Trustee Miyake said that Trustee Miyahira's participation on two boards needs to be resolved. He stated that if the Board does not want to reconsider getting a declaratory ruling then the Board should draft a letter to the Director of Finance asking that he not designate Trustee Miyahira for the PEHF. Chair Callejo noted that this item is not on the agenda. Trustee Miyake asked to make a motion to add this item to the agenda. Chair Callejo asked that before taking any action, that the Board give him the opportunity to discuss this situation with the Director of Finance and report back to the Board. The Board agreed.

VII. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES

1. Mr. Fukuhara reported that five letters were received from Mr. Mel Higa, Mutual Benefit Association of Hawaii on September 13, 2002 (see handout). These documents were requests for changes to the RFP rather than questions of the RFP. Mr. Aburano reviewed the letters and explained Mr. Higa's concerns: 1st Letter – Mr. Higa claimed that the RFP was inadequate and crafted improperly but did not point out specifics. Mr. Aburano stated that the staff and committees did the best they could and to the extent there were ambiguities, they have answered the questions raised. Mr. Higa also claimed that the RFP was issued before the final rules were adopted. Mr. Aburano stated that it was originally anticipated that the rules would be finalized prior to the time the RFP was issued but since it was not, a draft of the proposed rules was sent out with the RFP. The rules that were recently sent out for final consultation do not appear to be materially different than the draft rules that were sent out with the RFP. There should be no impact if the rules that the Board adopts are not materially different from the draft rules sent out with the RFP. 2nd Letter – Mr. Higa claimed that the RFP sometimes says that things can or can't be done in best interest of: the Trust Fund; Trust Fund and the State; Trust Fund, the State and the Board. Mr. Higa felt the differences in language were inconsistent. Mr. Aburano stated that all that really mattered was that all of the language included what was in the best interest of the Trust Fund. Mr. Higa also claimed that one part of the RFP used the word "Fund" versus "Trust Fund". Mr. Aburano stated that this was not a material difference. 3rd Letter – Mr. Higa complained that he did not think that the contracts resulting from the RFP should be subject to the actual or continuing availability of funds. It is his argument that if the State does not come up with funds or comes up with insufficient funds, it would just be the employee-beneficiaries and retirees who have to deal with it. Mr. Aburano stated that the purpose of that provision was to give the Board and the Trust Fund different options and not to be locked into the contracts. (Trustee Matayoshi left at 1:17 p.m. and returned at 1:19 p.m.) He added that the provision does not mean that if the legislature fails to fund or inadequately funds the

Trust Fund, that the Board necessarily had to cancel the contracts. The Board could take other actions. 4th Letter – Mr. Higa asked as a result of discussions with the finalists (the priority listed applicants), would the Board be issuing addenda or changes to the RFP only to those finalists as opposed to all the applicants. Mr. Aburano stated that it might be moot because there may not be enough applicants to have more than priority-listed applicants. His recommendation is that if there are changes that are substantial that an addendum be sent to all applicants. 5th Letter – Mr. Higa asked when and how the Trust Fund will address questions and ambiguities about the RFP. Mr. Aburano stated that the issue is moot because questions did come in and ambiguities, if any, were pointed out and staff together with the consultant sent out answers.

Chair Callejo noted that Mr. Fukuhara and Mr. Aburano would draft a response to Mr. Higa's letters.

2. Group Administrator's Letter from HDS for the Trustees' information.
3. Flyer on Panel Debate on "What Managers Should Know about Health Care Cost Coverage and Affordability"

VIII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE

The scheduled meetings are:

- Administrative Committee – Wednesday, October 9, 2002 at 9:00 a.m., No. 1 Capitol District Building, Conference Room 410.
- Board meeting – Thursday, October 17, 2002 at 9:00 a.m., State Capitol, Conference Room 408.
- Board meeting - Thursday, October 24, 2002 at 9:00 a.m., Leiopapa A Kamehameha Building, Conference Room 405.

IX. ADJOURNMENT

MOTION was made to adjourn the regular meeting. (Lewis/Matayoshi) The motion was passed unanimously. (Employer trustees-4/Employee-Beneficiary trustees-3)

The meeting was adjourned at 1:24 p.m.

Respectfully submitted,

/s/

Joan K. Lewis, Secretary-Treasurer

APPROVED on April 22, 2003.

Documents Distributed:

1. Program Structure and Measures of Effectiveness. (2 pages)
2. Biennium Budget FY04 and FY05. (2 pages)
3. Potential Legislative Issues dated October 8, 2002. (2 pages)
4. Governor's Quarterly Accomplishments Report: July-September dated September 20, 2002. (1 page)
5. FY03 Expenditures Update dated October 8, 2002. (1 page)
6. EUTF Nine-Month Work plan dated October 8, 2002. (6 pages)
7. Letter from Mr. Melvin M. Higa dated September 13, 2002 Regarding Changes to the RFP. (2 pages)
8. Letter from Mr. Melvin M. Higa dated September 13, 2002 Regarding the RFP. (3 pages)
9. Letter from Mr. Melvin M. Higa dated September 13, 2002 Regarding Changes to the RFP. (2 pages)
10. Letter from Mr. Melvin M. Higa dated September 13, 2002 Regarding Changes to the RFP. (2 pages)
11. Letter from Mr. Melvin M. Higa dated September 13, 2002 Regarding Change to the RFP. (2 pages)
12. Segal's 4th Quarter Report dated September 5, 2002. (8 pages)
13. HDS Newsletter from Group Administrators dated October 2002. (4 pages)
14. Flyer on Panel Debate on What Manager Should Know about Health Care Cost Coverage and Affordability. (1 page)