

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

TRUSTEES PRESENT

Mr. Gerald Machida, Chairperson
Ms. Barbara Annis
Mr. Darwin Ching
Mr. Guy Fujio

Ms. Elizabeth Ho
Mr. Lawrence Reifurth
Mr. Stanley Shiraki

TRUSTEES ABSENT

Mr. George Kahooanohano, Vice Chairperson
Ms. Marie Laderta, Secretary-Treasurer

Mr. John Radcliffe

ATTORNEY

Mr. Brian Aburano, 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
Mr. Mark Fukuhara, Consultant
Mr. Justin Kindy, Consultant
Mr. Bryan Aycock, Consultant

OTHERS PRESENT

Ms. Lynette Arakaki, HDS
Ms. Sandra Benevides, Kaiser Permanente
Dr. Larry Burgess, Hoana Medical
Ms. Monica Engle, VSP
Ms. Venus Gabuyo RSN
Mr. Terry Harrison, NMHC
Mr. John Jacobs, HMSA
Mr. Jun Jao, HMA
Ms. Bonnie Kahalewai, Standard Insurance
Mr. Jack Katahira, HGEA-R
Ms. Ruth Kim, HSRTA
Ms. Wanda Kimura, B&F
Ms. Alice Kotake, HSTA-R
Ms. Doreen Kuroda, DHRD
Ms. Margaret Lawrence, HMAA
Ms. Mary Mitchell, NMHC

Ms. Mary Ellen Mitchell, NMHC
Mr. Maurice Morita, HSTA
Mr. Michael Moss, Kaiser Permanente
Mr. Ben Nakaoka, Hoana Medical
Ms. Gertrude Nitta, HGEA-R
Mr. Chris Odo, C&C Hnl
Mr. Mark Richman, Hoana Medical
Mr. Rod Shinno, HSTA MBC
Ms. Rosy Spraker, Gartner
Dr. Patrick Sullivan, Hoana Medical
Mr. Chris Taclan, Hoana Medical
Ms. Carol Takahashi Hoana Medical
Mr. Rod Tam, HMSA
Mr. George Yamamoto, HGEA-R
Mr. Michael Yogi, C&C Hnl

I. CALL TO ORDER

The regular meeting of the Board of Trustees was called to order at 9:05 a.m. by Trustee Gerald Machida, Chairperson, in EUTF Conference Room, 201 Merchant Street, Honolulu, Hawaii, on Wednesday, October 24, 2007.

II. APPROVAL OF MINUTES

The Board reviewed the draft minutes for September 26, 2007.

There being no objections by the Trustees, the minutes for September 26, 2007 were approved as circulated.

III. OTHER REPORTS

A. Administrator

1. October Update (see written report)

a. PeopleSoft Support

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

b. Oracle/PeopleSoft License and Service Agreement

Overview by Ms. Shiroma regarding the Oracle/PeopleSoft license and service agreement (see Administrator's report). Discussion held by Trustees and staff regarding the cost.

c. RFP No. 08-001 Benefits Administration System Implementation and Maintenance Services

Overview by Ms. Shiroma regarding RFP No. 08-001 for the new benefits administration system. Details to be discussed in Executive Session.

d. Staffing

Ms. Donna Tonaki reported the Accounting Clerk IV position has been filled and will start on November 9, 2007 (see Administrator's report).

e. Supplemental Budget Request FY 09

Overview by Ms. Tonaki regarding the supplemental budget request (see Administrator's report and memorandum to Board).

MOTION was made for the Board to approve the Administrator's recommended supplemental budget requests and authorize the Administrator to seek approval by the Department of Budget and Finance, the Governor and the Legislature. (Ho/Shiraki) The motion passed unanimously. (Employer Trustees-4/Employee-beneficiary Trustees-3)

f. FY 2006-2007 Financial Audit

Ms. Donna Tonaki reported that Grant Thornton is still on-site at the EUTF conducting the FY 2006-2007 Financial Audit. A draft of the financial audit will be presented at the next Board meeting (see Administrator's report).

g. GASB 43/45

Overview by Ms. Tonaki regarding GASB 43/45 (see Administrator's report).

- h. Diabetes Life Coaching Program-City & County of Honolulu
Mr. Williams reported the diabetes life coaching program is still under the consideration by the City and County of Honolulu. They need to do some consultation with the Unions. For the Trustees understanding because there is no request for financial participation by the EUTF, the City could go forward without Board approval but everyone involves wants to work together. In the long term, if the program is successful after the grant expires they may want the program to continue with the co-pay waiver covered by the EUTF. A letter to the Board is forthcoming (see Administrator's report).

There being no objections from the Trustees, this item is deferred until the November Board meeting.

- i. LGI Medical Vigilance System
Mr. Williams reported that Hoana has submitted a proposal which was distributed to the Trustees (see Administrator's report). Presentation by Hoana and action (if any) will be taken under New Business.

B. DEPUTY ATTORNEY GENERAL

1. Everson Lawsuit

Mr. Aburano reported that the Plaintiffs have filed a motion for leave to file a second amended complaint in the Everson lawsuit. The main point of the proposed amendments seems to be to allege procedural and substantive errors regarding the Board's order in the recent declaratory order proceeding.

Mr. Aburano stated that he would be filing an opposition to Plaintiffs' motion since Plaintiffs have also filed a separate appeal with the First Circuit Court seeking judicial review of the same Board order. The Administrator noted that if the Board wanted advice or information regarding the Plaintiffs' appeal of the Board's order that would have to come from a different deputy who was or would be advising the Board on that matter.

2. HRS Chapter 432E Issue

This item will be addressed in Executive Session.

C. BENEFITS CONSULTANT

1. October Report

- a. NMHC – Coordination of Benefits (COB) at Point-of-Service (POS)

Overview by Mr. Fukuhara regarding NMHC coordination of benefits at point-of-service (see Consultant's report). Aon was informed yesterday that NMHC will make changes on Sunday to cover co-payment when NMHC is secondary.

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- b. NMHC – Contractual Issues
Mr. Fukuhara reported that NMHC has proposed amendments to the contract. This item will be addressed in Executive Session (see Consultant’s report).
- c. NMHC – Coverage for Vitamins: EGWP Only
Overview by Mr. Fukuhara regarding NMHC coverage for vitamins (see Consultant’s report).
- d. Physical Examinations – Maximum Allowable Charge
Overview by Mr. Fukuhara regarding physical examinations – maximum allowable charge that was previously approved by the Board (see Consultant's report).
- e. Medical PPO Out-of-Pocket Maximum
Overview by Mr. Fukuhara regarding medical PPO out-of-pocket maximum that was previously approved by the Board (see Consultant's report).
- f. Newsletters
Overview by Mr. Fukuhara regarding newsletters (see Consultant's report).
- g. VSP Refund for FY2006
Overview by Mr. Fukuhara regarding VSP refund for FY2006 (see consultant’s report).
- h. FY07 Final Reports
Overview by Mr. Fukuhara regarding FY07 Final Reports (see Consultant's report).
- i. Preliminary FY09 Rates
Presentation by Mr. Nimmer regarding benchmarking (see State of Hawaii Benchmarking report). Mr. Nimmer stated that when they speak of the rates the Board should keep in mind that the overall solvency of the EUTF is very strong.

Presentation by Mr. Nimmer regarding the preliminary rate setting for FY 2009 (see Preliminary Rate Setting FY 2009 reports). Discussion held by Trustees staff and consultant regarding the expected excess reserve for FY 2008 and fully funded reserves. Mr. George Yamamoto stated the purpose of self-funding was to keep the costs down. Mr. Nimmer explained that one of the goals in self-funding is to keep costs low. The Board will need to decide how much, if at all, it would like to draw down on the EUTF’s excess reserves. The two extremes are to use sufficient reserves to result in no change in rates or apply none of the excess reserves to reduce the indicated

9.2% increase in rates needed. Aon is assuming that the EUTF would fall somewhere in between the two extremes and has provided three options for consideration by the Board. Mr. Williams clarified that Aon would like to know what the Board wants to see in the rates and which scenario the Board would like to choose. Mr. Nimmer recommends at the end of the presentation that the Trustees think of a 3 to 5 year plan when making any decision regarding the rates. The EUTF is in a good position because there is extra money in the bank. Any option shown does not put the EUTF in jeopardy unless something catastrophic happens. Discussion held by Trustees staff and consultant on what reserve levels are sufficient. Mr. Nimmer stated as actuaries for the EUTF, Aon's main objective is to keep the fund as solvent as possible. The bare minimum reserve level needed is the IBNR (\$29 million) and CFR (\$46 million) which satisfies the Board's request for a 95% confidence level to cover costs in any given year. Mr. Nimmer stated that Aon's upgraded projection shows \$73 million in excess reserves at the end of FY2008 which will be available to stabilize rates. Discussion held by Trustees, staff, and consultant regarding whether the unfunded liability under GASB 43/45 is different. Mr. Nimmer stated that the unfunded liability under GASB is a different type of liability. Under GASB, the Board could consider utilizing part of the \$73 million to apply toward the GASB liability. Some states have done that. Mr. Williams stated that if the Board puts \$73 million toward OPEB that would be \$73 million that would not be an obligation of the employers. Discussion held by Trustee and consultant regarding the experience of the State of Hawaii compared to other states and the projected increase of 9%. Mr. Nimmer stated the CFR of \$46 million is the cushion to be used if the projected increase is wrong. Aon is 95% confident that if the rates are sufficient, it would not exhaust the \$46 million in CFR. Discussion held by Trustees, staff, and consultant regarding the approach taken last year and to keep the change in rates low. Mr. Nimmer stated that the strategy the Board may want to take is the second option which is to buy down the rate increase from 9.2% to 4.6%. The EUTF would still have excess reserve funds to continue to buy down and temper the rate increase over the next several years.

By consensus of the Trustees, the consultant is directed to use the middle ground approach.

Mr. Nimmer continues the presentation. Discussion held by Trustees staff and consultant regarding the cross subsidy between rate tiers. Mr. Nimmer stated that more research regarding tiering will be presented at the next Board meeting. Mr. Nimmer stated Aon's recommendation is to make any changes in tier ratios at a slow methodical and strategic pace over 3 to 5 years. If too many dramatic changes are made at once it can change the behaviors of the population. This is consistent with the Board direction given earlier today.

- j. Supplemental Prescription Drug Plan - COB
Overview by Mr. Fukuhara regarding the supplemental prescription drug plan-COB (see Consultant report). The consultant's recommendation is to increase the benefit from \$15 to \$20 to cover the preferred drug co-payment of the most prevalent HMSA prescription drug plan retroactive July 1, 2007. Mr. Fukuhara stated HMSA provided information that the estimated additional amount that the EUTF would need to pay is \$30,000 for this fiscal year. Mr. Fukuhara stated that if the recommendation is approved NMHC will need to reimburse and send a letter to affected participants. Discussion held by Trustees staff and consultant regarding the concerns of having to pay. Discussion held by Trustees, staff, and consultant regarding concerns about co-payments and the intent of why supplemental plans were offered.

MOTION was made for the Board to approve to change the co-payment for the supplemental prescription drug plan from \$15 to \$20 effective July 1, 2007. (Fujio/Ho) After discussion by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-beneficiary Trustees-3)

- D. Financial Report as of August 31, 2007
Overview by Ms. Tonaki regarding the financial report as of August 31, 2007 (see financial reports).
- E. Carrier's Reports
 - 1. HDS
No report submitted.
 - 2. HMA
Written report submitted.
 - 3. HMSA
Written report submitted. Mr. Tam thanked NMHC for information provided on disease management. Report on drugs is temporary off on the HMSA's website members can access other information such as past reports on claims.
 - 4. Kaiser Permanente
Written reports were distributed to the Trustees today. Ms. Benevides summarized the reports.
 - 5. NMHC
Written report submitted.
 - 6. Royal State Insurance
Written report submitted.
 - 7. Standard Insurance
Written report submitted.
 - 8. VSP
Written report submitted.

Recessed at 10:25 a.m. and Reconvened at 10:30 a.m.

IV. UNFINISHED BUSINESS

A. Legislative Proposal for 2008 Legislative Session

Overview by Mr. Williams regarding the legislative proposal and letters from the Director of Finance and City & County opposing the proposal. Discussion held by Trustees and staff regarding concerns by the employers, concerns about requiring full funding, why this proposal was initiated, and the Board's fiduciary responsibilities. Mr. Williams explained that at the last meeting he recommended that no proposals be submitted but was directed to prepare a legislative proposal for review by the Board. Mr. Shiraki stated that he thought that the Board had some kind of fiduciary duty to raise this matter, but as long as the public employers realize that this is an issue then it is in their ballpark. Trustee Annis agrees that the Board needs to participate in some type of analysis going forward but to submit a proposal at this time would be unreasonable. Further discussion held by Trustees and staff that if the public employers are going to meet the EUTF should write a letter saying that the Board would like to participate in those discussions.

MOTION was made that the Board authorize the Administrator to draft a letter to the public employers informing them that the EUTF understands concerns raised about the draft proposal and requesting that if they consider legislation regarding the pre-funding of retirement benefits that the EUTF be involved in the consideration and discussion of any such legislation.

V. NEW BUSINESS

A. Appointment of Standing Committees

Overview by Mr. Williams regarding the standing committees.

MOTION was made for the Board to appoint the members of the Administrative and Benefits Committees as suggested by the Administrator. Administrative Committee Members: Barbara Annis, Guy Fujio, George Kahoohanohano, Marie Laderta, Gerald Machida, Stanley Shiraki. Benefits Committee members: Darwin Ching, Elizabeth Ho, George Kahoohanohano, John Radcliffe, Lawrence Reifurth, Stanley Shiraki. (Ho/Shiraki) After discussion held by the Trustees, the motion passed unanimously. (Employer Trustees-4/Employee-beneficiary Trustees-3)

B. Investment Consultant RFP

This item will be addressed in Executive Session.

C. Supplemental Prescription Drug Plan – COB Payment Revision

This item was addressed during the Consultant's report.

D. Supplemental Budget Request FY 09

This item was addressed during the Administrator's report.

- E. NMHC Contract – Proposed Revisions
This item will be addressed in Executive Session.
- F. Hoana Lifebed – Request for Reimbursement
Representatives of Hoana Medical present: Carol Takahashi Dr. Patrick Dr. Lawrence Burgess Mark Richman and Benjamin Nakaoka. Trustee Ho disclosed that she personally knows Dr. Sullivan’s in-laws. Chair Machida stated that he did not think that this raised a conflict of interest. Presentation by Dr. Patrick Sullivan CEO regarding Hoana’s proposal. Discussion held by Trustees and staff regarding concerns in committing to individual company products. Mr. Williams stated the Board can now make decisions on matters like this because of the self funded plans. Further discussion held by Trustees staff, consultant, and public regarding who gets charged, concerns about paying up front, complications if not covered by Medicare, performance guarantees, Aon reviewing proposal and submitting a recommendation to the Board, and inviting hospitals to attend the next Board meeting.

There being no objections by the Trustees, Aon will review fee proposal and submit a recommendation to the Board, and the Administrator will invite Queen's hospital representatives to the next Board meeting.

- G. Annual Evaluation of Administrator – Appointment of Evaluation Committee
Chair Machida’s recommendation is that Trustees Radcliffe, Kahoohanohano, and Shiraki be reappointed and that an employer Trustee be added.

MOTION was made for the Board to appoint Trustees Radcliffe, Kahoohanohano, Shiraki, and Laderta to serve as the Board’s administrator evaluation committee and to present the recommended evaluation along with any recommendations regarding changes to the administrator’s employment agreement (including salary) to the Board for approval. (Ho/Ching) The motion passed unanimously. (Employer Trustees-4/Employee-beneficiary Trustees-3)

- VI. COMMUNICATIONS FROM THE PUBLIC AND INPUT FROM ATTENDEES
Mr. George Yamamoto commented that the complaints have decreased and thanked NMHC for working out problems regarding retirees. Chair Machida also thanked the EUTF staff.
- VII. FUTURE AGENDA ITEMS AND NEXT MEETING DATE
Board meeting is scheduled for Wednesday, November 28, 2007, 9:00 a.m., EUTF conference room, 15th floor.

VIII. EXECUTIVE SESSION

MOTION was made to go into Executive Session at 11:49 a.m. for the reasons stated on the agenda. (Ching/Ho) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-3)

MOTION was made to move out of Executive Session at 12:45 p.m. (Ho/Shiraki) The motion passed unanimously. (Employer Trustees-4/Employee-Beneficiary Trustees-3)

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

1. Approval of September 26, 2007 Executive Session minutes.
2. Approval of Addendum to NMHC's contract.
3. Referred Investment Consultant RFP to the Administrative Committee.

IX. ADJOURNMENT

There being no objections by the Trustees, the meeting adjourned at 12:46 p.m.

Respectfully submitted,

/s/

Marie Laderta, Secretary-Treasurer

APPROVED on November 29, 2007.

Documents Distributed:

1. Draft Minutes for September 26, 2007. (12 pages)
2. Memorandum to BOT from Administrator regarding October Administrator Report dated 10/16/07. (3 pages)
3. Memorandum to BOT from Administrator regarding FY 2009 Supplemental Budget dated 10/15/07. (4 pages)
4. Letter to BOT from Aon Consulting regarding October 2007 Benefit Consultant Report dated 10/15/07. (3 pages)
5. EUTF Newsletter for Active Participants Issue #1. (1 page)
6. EUTF Newsletter for Retiree Participants Issue #1. (1 page)
7. EUTF Statement of Net Assets (Unaudited) dated 10/10/07. (1 page)
8. EUTF Combined Statement of Revenues and Expenses-Budget & Actual Comparison 2 Months Ended 8/31/07 (Unaudited) dated 10/9/07. (1 page)
9. EUTF Statement of Cash Flows 2 Months Ended 8/31/07 (Unaudited) dated 10/8/07. (1 page)
10. Draft Legislation – GASB dated 10/1/2007. (4 pages)

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11. Letter from C&C of Honolulu regarding Draft Legislative Proposal dated 10/24/07. (1 page)
12. Letter from HGEA regarding Hoana LifeBed dated 10/23/07. (1 page)
13. Approved Minutes for July 25, 2007. (9 pages)
14. Approved Minutes for August 29, 2007. (3 pages)