



ANNUAL REPORT

FOR THE PERIOD JULY 1, 2018 THROUGH JUNE 30, 2019

**Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii**

December 2019

THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
ANNUAL REPORT
Fiscal Year ended June 30, 2019

This report presents an overview of the organization and activities of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) for the fiscal year ended June 30, 2019. The EUTF manages and administers health and life insurance plans for eligible state and county employees and retirees and their eligible dependents. The statutory objective of the EUTF is to provide quality health plans that are affordable to employers and employees.

The EUTF was established under Chapter 87A of the Hawaii Revised Statutes and is administratively attached to the Department of Budget and Finance. The office is located in City Financial Tower, 201 Merchant Street, Suite 1700, Honolulu, Hawaii.

The EUTF operates according to administrative rules originally adopted in February 2003 and most recently revised in 2019. The administrative rules were formulated to carry out the requirements of Chapter 87A.

TRUST FUND ORGANIZATION

Board of Trustees

The EUTF is administered by a board of trustees (Board) which is responsible for determining the benefit plans offered, negotiating and entering into contracts with insurance carriers and plan administrators, establishing eligibility criteria and management policies for the EUTF, managing the investments and overseeing all EUTF activities.

There are ten trustees, five representing the public employers and five representing employee-beneficiaries that includes a retiree representative. The trustees and their affiliations as of June 30, 2019 are shown below:

Employer Trustees

- Roderick Becker, Administrator, Financial Administration Division, Dept. of Budget & Finance
- Damien Elefante, Deputy Director, Dept. of Taxation
- Audrey Hidano, Deputy Comptroller, Dept. of Accounting and General Services
- Laurel Johnston, Retired Director, Dept. of Budget & Finance
- Ryker Wada, Director, Dept. of Human Resources Development

Employee-Beneficiary Trustees

- Linda Currivan Musto, Retiree
- Christian Fern, University of Hawaii Professional Assembly (UHPA)
- Gordon Murakami, Hawaii State Teachers Association (HSTA)
- Celeste Nip, Hawaii Fire Fighters Association (HFFA)
- Clifford Uwaine, United Public Workers (UPW)

Board officers for the period July 1, 2018 – June 30, 2019 were Roderick Becker - Chairperson; Audrey Hidano - Vice-Chairperson; and Christian Fern - Secretary-Treasurer.

The Board has regularly scheduled monthly meetings. Board agendas and minutes are posted on the EUTF website at eutf.hawaii.gov.

Administrator and Staff

The EUTF is managed by an Administrator who is hired by and reports to the Board. The Administrator is assisted by an Assistant Administrator, an Investment Office, a Benefits Office, a Financial Management Officer, an Information Systems Chief, and a Member Services Branch Manager. The EUTF has a total of 59 positions (including management staff and the Administrator). The Investment Office is responsible for all investment-related activities of the EUTF and the Benefits Office is responsible for the benefit plan design, cost control through disease management and wellness programs, and auditing of enrollment and claims.

The EUTF has three branches: the Financial Services Branch, Information Systems Branch, and Member Services Branch.

- The Financial Management Officer is supported by seven accountants and five account clerks, who reconcile employee accounts, collect employer/employee contributions for health benefits, process all vendor payments, prepare monthly financial statements and coordinate the annual financial audit.
- The Information Systems Chief manages support for internal information technology (IT) services, manages 1st level support for the benefits administration system, fulfills HIPAA security responsibilities, coordinates additional support services provided by the Department of Accounting and General Services Office of Enterprise Technology Services and Vitech Systems Group, Inc, and is supported by seven IT staff.
- The Member Services Branch Manager oversees the Member Services Branch and is supported by 26 employees assigned to customer service, enrollment, and training duties. Responsibilities include in-person visits, answering phone calls and e-mails from members, and processing of all active employee and retiree enrollment submissions.

Advisors, Consultants and Major Contracts

The Board contracts professional consultants and advisors on certain specific issues of importance to the EUTF:

- Benefits Plan Consultant: The Board has contracted with the Segal Company (Segal) to provide benefit plan consulting services. Segal is a major national benefits consulting firm and provides access to their wide range of services from their Glendale, California office.
- Benefits Administration System (BAS): Vitech Systems Group, Inc. provides the BAS software which handles all enrollment and transmission, member records and premium calculation and tracking. Vitech Systems Group, Inc. provides on-going support of the BAS including programming periodic plan and eligibility rule changes.
- Investment Consultant: Meketa Investment Group (Meketa) provides investment consulting services related to general, private equity and private real estate matters in developing and updating the EUTF's investment policy guidelines including a long-term strategic asset allocation, selecting and terminating investment managers/funds and reporting on the performance of EUTF's long term investments. In addition, Meketa assists in the asset allocation and selection,

monitoring and termination of investment managers/funds for the EUTF's short-term funds.

- Global Custody Services: Northern Trust Company provides global custody and securities lending services for EUTF's investments.
- Actuary: Gabriel Roeder Smith & Company conducts annual actuarial valuations of the other post-employment benefit obligation for retiree health benefits.
- Auditor: The auditing firm, KKDLY LLC, procured by the State of Hawaii Office of the Auditor, began the fiscal year ending June 30, 2019 audit in July 2019.

HEALTH AND LIFE INSURANCE BENEFIT PLANS

The EUTF provides health and life insurance benefits through contracts with the following organizations:

Medical and Chiropractic

- ◆ Hawaii Medical Service Association (HMSA)
 1. PPO Plans – 90/10 and 80/20 plans for EUTF and HSTA VB* active employees
 2. PPO Plan – 75/25 plan for EUTF active employees
 3. HMO Plan for EUTF active employees
 4. PPO Plans – 90/10 plans for EUTF and HSTA VB* retirees

Medical, Chiropractic and Prescription Drug

- ◆ Kaiser Permanente (Kaiser)
 1. Comprehensive HMO Plans for EUTF and HSTA VB* active employees
 2. Standard HMO Plan for EUTF active employees
 3. Comprehensive HMO Plans for EUTF and HSTA VB* non-Medicare retirees
 4. Senior Advantage Medicare Plans for EUTF and HSTA VB* Medicare retirees

Prescription Drug

- ◆ CVS Caremark
 1. Prescription drug coverage for HMSA PPO and HMO Plans for EUTF and HSTA VB* active employees and non-Medicare retirees
 2. SilverScript (CVS provider of Medicare Part D prescription drug plans) prescription drug coverage through an Employer Group Waiver Plan (EGWP) for EUTF and HSTA VB* Medicare retirees

Dental

- ◆ Hawaii Dental Service (HDS)
 1. EUTF and HSTA VB* active employees and retirees
 2. Supplemental plan for HSTA VB* active employees

Vision

- ◆ Vision Service Plan (VSP) – EUTF and HSTA VB* active employees and retirees

Life Insurance

- ◆ US Able Life – EUTF and HSTA VB* active employees (terminated June 30, 2019) and retirees (terminated December 31, 2018).
- ◆ Securian Financial – EUTF and HSTA VB* active employees (beginning July 1, 2019) and retirees (beginning January 1, 2019).

Supplemental Medical and Prescription Drug

- ◆ HMA (Hawaii-Mainland Administrators) – EUTF active employees

The federal Affordable Care Act (ACA) became effective for the active employee medical and prescription drug plans on July 1, 2011.

*HSTA VB refers to the plans developed in response to Judge Karl Sakamoto's December 7, 2010 ruling. HSTA VB plans cover only those who were previously covered by the HSTA VEBA plans effective December 31, 2010.

INSURED AND SELF-INSURED PLANS

The following plans are fully insured:

- HMSA medical and chiropractic**
- Kaiser medical, chiropractic and prescription drug
- HDS dental**
- VSP vision**
- US Able Life, life insurance
- Securian Financial life insurance

** Fully insured with one-way risk sharing - premium refund in those years in which premiums exceeds incurred claims and expenses.

The following plans are self insured:

- CVS Caremark prescription drug for active employees and non-Medicare retirees
- SilverScript EGWP prescription drug for Medicare retirees
- HMA supplemental medical and prescription drug

ACTIVITIES IN FISCAL YEAR 2019

EUTF conducted open enrollment in October 2018 for retirees, with an effective date of January 1, 2019 and in April 2019 for active employees, with an effective date of July 1, 2019.

For active employee plans, starting July 1, 2019, the following are the significant plan changes:

HMSA Medical Plans

1. *Advanced Care Planning.* For HSTA VB plans, added coverage at 100% for in-network providers and standard plan benefits for out-of-network providers. For EUTF PPO and HMO plans, improved coverage to 100% for in-network providers (not subject to the 75/25 deductible) and standard plan benefits for out-of-network providers.

2. *Diabetes Prevention Program.* For HSTA VB members, added coverage at 100% for in-network providers limited to once per lifetime. This program was previously added to the EUTF PPO and HMO plans effective July 1, 2018.
3. *Heart Disease Program.* For HSTA VB plans, added coverage of a program for reversing heart disease at \$20 per session from in-network providers limited to once per lifetime. This program was previously added to the EUTF PPO and HMO plans effective July 1, 2016.
4. *Supportive Care.* For HSTA VB plans, added coverage at 100% from in-network providers limited to 90 calendar days in a 12-month period. This benefit was previously added to the EUTF PPO and HMO plans effective July 1, 2017.

Kaiser Medical and Prescription Drug Plans (EUTF and HSTA VB Plans)

1. *Diabetes Prevention Program.* Added a facility-based and digital-based Diabetes Prevention Program at no cost to the member.

CVS Prescription Drug Plans (EUTF Plans Only)

1. *Specialty Annual Maximum Out-of-Pocket.* Increased from \$2,000 to \$2,500.
2. *Specialty Coinsurance.* Changed from 20% up to \$250 per prescription to:
 - Specialty generic: 10% up to \$200 per prescription
 - Specialty preferred brand: 20% up to \$300 per prescription
 - Specialty non-preferred brand: 30% up to \$400 per prescription

HDS Dental Plans (EUTF and HSTA VB Plans)

1. Added additional cleanings and/or fluorides to prevent oral disease and tooth decay that accompanies certain medical conditions or diseases such as cancer, Sjogren's Syndrome, stroke, heart attack, congestive heart failure, kidney failure, and organ transplants.

VSP Vision Plans (EUTF and HSTA VB Plans)

1. *Standard Progressive Lenses (no-line multi-focal lenses).* Improved in-network coverage at 100%.
2. *Network.* Wal-Mart & Sam's Club have been added to the VSP Network
3. *Frame Allowance.* The \$120 every other year frame benefit (in lieu of the contact lens allowance) is now available at all VSP Providers (including Costco, Wal-Mart & Sam's Club).

Securian Financial Life Insurance Plan (EUTF and HSTA VB Plans)

1. Securian Financial (Securian) has been chosen as the new life insurance carrier.
2. The life insurance benefit provided decreased from \$41,116 to \$38,505 for active employees under age 65.
3. The accelerated death benefit increased from up to 75% to 100%.

For retiree plans, starting January 1, 2019, the following are the significant plan changes:

HMSA Medical Plans

1. *Advanced Care Planning.* For HSTA VB retiree plans, added coverage at 100% for in-network providers and for standard plan benefits out-of-network providers. For EUTF retiree plans, improved coverage to 100% and standard plan benefits for out-of-network providers.
2. *Diabetes Prevention Program.* For EUTF and HSTA VB non-Medicare retirees, added coverage at 100% for in-network providers limited to once per

lifetime. A similar Medicare program was previously added to the EUTF and HSTA VB Medicare retiree plans effective April 1, 2018.

VSP Vision Plans (EUTF and HSTA VB Plans)

1. *Frame Allowance*. The \$120 every other year frame benefit (in lieu of the contact lens allowance) is now available at all VSP Providers (including Costco, Wal-Mart & Sam's Club).

Securian Life Insurance Plan (EUTF and HSTA VB Plans)

1. Securian has been chosen as the new life insurance carrier.
2. The life insurance benefit provided decreased from \$2,235 to \$1,815.
3. Added an accelerated death benefit of up to 100%.

Act 145, Session Laws of Hawaii (SLH) 2017 allows EUTF employees to enter into the civil service system. In 2017, the EUTF Board determined that 42 exempt positions would be converted to civil service of which 31 have been converted as of June 30, 2019. The EUTF is providing a separate report to the Legislature regarding progress under Act 145, SLH 2017.

The other post-employment benefits trust fund (OPEB Trust) returned 4.1% net of fees during the fiscal year and has returned 7.1% annualized net of fees since inception (June 23, 2011) through June 30, 2019 which exceeded the investment target return of 7.0%. Fiscal year 2019 performance was below the median public fund performance of 5.9% primarily due under allocation to the private equity class (1.4% actual allocation at June 30, 2019 versus a 10% target). Since passage of Act 30, SLH 2016 that allowed EUTF investment into additional asset classes such as private real estate, private credit, private equity, options and futures and alternative risk premia (i.e. factors) strategies, the EUTF Board has committed \$411.9 million to private equity funds or 13.4% of the OPEB Trust at June 30, 2019. Unfortunately, through June 30, 2019 only \$47.5 million of the \$411.9 million committed to private equity has been invested.

Ongoing Programs and General Operations

The EUTF provides Open Enrollment sessions for active employees each Spring and for retirees each Fall, Departmental Human Resources Officer informational sessions and pre-retirement sessions in the EUTF office and on the neighbor islands. EUTF also participates in pre-retirement sessions, new hire orientations and benefit fairs conducted by the various employers, as well as pre-retirement and retirement sessions conducted by the various unions. EUTF is also focusing on internet-based outreach which includes on-demand presentations and webinars.

During fiscal year 2019, the EUTF Member Services Branch Call Center successfully handled 54,019 (versus 49,049 in fiscal year 2018) customer service and 15,266 (versus 19,314 in 2018) accounting phone calls, and staff serviced 9,092 (versus 8,230 in 2018) walk-in visitors. Additionally, 115,647 (versus 112,752 in 2018) incoming documents were imaged, and 80,086 (versus 89,964 in 2018) enrollment-related outbound documents were printed in-house and mailed directly to plan participants.

Information Systems handled the following systems issues in addition to normal work flow:

- A feasibility study was conducted by Public Consulting Group (PCG) to explore the upgrade or replacement of EUTF's Benefits Administration System (BAS). The

- study concluded that EUTF should conduct a procurement for a new BAS due to the current use of an old software version of the BAS.
- Linea Solutions was contracted to assist EUTF in writing an RFP for a new BAS. Linea conducted functional and technical reviews of EUTF's current BAS environment and is working on a draft request for proposals.
 - Implemented changes in the BAS to allow importing of the monthly death validation file from the Department of Health which allows timely recording of death dates.
 - Implemented changes in the BAS to allow importing of Medicare Part D files from SilverScript which allows automating the data entry of Medicare Part D enrollment information.
 - Implemented changes to the BAS to distribute workflows by member last name to the Member Services Section team members to ensure consistency in processing enrollment changes and supporting documents.

An annual audit of the EUTF, as required by Chapter 87A-25(2), was conducted for the fiscal year July 1, 2018 through June 30, 2019 by KKDLY LLC. The report is posted on EUTF's website and attached to this report.

The following pages provide enrollment data as of June 30, 2019.