APPENDIX A

2005 ANNUAL REPORT OF EUTF

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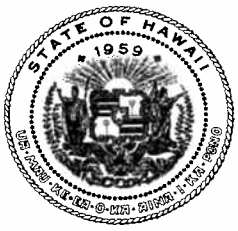

ANNUAL REPORT

FISCAL YEAR 2004-05

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

December 2005

This report presents an overview of the activities of the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") for the fiscal year 2004 - 2005. The EUTF is administratively attached to the Department of Budget and Finance. The EUTF's office is located at Suite 1520, City Financial Tower, Honolulu, Hawaii.

OVERVIEW

Chapter 87A of the Hawaii Revised Statutes established a trust fund known as the Hawaii Employer-Union Health Benefits Trust Fund. The EUTF is the state agency that provides eligible state and county employees and retirees and their eligible dependents with health and life insurance benefits. The EUTF replaced the Hawaii Public Employees Health Fund ("PEHF"), effective July 1, 2003.

TRUST FUND ORGANIZATION

Board of Trustees

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

There are ten trustees, five representing the public employers and five representing employee-beneficiaries, including a retiree representative. The current trustees are shown below:

Employer Trustees

- Nelson Befitel
- Marie Laderta
- Mark Recktenwald
- Stanley Shiraki
- Katherine Thomason

Employee-Beneficiary Trustees

- George Kahoohanohano, SHOPO
- Joan Lewis, HSTA
- Gerald Machida, Retirees
- Willard Miyake, HGEA
- John Radcliffe, UHPA

Board officers currently are John Radcliffe, Chairperson, Gerald Machida, Vice-Chairperson and Katherine Thomason, Secretary-Treasurer. The officers serve a one-year term beginning July 1 of each year.

During the period covered by this report, the Board has used both standing and temporary committees to facilitate its administration of the EUTF. The two standing committees are the Administrative Committee and the Benefits Committee. The Administrative Committee considers matters pertaining to the administration and operation of the EUTF, e.g., development of budget, organization of staff, setting of personnel policies, evaluation of EUTF systems, and consideration of use of third party administration services. The Benefits Committee considers matters pertaining to the design and procurement of the EUTF's health and life insurance benefit plans.

Administrator and Staff

The day-to-day administration of the EUTF is managed by an administrator who reports to and is responsible to the Board. The administrator is James Williams who was hired in November 2004. The EUTF administrator and new staff positions are exempt from civil service.

The administrator is assisted in managing the EUTF by an assistant administrator, a financial management officer, and an information systems analyst. EUTF staff includes nine full-time civil service positions that were transferred from the PEHF (predecessor to EUTF) effective July 1, 2003, plus fourteen exempt employees hired directly by EUTF or a total of 23 employees (including the management staff).

The EUTF has three branches: the Financial Services Branch, Information Systems Branch, and Member Services Branch. A health benefits program manager oversees the Member Services Branch and is supported by five employees assigned to customer service duties that include answering phones and e-mails from members and handling all processing for retirees. Five other employees process all active employee enrollment submissions. The financial management officer is supported by two accountants and three accounting clerks. The EUTF information systems analyst provides internal IT support services, fulfills HIPAA security responsibilities, and coordinates additional support services provided by DAGS/ICSD.

Advisors and Consultants

The Board utilizes the services of Garner Consulting as its benefits plan consultant. Garner Consulting, a nationally recognized consulting firm specializing in employee benefit issues, was founded in 1987 and is based in Pasadena, California. Garner Consulting consults to numerous public and private sector employers across the United States including the Automobile Club of Southern California, the County of Los Angeles, Firefighters Local 1014 (Los Angeles County), Marriott International and U-Haul.

The Board also has employed professional consultants and advisors on certain specific issues of importance to the EUTF. Malanaphy Consulting was retained to assist in reviewing the EUTF's software systems and related business practices with a view towards determining whether and how the EUTF should upgrade its software systems. The Kutak Rock law firm was retained to review the EUTF's forms and procedures for handling domestic partner coverage and related tax issues. Garner Consulting with sub-contractor, SummitWatch Consulting Services also provided services to assist with HIPAA Security rules compliance.

ADMINISTRATIVE RULES

The EUTF operates according to administrative rules adopted in February 2003. The administrative rules were formulated to meet the requirements of Chapter 87A, Hawaii Revised Statutes, and the health and other benefit plans established by the EUTF. In addition, they were designed to increase administrative efficiencies and reduce the EUTF's administrative costs. For example, the rules set the effective dates for initial enrollments, changes in enrollment, and cancellations of enrollment in the EUTF's health benefit plans so as to facilitate automated handling of such activities.

HEALTH AND LIFE INSURANCE BENEFIT PLANS

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

- Hawaii Medical Service Association (HMSA)
- Kaiser Permanente (Kaiser)
- Hawaii Dental Service (HDS)
- Vision Service Plan (VSP)
- Mutual Benefit Association of Hawaii/ChiroPlan Hawaii, Inc. (ChiroPlan)
- Royal State National Insurance Company, Ltd. (Royal State)
- Aetna Life Insurance Company (Aetna)

The health benefits plans offered by these organizations and implemented on July 1, 2003 continued through 2005 with no material changes to the existing benefits. Two major, local carriers provide medical plan coverage for the State and County active employees and retirees. HMSA offers the Preferred Provider Option (PPO) plan and Kaiser offers the Health Maintenance Organization (HMO) plan. HDS and VSP provide the regular and dual dental and vision plans respectively for active employees and the regular dental and vision plans for retirees. Aetna provides the life insurance plan for active employees and retirees.

For both active employees and retirees, the health benefit plans are available to domestic partners and full-time students up to the age of 24. No additional premium is required for student coverage under the family option. Active employees also receive chiropractic benefits through ChiroPlan which is offered in combination with any of the medical plans offered.

All active employees who have medical coverage through private sector or federal government plans are eligible to enroll in either of two Dual-Coverage Medical Plans. The Royal State National Insurance Company, Ltd offers a dual

coverage medical reimbursement plan, and HMSA offers a fee-for-service dual coverage plan.

The table below shows active employees' enrollment as of June 30, 2005.

Type of Benefit Plans	Type of Coverage		Grand Total
MEDICAL	**Self**	**Family**	
Regular Plans			
HMSA	20,388	18,768	39,156
Kaiser	6,310	5,232	11,542
Dual Plans			
HMSA Dual Plan	237	453	690
Royal State Dual Plan	120	366	486
Prescription Drugs Only			
HMSA	39	70	109
Waived *			13,151
Total Medical	27,094	24,889	65,134
DENTAL			
Regular Plan			
HDS	25,000	28,193	53,193
Dual Plan			
HDS Dual	316	1,728	2,044
Waived *			9,897
Total Dental	25,316	29,921	65,134
VISION			
Regular Plan			
VSP	24,785	25,989	50,774
Dual Plan			
VSP	277	1,430	1,707
Waived *			12,653
Total Vision	24,946	27,572	65,134
LIFE INSURANCE			
Aetna	64,946		64,946
Waived			188
Total Life Insurance			65,134

* Includes 395 terminated for non-payment.

The table below shows retirees' enrollment as of June 30, 2005

Health Plans	Type of Coverage		Grand Total
MEDICAL	**Self**	**Family**	
HMSA Pre-Medicare	3,482	4,628	8,110
HMSA With Medicare	12,659	8,003	20,662
Kaiser With Medicare Plan	3,112	1,647	4,759
Kaiser Pre-Medicare	841	974	1,815
Total Medical	20,094	15,252	35,346
DENTAL			
HDS	19,905	15,136	35,041
VISION			
VSP	19,842	15,280	35,122
LIFE INSURANCE			
Aetna	31,403	-	31,403

OPERATIONS

During fiscal year 2005, the EUTF was faced with several challenges that stretched its resources to its limits. Faced with budgetary constraints, the EUTF overcame several significant challenges in providing top quality service to eligible State and county employees and retirees and their eligible dependents. When the EUTF took over operations from the Public Employees Health Fund (PEHF) at the beginning of FY2004, its personnel resources to support State and county employees and retirees remained the same even though the number of participants increased by over 40%.

The EUTF capacity continued to be challenged with additional requirements for its existing staff. Two federal requirements had significant impact in FY2005. The Health Information Portability and Accountability Act (HIPAA) required compliance with electronic health information security rules by April 1, 2005. By April 1, 2005, the EUTF had complied with nearly all of the requirements and was working with other State agencies to complete the remaining requirements. The 2004 Department of Labor Final Regulations for COBRA modified the methodology and requirement for existing COBRA notification and added two additional notices. These requirements were implemented by the required compliance date of July 1, 2005.

During FY2005, the five employees who make up the EUTF Customer Service staff received over 46,000 telephone calls and made 13,700 outgoing calls, or an average of nearly 5,000 incoming and outgoing calls per month. In addition, the same staff processed over 13,200 retiree enrollment-related forms, printed and mailed over 17,000 COBRA related notices, 18,000 confirmation notices, 5,000

retiree-related notices and other project notices or letters such as the special enrollment and responses to retiree requests.

The Enrollment staff imaged 53,829 documents during FY2005 and processed all but 2,096 documents, or a completion rate of 96.11% by mid-July 2005. Enrollment-related documents which affect an employee's or retiree's benefit plans or coverage comprised nearly 61% of all documents submitted to the EUTF. Other documents dealt with change of address, correction or clarification of data submitted, removal of dependents from plans, and other miscellaneous categories.

The EUTF conducted its annual open enrollment from April 18 to May 20, 2005. In preparation for the 2005 Open Enrollment, the EUTF conducted training sessions on the four major islands for the personnel and financial officers involved in the open enrollment process. Over 450 personnel and financial officers attended the 12 training sessions. The EUTF staff also held 49 informational open enrollment sessions, including six retiree sessions, throughout the state. Due to minimal changes in the EUTF plans, less than 2.5% of employees and retirees attended these sessions.

For the 2005 Open Enrollment, less than 4,500 enrollment-related forms were submitted. The EUTF processed all timely submitted and completed enrollment forms prior to July 1, 2005. Since there were no significant changes for the FY2005 benefit period, most employees and retirees remained on their previous plans. Approximately 4,000 active employees and 270 retirees made changes to their health benefits selections.

The EUTF participates with the major State departments and counties which host pre-retirement, orientation and other informational sessions during the year. Over 3,000 interested employees attended these sessions. The EUTF instituted a program to provide on-site retirement counseling in conjunction with the Employee Retirement System's periodic group retirement counseling sessions. During these sessions, the employee receives counseling from the ERS counselors regarding their retirement benefits and is counseled by the EUTF staff on their retirement health and life insurance benefits. This collaboration provides a valuable service to our employees planning to retire.

FISCAL YEAR 2005

During FY 2005, the EUTF collected $591,058,712 in employer and employee contributions for health benefit plans and paid carriers $555,282,766 in premiums. Medicare Part B reimbursements paid to retirees amounted to $28,682,246. These above amounts are based on an accrual basis. The EUTF

is holding $5,728,590 in reserves for carrier retrospective premiums. During FY2005, in addition to amounts previously transferred, the PEHF (predecessor to the EUTF) transferred $6,400,916 to the EUTF.

The EUTF Board authorized amounts transferred from PEHF and attributed to participants to be refunded to PEHF employee-beneficiaries during FY 05. EUTF issued checks to 74,832 participants in amounts totaling $5,228,695.

An annual audit of the EUTF, as required by Chapter 87A-25(2), was conducted for the plan year July 1, 2004 through June 30, 2005 by Grant Thornton. The EUTF financial reports as presented in the Audit Report were approved by the EUTF Board of Trustees on December 8, 2005 and are attached to and incorporated in this report.