



STATE OF HAWAII
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

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DEREK M. MIZUNO

ASSISTANT ADMINISTRATOR
DONNA A. TONAKI

July 27, 2016

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Twenty-Eighth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki, Speaker
and Members of the House of
Representatives
Twenty-Eighth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Re: Periodic Update on EUTF Operations – Investments and Claims Audit

Dear Senate President Kouchi, Speaker Souki, and Members of the Legislature:

From time to time, the EUTF will be providing updates to inform you on the operations of the EUTF. We hope that you will find these updates informative.

OPEB Trust Investments

During fiscal year 2016, the EUTF other post-employment benefits trust fund (OPEB Trust) passed the \$1 billion mark and ended the year at \$1.2 billion (\$480.8 million represents the State's assets). The OPEB Trust fund differs from the Employees' Retirement System of the State of Hawaii (ERS) in that OPEB Trust fund employer contributions; share of income, expenses, realized and unrealized gains and losses; and employer disbursements are accounted for separately. The OPEB Trust is similar to the ERS in that funds are pooled for investment purposes only.

The OPEB Trust has seen tremendous growth since June 30, 2011 (\$150.7 million) from employer contributions in accordance with Act 268, SLH 2013 and to a lesser extent investment earnings. Annualized returns, net of fees, from 7/1/11 through 3/31/16 were 7.0%. Additionally in early June 2016, \$75 million of excess reserves were transferred to the OPEB Trust at the

direction of the EUTF Board. The \$75 million was allocated to each employer based on their actuarial accrued liability as of 7/1/15. The excess reserves were generated from premiums collected in excess of actual claims for the retiree medical (HMSA), prescription drug, dental and vision plans.

The EUTF has moved quickly to take advantage of the increase in size of the OPEB Trust and the recent signing of Act 030, SLH 2016 (SB2838 S.D.1) into law that allows the EUTF to invest in the same investments as the ERS. At the 5/31/16 EUTF Board meeting, the Board approved a new asset allocation for the OPEB Trust that adds the private equity, private real estate, global options and systemic trend following asset classes, all classes that were not permitted prior to Act 030. The new asset allocation has a higher expected annual return (7.3%) with lower risk (measured in annual standard deviation of 10.9%) than the previous asset allocation (6.4% expected annual return with 11.4% annual standard deviation). The EUTF's actuary currently uses a 7% investment return assumption in determining the employers' actuarial accrued liability.

On another note, the EUTF Investment Officer (a position authorized and funded from 1/1/16) will be starting early next month to lead the implementation of the new asset allocation.

Prescription Drug Plan Claim Administration

A concern for health and welfare plans is whether their insurance carriers and their pharmacy benefit manager (PBM) are processing claims for eligible members in accordance with the executed contract and the plan design. Plans including the EUTF have focused attention on PBMs who administer prescription drug plans. This concern at the EUTF is heightened because the prescription drug plan is the EUTF's only self-funded (i.e. self-insured) plan.

To ensure that the EUTF is receiving fair prices through the PBM, the EUTF has implemented the following procedures, in addition to administrative reviews:

1. The EUTF receives "pass-through" pricing from its PBM (i.e. the EUTF pays the actual amount the PBM pays the pharmacists and other providers of prescription drugs and the actual amount of rebates from the drug manufacturers are passed on directly to the EUTF). Therefore, the PBM should not be receiving a "spread" between the amount the EUTF pays and what the pharmacist is paid for the prescription drug by the PBM.
2. The PBM guarantees that the pass-through amounts paid for the prescription drugs will not exceed a certain percentage of the average wholesale price (AWP) for the cost of the prescription drug or a set dollar amount for drug dispensing fees. Additionally, the PBM guarantees that the pass-through rebates will be equal to or exceed a set dollar amount per prescription.
3. The EUTF contracts a third party auditor to audit the performance of the PBM under the contract and plan design.
4. The EUTF conducts request for proposals for PBM services at least every three years. The current PBM contract ends on 12/31/17 for retiree plans and 6/30/18 for active employee plans.

An audit of the PBM for the periods 5/1/12 – 6/30/13 for active employees and non-Medicare retirees and 7/1/12 – 6/30/13 for Medicare retirees was recently completed. The inception dates of the audit periods coincide with the inception dates of the relationship with the current PBM. The audit scope included reviews of AWP and dispensing fee guarantees, processing/pricing of 100% of claims in accordance with the plan design, eligibility, rebates (including guarantees) and performance guarantees. The audit identified discrepancies that resulted in additional payments by the PBM that represent approximately 0.2% of gross costs.

The EUTF is currently reviewing proposals in response to Request for Proposals 16-001 Benefit Plan Audit Services to conduct additional audits of the PBM as well as the medical, dental, vision and life insurance carriers over a five-year period.

Please feel free to contact me directly at derek.m.mizuno@hawaii.gov or 586-1681.

Sincerely,



Derek M. Mizuno
Administrator

- c: The Honorable David Ige, Governor, State of Hawaii
- The Honorable Kirk Caldwell, Mayor, City & County of Honolulu
- The Honorable Billy Kenoi, Mayor, County of Hawaii
- The Honorable Alan Arakawa, Mayor, County of Maui
- The Honorable Bernard Carvalho, Jr., Mayor, County of Kauai
- The Honorable Mark Recktenwald, Chief Justice
- Ms. Kathryn Matayoshi, Superintendent, DOE
- Mr. David Lassner, President, UH
- Dr. Linda Rosen, Chief Executive Officer, HHSC
- Dr. Kamana'opono Crabbe, Chief Executive Officer
- Mr. Robert Lee, President, HFFA
- Mr. Randy Perreira, Executive Director, HGEA
- Mr. William Holck, Executive Director, HSTA
- Mr. Tenari Maafala, President, SHOPO
- Ms. Kristeen Hanselman, Executive Director, UHPA
- Mr. Dayton Nakanelua, State Director, UPW