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GOVERNOR



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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

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TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEES ON LABOR & PUBLIC EMPLOYMENT
ON HOUSE BILL NO. 1345 H.D. 1

February 25, 2019
2:30 p.m.
Room 308

RELATING TO THE HAWAII EMPLOYER UNION HEALTH BENEFITS TRUST FUND
BUDGET

Chair Luke, Vice Chair Cullen, and Members of the Committee:

The Hawaii Employer Union Health Benefits Trust Fund (EUTF) Board of Trustees strongly supports this bill. The EUTF provides health insurance to nearly 200,000 State and county employees, retirees and their dependents and collects and pays approximately \$1 billion in premiums annually. The EUTF is requesting authorization for fiscal biennium 2019-2021 to expend Trust Funds in addition to the budget base amounts contained in House Bill No. 2 Relating to the State Budget.

These additional funds will come from EUTF Trust Fund reserves (and not from the State's General Fund) which have been built up from surpluses (premiums collected in excess of claims and third-party administrative fees) from the self-funded prescription drug plan and refunds of surpluses from certain medical, dental and vision plans. Prior to 2014, the EUTF would add an EUTF administrative fee to the premiums (e.g. \$1.50 - \$3.50 per medical self plans) to be paid by the employee, retiree and/or employer.

EUTF's Mission: We care for the health and well being of our beneficiaries by striving to provide quality benefit plans that are affordable, reliable, and meet their changing needs. We provide informed service that is excellent, courteous, and compassionate.

Since 2014 and through December 31, 2028 for retiree and June 30, 2029 for employee plans, the EUTF Board of Trustees (Board) have and will be funding EUTF operations from reserves including these additional budget requests. The EUTF's additional budget requests of \$10,451,486 for fiscal year 2019-2020 and \$862,653 for fiscal year 2020-2021 are separated into the following four categories:

Benefits Administration System (additional funds of \$9,956,000 for FY 2019-2020 and \$367,167 for FY 2020-2021). The EUTF's benefits administration system (BAS) serves as the backbone of EUTF operations, as it maintains demographic and enrollment information; communicates with the members, employers, carriers, ERS and financial institutions; and performs calculations of member and employer contributions. The current BAS was implemented in September 2009, cost \$10.5 million and mainly utilizes pension-based software. Because the current BAS is pension-based, the BAS had to be significantly customized over the years which prohibited upgrading the software to a version with member self-service. The main goals of a new BAS are to offer member self-service (e.g. members could go online and add or remove dependents or make plan changes during open enrollment), communicate with members through texts or email and eliminate EUTF staff's manual processes. In 2018, the EUTF hired a consultant, Public Consulting Group (PCG), to conduct a feasibility study (see attached) to assist in determining whether an upgrade of the current software or procurement of a new BAS was preferable and to estimate costs. PCG has recommended procurement of a new BAS at estimated costs that are used in this budget request.

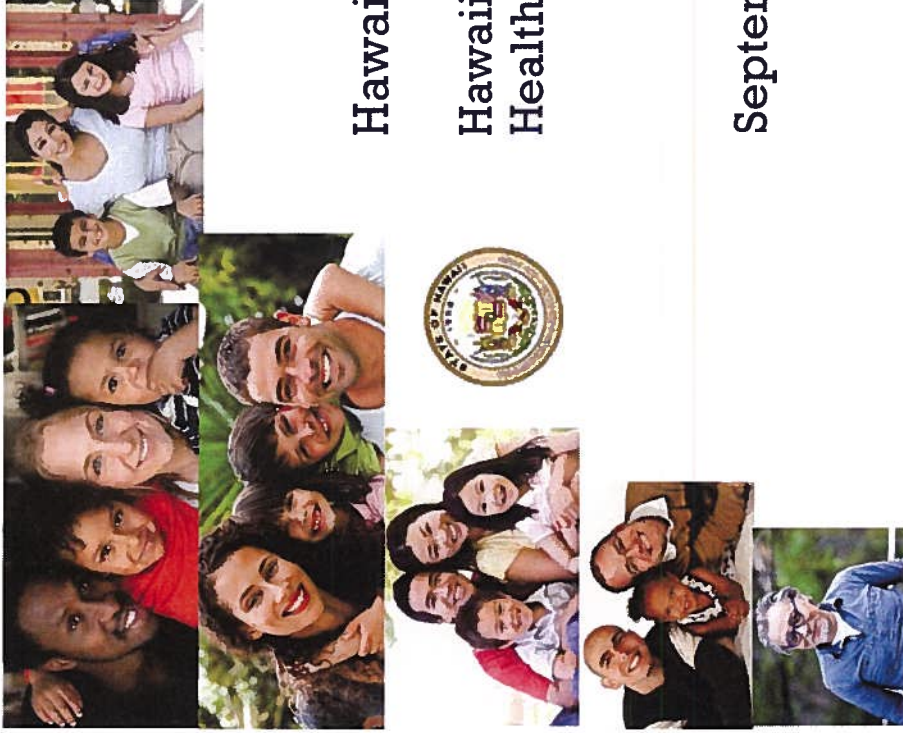
Fringe Benefits (additional funds of \$234,169 for FY 2019-2020 and FY 2020-2021). The fringe benefit rate is increasing from 59.08% in FY 2018-2019 to 60.08% in FY 2019-2020 and FY 2020-2021.

Salary Adjustments (additional funds of \$64,596 for FY 2019-2020 and FY 2020-2021). Act 145, Session Laws of Hawaii amended chapter 87A, Hawaii Revised Statutes to allow conversion of exempt EUTF employees to civil service at the discretion of the Board. The Board determined that 42 out of the existing 57 positions (8 positions were already civil service) at the time should be converted to civil service positions. Through February 16, 2019, 27 out of the 42 have been converted from exempt to civil service.

Compliance Officer Position (additional funds of \$196,721 for FY 2019-2020 and FY 2020-2021). EUTF is subject to the provisions of the federal Health Insurance Portability and Accountability Act (HIPAA) to protect patient health information. EUTF is requesting a highly specialized expert to ensure EUTF compliance with HIPAA policies and procedures that include both physical and information technology security.

The EUTF Board believes that these additional funds are necessary for continued and improved functions.

Thank you for the opportunity to testify.



Hawaii Department of Budget And Finance

Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Health Benefits Administration System Feasibility Study

September 24 - 25, 2018



Agenda

- Introductions
- Feasibility Study Background
- Feasibility Study Results
- Discussion



Feasibility Study Background

- The EUTF selected PCG to conduct a feasibility study to recommend upgrading its existing Benefits Administration System or implementing a new solution.
- The EUTF's operations are currently supported by an outdated version of a solution supported by Vitech, which was implemented in 2009.
- The alternatives to be considered in the feasibility study included:
 1. Upgrade EUTF's current BAS
 2. Implement a new solution in the marketplace or leverage the State's implementation of PeopleSoft Human Capital Management/Human Resources (HCM/HR) solution
- The purpose of this feasibility study is to help the EUTF make the best decision to fulfill its mission. The scope of the project includes:
 - Provide a market scan for viable vendors in the Benefits Administration market
 - Develop a business case that illustrates risk mitigation, cost avoidance, and process improvements to be gained from the new system
 - Identify alternative solutions and recommend the most cost-beneficial solution to address system needs
 - Document the costs, benefits, implementation plan, and risks associated with the preferred alternative in an Feasibility Study Report



FSR Methodology Diagram



PROJECT INITIATION	BUSINESS CASE DEVELOPMENT	REQUIREMENTS DEVELOPMENT	ALTERNATIVE ANALYSIS	PROPOSED SOLUTION ANALYSIS	FEASIBILITY STUDY REPORT
<ul style="list-style-type: none"> Perform project start-up activities Confirm project scope Identify project goals and objectives Agree upon project roles and responsibility 	<ul style="list-style-type: none"> Document business and technical environment Document and confirm baseline costs Define business needs and solution scope Conduct Business Case Workshop 	<ul style="list-style-type: none"> Analyze data gathered Develop draft requirements Conduct requirements workshop Prioritize / finalize requirements 	<ul style="list-style-type: none"> Develop market survey approach, analyze results Gather comparative cost data Develop / assess alternatives Agree upon evaluation criteria Conduct Alternatives Workshop 	<ul style="list-style-type: none"> Gather additional data to fully develop proposed solution Develop roadmap Identify procurement strategy Develop final cost estimates 	<ul style="list-style-type: none"> Develop draft report and preliminary cost worksheets Distribute draft for review and comment Formulate cost sharing approach Finalize FSR





Business Case Development

During this phase of the project, PCG documented EUTF's current environment and helped EUTF define their business problems, which include:

1. Employees and retirees are unable to self-enroll in benefit programs and/or submit changes via a web portal.
2. System response time to process enrollment activities and run queries is slow and requires EUTF staff to work outside the system to provide excellent customer service.
3. EUTF staff are not able to perform data entry when the batch processing cycles occur during business hours.
4. The current BAS has limited accounting functionality, which requires manual adjustments and the use of offline spreadsheets (via Excel and Quickbooks) to reconcile accounts.
5. The EUTF is unable to process certain enrollment changes for members without manual intervention and time-consuming work arounds.
6. The EUTF is unable to electronically transfer employee demographic data to or from the State's payroll system.
7. The current BAS has limited reporting abilities, which require the IT staff to process roughly 200 custom queries/year and 75 ad hoc reports on an ongoing basis.



Requirements Development

During this phase of the project, PCG reviewed existing documentation and held requirements sessions with the EUTF to develop and prioritize requirements in the following areas:

Business Requirements	Technical Requirements
<ul style="list-style-type: none"> • Employee Self-service • Workflow Management • Business Process Management • Calculations and Invoicing • State and Federal Laws/Requirements • Correspondence • Document Imaging and Storage • Document Retrieval • General Application Functionality • Historical Data 	<ul style="list-style-type: none"> • User Management • Audit • Security • Performance • Availability • User Interface • Help Functionality • Usability • Database Management • Network and Operating Systems • Application Architecture • Interfaces • Maintainability • Batch Printing



Alternatives Analysis

During this phase of the project, PCG performed online research to identify vendors in the marketplace. We worked with EUTF to:

- Develop/send a survey to vendors in the marketplace
- Survey was sent to eleven vendors
- Five vendors responded
- Analyze the vendor responses and identify the viable vendors
- One solution was eliminated because significant customization (50%) would be required
- Upgrading the EUTF's existing solution (Vitech) was eliminated as an option because it is several versions behind the current offering. Note: Vitech has also informed the Office of Enterprise Technology Services that its solution is not certified for Oracle's cloud
- Develop criteria to evaluate the survey results



Alternative Analysis

The evaluation criteria included:

Evaluation Criteria	
Business Fit	Degree to which the alternative meets the EUTF's business and technical requirements
Impact	Level of impact on the EUTF's business and/or technical environments
Complexity	Amount of customization required, number of moving parts
Market Support	Level/type of support provided (viability of solution provider, etc.)
Cost	One time and on-going costs to configure, implement and support the solution
Risk	Level of risk associated with the implementation and operation of the solution
Timeline	Time required to configure and implement the solution at the EUTF





Alternatives Analysis

In the process of conducting the alternatives analysis, solution viability was considered, as shown below.

Alternative	Viability	Reasons
Upgrade	Non-viable	<ul style="list-style-type: none">• EUTF has not installed updates (new versions) to its existing system since it was initially implemented and is consequently several versions behind Vitech's current offering.• Upgrading the system would essentially amount to replacing it.
New Solution	Viable	<ul style="list-style-type: none">• The marketplace offers Commercial Off The Shelf (COTS) and Software as a Service (SaaS) solutions that can meet the EUTF's business and technical requirements with minimal customization• Solutions are well-tested – they have been implemented in other states and in similar environments, representing an acceptable level of risk to the EUTF
Leveraged Solution	Viable	<ul style="list-style-type: none">• The leveraged solution can meet the EUTF's business and technical requirements with minimal customization• The leveraged solution is well-tested – the benefits administration module has been implemented in similar environments and the recommended infrastructure/base solution (HCM/HR) is already in place in Hawaii• The licensing cost is reduced through leveraging existing technology assets





Alternatives Analysis

Survey responses revealed the following:

- On average, vendors indicated their solution could meet 90 – 100% of the requirements out of the box with roughly 6% of the requirements met through custom development and some required add-on tools.
- In general, the evaluated solutions offer these options and services:
 - Software as a Service (SaaS) or Commercial Off the Shelf (COTS) solutions
 - Web based with a user portal
 - Proven technical platforms
 - Business Intelligence
 - Reports and forms
 - May be installed on premise or in the cloud and can be sized to meet EUTF's needs.
 - Industry Standard Security Protocols
 - Configurable functionality and data fields
 - Training
 - Back-office processing

Proposed Solution

Based on the research and survey results, PCG's recommendation is to **implement a new solution**. The new solution would consider both options of a stand alone marketplace solution or the leveraging of the State's implementation of PeopleSoft HCM/HR to replace the EUTF's existing BAS through the State of Hawaii's procurement/contract process. This would entail:

- Acquiring and creating a separate instance, database, and interface to ensure EUTF's control over its solution and protect its data
- Acquiring the services of a Systems Integrator (SI) to implement the solution and provide ongoing support
- Dedicating EUTF staff to support the project
- Acquiring Project Management (PM) and Independent Verification & Validation (IV&V) services to support the project
- Implementing the solution over an estimated period of 18 months to 2 years
- Possibility of leveraging existing Data Center facilities, infrastructure, and software licenses

Proposed Solution

Key project milestones for the design, development, implementation (DDI) and ongoing support of the proposed solution include the following:

<u>Milestone*</u>	<u>Date</u>
• Procure a vendor to develop the Request for Proposals (RFP) for the SI vendor and provide selection assistance	December 2018 to June 2019
• Vendor selection for new solution/SI	July 2019 to December 2019
• Solution DDI	January 2020 to May 2021
• Acquire IV&V vendor	April 2019 to June 2019
• Maintenance and Operations (M&O)	May 2021 to June 2024

* Milestones encompass ETS approval cycles as appropriate

Proposed Solution

The estimated project timeline to procure, implement and maintain the solution over a 5-year period is depicted below.



Proposed Solution

In addition to the solution/system integrator costs, state staff and other contract services costs must be considered. The estimated cost of a new solution is \$8.75M. Assuming an 18 month implementation timeline, the cost estimates for the additional services during DD&I are itemized below:

	Units	Cost
New Solution Cost		\$8,750,000
Additional DD&I Costs:		
State Personnel		
ETS Project Manager	1.0	\$192,000
EUTF Project Manager	1.0	\$161,000
Enrollment Functional Lead – Member Services Branch Manager	1.0	\$78,500
Accounting Functional Lead – Financial Management Officer	1.0	\$117,500
Total estimated state staff cost	4.0	\$549,000
Other Contract Services		
Procurement services (RFP development for SI services)		\$160,000
Business Process Reengineering services		\$150,000
Organizational Change Management services		\$75,000
Independent Verification & Validation services		\$480,000
Third-party imaging solution		\$186,000
Network		\$4,000
Total		\$1,055,000
Total other contract services cost		\$10,354,000

Proposed Solution

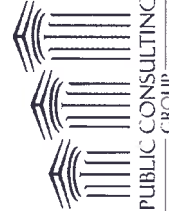
The annual cost estimate for M&O is itemized below:

Maintenance and Operations	Annual Cost
License Fees	\$330,000
Network Circuit	\$12,000
Imaging Support	\$8,000
Ongoing maintenance	\$1,200,000
Total Annual M&O Cost	\$1,550,000

Proposed Solution

The total estimated cost for implementing and maintaining the proposed solution over a five-year period is \$15,133,167 as shown below:

	FY19	FY20	FY21	FY22	FY23	FY24	Total
Development & Implementation							
Solution/Sl services	\$0	\$8,750,000	\$0	\$0	\$0	\$0	\$8,750,000
State personnel services	\$0	\$119,000	\$238,000	\$0	\$0	\$0	\$357,000
Project mgmt support - ETS	\$0	\$192,000	\$0	\$0	\$0	\$0	\$192,000
RFP development for SI services	\$160,000	\$0	\$0	\$0	\$0	\$0	\$160,000
IV&V	\$0	\$480,000	\$0	\$0	\$0	\$0	\$480,000
Organizational Change Mgmt	\$0	\$75,000	\$0	\$0	\$0	\$0	\$75,000
Business Process Reeng	\$0	\$150,000	\$0	\$0	\$0	\$0	\$150,000
Third-party imaging solution	\$0	\$186,000	\$0	\$0	\$0	\$0	\$186,000
Network	\$0	\$4,000	\$0	\$0	\$0	\$0	\$4,000
Total DD&I	\$160,000	\$9,956,000	\$238,000	\$0	\$0	\$0	\$10,354,000
Maintenance & Operations							
License fees	\$0	\$0	\$27,500	\$330,000	\$330,000	\$330,000	\$1,017,500
Network circuit	\$0	\$0	\$1,000	\$12,000	\$12,000	\$12,000	\$37,000
Imaging support	\$0	\$0	\$667	\$8,000	\$8,000	\$8,000	\$24,667
Ongoing maintenance	\$0	\$0	\$100,000	\$1,200,000	\$1,200,000	\$1,200,000	\$3,700,000
Total M&O	\$0	\$0	\$129,167	\$1,550,000	\$1,550,000	\$1,550,000	\$4,779,167
Total DD&I and M&O	\$160,000	\$9,956,000	\$367,167	\$1,550,000	\$1,550,000	\$1,550,000	\$15,133,167



Proposed Solution

For cost comparison purposes, the cost of acquiring and maintaining EUTF's current BAS on an annual basis appears below:

	One time cost FY08-FY09
Development & Implementation	
Solution/SI services	\$9,660,114
Project management support	\$849,000
Total	\$10,509,114
Maintenance & Operations	Recurring cost FY18-FY19
License fees	\$379,260
Imaging support	\$8,000
Ongoing maintenance	\$615,180
Total	\$1,002,440

Proposed Solution

Benefits

- Reduced risk (recommended infrastructure/base solution is in place)
- Supports ETS endeavors to leverage existing technology assets
- Reduced license cost
- Ability to electronically transfer employee data to the State's payroll system
- Provide the ability for members to self enroll in benefit programs via a web portal
- Reduce manual intervention and time-consuming work arounds for EUTF staff
- Increase EUTF staff productivity

Things to consider...

- Governance
- Procurement strategy
- Disruption to current operations
- Project dependencies
- Current BAS contract end date (September 2020)

Board Discussion

- Questions
- Thoughts

