The Warehouse Employees Union Local No. 730
Health and Welfare Fund

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DRAFT

MINUTES OF THE MEETING OF THE
BOARD OF TRUSTEES OF THE
WAREHOUSE EMPLOYEES UNION LOCAL NO. 730
HEALTH AND WELFARE TRUST FUND
DECEMBER 15, 2011
LANDOVER, MARYLAND

The following Trustees were present:

UNION TRUSTEES
T. Richardson– Chairman
R. Brooks
R. Essex
R. Johnson – Alternate

EMPLOYER TRUSTEES
J. Paradis - Secretary
J. Navin
F. Stegman

Also present were:

C. Bott – Novak Francella
D. Burton – CIGNA Healthcare
H. Burton – Morgan, Lewis & Bockius, LLP
M. DeLancey – Dickstein Shapiro, LLP
L. Ecle – Novak Francella
T. Geiman – Novak Francella
J. Gomes – Calibre
S. Halberg – Calibre
M. Herwig – PNC Bank, NA
A. Hogan – Associated Administrators, LLC
J. Luce – CIGNA Healthcare
P. Novak – Novak Francella
S. Raeder – Calibre
R. Sichel – Investment Performance Services, LLC
R. Tierney – Associated Administrators, LLC

I. CALL TO ORDER

A quorum being present, the meeting was called to order.

II. MINUTES

The Trustees read the minutes of the last regular meeting held on September 20, 2011.

On MOTION made and seconded, the Trustees voted unanimous approval of the following resolution:

> **RESOLVED that the minutes of the last regular meeting held on September 20, 2011 were approved as presented.**

III. FINANCIAL REPORT

The Trustees welcomed Mr. Michael Herwig of PNC Bank, NA and Mr. Rich Sichel of Investment Performance Services (IPS) to the meeting.

A. Custodian Bank – PNC Bank, NA

Mr. Herwig distributed the Summary of Activity report for the period January 1, 2011 through September 30, 2011. Beginning market value was $19,559,470. Contribution income totaled $8,660,492, disbursements totaled $9,387,654, and investment earnings totaled $575,490, producing an ending market value of $19,407,798.

The Trustees thanked Mr. Herwig for his report and he was excused from the meeting.

B. Investment Performance Services

1. Investment Performance

Mr. Sichel distributed his report entitled, "Investment Performance Analysis – September 30, 2011." Mr. Sichel reported that the total market value of assets as of September 30, 2011 was $19,407,798.

2. Asset Allocation

Mr. Sichel reported that as of September 30, 2011 the Fund held 76.4% in domestic fixed income, 9.3% in domestic equities, 8.5% in domestic fixed high yield, 4.7% in real estate, and 1.1% in cash equivalents. He noted the SSGA S&P Index Fund held $1,799,163; Atlanta Capital held $14,828,378; American Realty Advisors held $918,555; Penn Capital held $1,657,620; and there was $204,082 in the cash account.

3. Atlanta Capital – U.S. Fixed Income

Mr. Sichel noted that Atlanta Capital continues to perform below its benchmark. He reiterated his comments from recent meetings stating that low quality bonds continue to drive higher performance than high quality bonds. The manager's portfolio holds high quality bonds, resulting in the below-the-benchmark performance. Mr. Sichel said this is not uncommon in today's marketplace and IPS is not recommending a change, but continues to monitor the performance for improvement. He also recommended that the Fund utilize the cash account and Atlanta Capital portfolio for cash needs.

The Trustees thanked Mr. Sichel for his report and he was excused from the remainder of the meeting.

IV. AUDIT SERVICES PROPOSALS AND PRESENTATIONS

Mr. Tierney reported that four firms had responded to the Request for Proposal to provide auditing services to the Fund: (1) Calibre, (2) Novak Francella, (3) Bond Beebe, and (4) Gorfine, Schiller & Gardyn. A summary of the proposals was sent electronically to the Trustees and Counsel for review and as a result, the Trustees selected Calibre and Novak Francella as finalists and requested that they be scheduled to make presentations at this meeting.

A. Calibre

The Trustees welcomed Mr. Steve Raeder, Mr. James Gomes, and Mr. Scott Halberg, of Calibre, to the meeting.

Mr. Raeder distributed an executive summary of their proposal and provided a description of the company. He noted their long term history of providing service to Taft-Hartley clients and reviewed a sample client list. Mr. Gomes then described Calibre's audit process and the level of expertise that Calibre brings with 31 Certified Public Accountants on staff, including Mr. Halperin who is their tax expert. Mr. Gomes also reviewed Calibre's payroll audit process, performed by a separate department at Calibre, headed by Ms. Ellen Odell.

Mr. Raeder said the proposed fee for the audit of the plan year ending December 31, 2011, and accompanying required filings, for the Welfare Fund is $11,500. Calibre would also agree to cap their fee increase for the second year of the agreement at 3%. Payroll auditing would be charged at their hourly rates, ranging from $80 to $325, and capped at $4,000 per year. Payroll audit costs would be billed on a pro-rata basis to the Welfare, Pension, and Legal Funds.

The Trustees thanked Mr. Raeder, Mr. Gomes, and Mr. Halberg for their presentation and they were excused from the meeting.

B. <u>Novak Francella</u>

The Trustees welcomed Mr. Peter Novak, Mr. Tyler Geiman, Ms. Leah Ecle, and Ms. Christine Bott, of Novak Francella, to the meeting.

Mr. Novak distributed copies of their proposal and provided a description of the services provided by the company. He noted their long term history and reviewed a sample client list. He said the firm has opened an office in Columbia, Maryland to provide services in the greater Washington, DC area. This office is headed by Mr. Geiman.

Mr. Geiman then described Novak/Francella's audit and payroll audit process.

Mr. Novak said the proposed fee for the audit of the plan year ending December 31, 2011 and accompanying required filings for the Welfare Fund is $18,000. Upon questioning, Mr. Geiman indicated that they were willing to consider alternative fees. Payroll auditing would be charged at their hourly rates, ranging from $79 to $130.

The Trustees thanked Mr. Novak, Mr. Geiman, Ms. Ecle and Ms. Bott for their presentation and they were excused from the meeting.

C. Discussion

The Trustees reviewed the Executive Summary of the proposals prepared by Mr. Tierney and noted the fee proposed by the current auditor, Salter & Company, for the plan year ending December 31, 2011 was $17,967. In addition to fees, they discussed in detail the histories of the two firms, their current client lists, and the results of the most recent peer review opinion of each firm.

Upon MOTION made and seconded, the Trustees voted unanimous approval of the following:

> **RESOLVED to engage Calibre (1) to perform the audit functions described in their proposal for the plan year ending December 31 2011 at a fee of $11,500; for the plan year ending December 31, 2012 at a fee of $11,500; for the plan year ending December 31, 2013 at a fee of $11,788; And (2) to perform payroll audit functions, charged at their hourly rates, capped at $4,000 per year, and shared with the Legal and Pension Funds.**

V. ACTUARY REPORT

Mr. Tierney referred the Trustees to Cheiron's 2012 fee request letter for services, including the roll-forward valuation for the annual FASB ASB report, as contained in the meeting booklet.

Upon MOTION made and seconded, the Trustees voted unanimous approval of the following:

RESOLVED to approve the 2012 retainer agreement with Cheiron at a fee of $4,545, with approved non-retainer services to be charged at their hourly rates, which range from $85 -$460 per hour.

VI. COUNSEL REPORT

A. Grandfathered Status of Class E Benefit Plan

Mr. Burton distributed his memorandum entitled, "*Effect, if any, On Plan E Health Care Reform Act Grandfathered Status of New Hire Ten Percent Premium Co-Pay,*" dated December 14, 2011. He reviewed the report in detail and concluded by stating that in the opinion of Fund co-Counsel, based on two independent reasons, the new hire premium co-payment contained in the collective bargaining agreement between Giant Warehouse and Local Union No. 730 does not affect the plan's status as a grandfathered plan under the Affordable Care Act.

B. Memoranda Of Understanding: McKesson and Washington Food

Co-Counsel indicated they had reviewed the Memoranda of Understanding (MOA) between the Union and two participating employers, McKesson Corporation and Washington Food and Supply Company, and recommended the Trustees adopt the MOAs. Both agreements contain the new language which allows the current contribution rate to remain unchanged during the life of the agreement unless Fund reserve declines to fifteen months, at which time the Employer would be required to increase the contribution rate by $0.50 per hour.

Upon MOTION made and seconded, the Trustees voted unanimous approval of the following:

RESOLVED to approve the Memoranda of Understanding between the Union and McKesson Corporation, for the period July 1, 2011 through June 30, 2012, and the Memoranda of Understanding between the Union and Washington Food and Supply Company for the period November 1, 2011 through October 31, 2012.

C. Trust Agreement Amendment

Mr. DeLancey reviewed the Trust Agreement Amendment prepared by co-Counsel to reflect the changes regarding Trustee appointment, removal, voting, and term length approved at the June 2011 meeting. The Trustees reviewed the Amendment, which was executed by the Chairman and Secretary on behalf of the Board of Trustees.

D. Subrogation Report

Mr. DeLancey reviewed the status of subrogation matters currently under collection as of December 15, 2011. He reported that there were six open cases, zero closed cases, and one case opened since the last Board of Trustees meeting on September 20, 2011. Mr. DeLancey noted no Trustee action was needed at this time for the subrogation cases.

Mr. DeLancey and Mr. Burton reported that there were no other legal matters pending before the Board of Trustees at this time.

VII. ADMINISTRATIVE MANAGER REPORT

A. Third Quarter 2011

Mr. Tierney presented the Administrative Manager Report for the third quarter 2011. Such report showed employer contributions of $2,087,727, interest and dividend income of $146,730, and miscellaneous income of $25,267, producing a total income of $2,259,724 for the quarter. Expenses included $2,622,778 of benefit expenses and $116,230 of operating expenses, producing a total expense of $2,739,008. This produced a total deficit of $479,284 for the quarter ended September 30, 2011. Mr. Tierney noted that contributions were made on behalf of 995 Plan participants.

B. Administrative Services Contract Renewal

Mr. Tierney reviewed his letter dated September 20, 2011 which notes that the administrative services contract between the Fund and Associated Administrators, LLC will expire on December 31, 2011 and provides detailed information in support of the request for a three-year renewal. The Trustees had tabled action on this request at the September 2011 meeting.

The Trustees excused Mr. Tierney and Ms. Hogan from the room.

***** EXECUTIVE SESSION *****

The Trustees welcomed Mr. Tierney and Ms. Hogan back to into the meeting.

Upon MOTION made and seconded, the Trustees voted unanimous approval of the following:

> **RESOLVED to approve an extension of the administrative services contract with Associated Administrators, LLC, for the period January 1, 2012 through December 31, 2014, with 3% annual fee increases.**

Mr. Tierney thanked the Board of Trustees for the contract renewal and said a contractual amendment would be prepared and sent to co-Counsel for review.

VIII. INVOICES

Mr. Tierney presented a list of invoices dated December 15, 2011 for Trustee review. It was noted that there were no deletions or changes to the list.

On MOTION made and seconded, the Trustees voted unanimous approval of the following resolution:

> **RESOLVED that the list of invoices dated December 15, 2011 was approved for payment as presented.**

IX. PARTICIPANT APPEALS

Appeal Number	*Issue*	*Board Decision*
E11/161-2938	***Dependent Coverage***	***Approved***
E11/153-5181	***Excess of UCR***	***Denied***
M11/129-1950	***Medical Necessity***	***Denied***
Rx11/154-9489	***Prescription Drug (Brand)***	***Approved***

X. PROVIDER REPORT – CIGNA PPO and Rx

The Trustees welcomed Mr. James Luce and Mr. David Burton from CIGNA Healthcare to the meeting.

A. PPO Savings Report

Mr. Luce reviewed the CIGNA savings report for the period July 1, 2011 through September 30, 2011. The PPO network savings, meaning the billed amount less the network allowed amount, equaled $864,311.65. This represented an overall PPO savings of 37.8% for the third quarter 2011.

B. Contract Renewal and Modifications

Following up on discussions after the September 2011 meeting, Mr. Luce confirmed that CIGNA was able to agree to the Trustees' proposal regarding the renewal of the shared claims processing agreement, 1) to add the Mental Health Substance Abuse network and cost management programs, 2) to add the Narcotic Therapy Management (NTM) program at no additional cost, and 3) to reinstate annual performance guarantees. He noted that the NTM program is limited in scope since CIGNA does not process medical claims. He said they would work on trying to use data from the claims re-pricing system to provide the full effectiveness of the program. Additionally, regarding the annual performance guarantees, CIGNA would require paid claims data from the Fund Office, which Mr. Tierney said was recently prepared and sent to CIGNA.

Upon MOTION made and seconded, the Trustees voted unanimous approval of the following:

> **RESOLVED to (1) renew the shared claims processing agreement with CIGNA with a 2% fee increase, per member per month, for the period January 1, 2012 to December, 31, 2012, a 0% fee increase for the period January 1, 2013 to December 31, 2013, and a 2% fee increase for the period January 1, 2014 to December 31, 2014; (2) Add the CIGNA mental health/substance abuse network with medical management at a cost of $0.26 per member per month effective January 1, 2012, and (3) to implement the Narcotic Therapy Management program at no additional cost.**

C. <u>Pharmacy Review and Step Therapy</u>

Mr. David Burton distributed his report and presented a review of the pharmacy benefit for the period January 1, 2011 through October 31, 2011. He reviewed the "Key Indicator" report, therapeutic class trends, top drug by plan spend and by volume, high cost prescriptions, generic utilization, and upcoming brand name patent expirations.

In follow-up to a request from the Trustees at the September 2011 meeting, Mr. Burton discussed clinical program savings opportunities available through step therapy. He reviewed how step therapy programs work for the plan and for participants. He said that implementation of CIGNA Rx's step therapy programs could save the Plan an estimated $208,485 annually.

The Trustees thanked Mr. James Luce and Mr. David Burton for their presentation and they were excused from the meeting.

D. <u>Provider Report – Life Insurance/AD&D: ING</u>

The Trustees welcomed Mr. Mark Walter of ING to the meeting.

Mr. Walter distributed his report entitled "Warehouse Employees Union Local No. 730 Health & Welfare Trust – Experience Report" and reviewed the Fund's experience since December 2006. He noted the current life insurance policy is experience rated and the Fund has received rebates in two of the past five policy years. Mr. Tierney asked why the Fund did not receive a rebate at the end of the December 2009 through November 2010 policy period, as it appeared from the report that there were no life claims paid by ING. He said, based on prior experience, it seems that the Fund should have received a rebate of over $80,000. Mr. Walter said he would investigate and report back to the Administrative Manager.

Mr. Walter then reviewed the proposed rates for the new contract period. He said if the Trustees wanted to retain the experience rated life insurance product, the rates would remain unchanged at $0.28 per $1,000 in coverage for life insurance and $0.03 per $1,000 in AD&D coverage. However, if the Trustees were interested in moving to a pooled life insurance product without rebates, the life insurance rates could be lowered to $0.179 per $1,000 in coverage, substantially reducing the annual premium. He added that pooled contract rate would be guaranteed for three years, while the experience rated contract rates were only guaranteed for one year.

The Trustees thanked Mr. Walter for his report and he was excused from the meeting.

After considerable discussion regarding the value of the experience rated contract compared to the lower premiums available with the pooled contract, and the three year rate guarantee, on MOTION made and seconded, the Trustees voted unanimous approval of the following:

> **RESOLVED to approve a three-year agreement with ING to provide life insurance benefits, under a pooled contract, at $0.179 per $1,000 in life insurance coverage and $0.03 for $1,000 in AD&D coverage, effective**

January 1, 2012.

XI. <u>OTHER FUND BUSINESS</u>

A. <u>Payroll Audit Status Report</u>

Mr. Tierney reviewed the Auditor's report entitled, "Three Year Cycle Payroll Audit Status Report – As of December 6, 2011," as contained in the meeting booklet.

Mr. Tierney reported that the McKesson Corporation had paid the agreed upon payroll audit settlement amount of $340,000, however, the check was made payable to the Welfare Fund. It was deposited and he now required direction from the Board of Trustees on how to allocate the amounts to participants, as the settlement amount was for less than the full amount of the findings. He said that assigning the amounts based on a pro-rata allocation presented difficulties, especially on the Pension Fund, where amounts less than the required contribution rate would require special programming and would result in the participant receiving less than a full pension benefit credit for hours actually worked. This is due in part to the fact that the hourly contribution rate is made up of multiple components including benefit credit, funding improvement, and rehabilitation plan increases. He said a preliminary estimate of the programming costs required to perform this allocation would be $10,000.

The Trustees discussed the settlement, with Trustee Brooks noting that the agreement was reached between the Union and McKesson with the understanding that no participant would be negatively affected. Upon questioning, Mr. Tierney responded that applying less than full contribution credits only had a negative effect on pension participants relying on those amounts for a pension benefit. Contribution credits to the Legal and Welfare Fund would not provide participants with any additional benefit, nor would a less than full contribution credit result in the loss of any benefit, as the contributions were for the period 2006 through 2010, where the use of those benefits was available for the affected participants.

The Trustees noted that if the Pension Fund received 100% of applicable payroll audit findings, the remaining allocation available to the Legal and Welfare Funds would be reduced, in total, by approximately $13,000. They then discussed the potential benefit impact on participants of a less than full pension allocation. Mr. Tierney confirmed that the estimated $10,000 in programming costs would not be required if the Pension Fund was assigned the full contribution amounts, as the Legal and Welfare Fund contribution rates do not have the same multiple components as the Pension Fund.

Upon MOTION made and seconded, the Trustees voted unanimous approval of the following:

> **RESOLVED to allocate the McKesson payroll audit settlement amount in a manner such that no participant loses a benefit.**

B. <u>Form 990 for the Plan Year Ended December 31, 2010</u>

Mr. Tierney reported that the Form 990 for the plan year ended December 31, 2010 was filed prior to the extension deadline.

C. <u>Form 5500 and Summary Annual Report for the Plan Year Ended December 31, 2010</u>

Mr. Tierney reported the Form 5500 for the plan year ended December 31, 2010 was filed prior to the extension deadline and the Summary Annual Report was mailed to participants in a timely manner.

D. <u>Employee Assistance Program (EAP) Provider Termination</u>

Mr. Tierney reported that in accordance with Trustee direction at the September 2011 meeting, to comply with the Mental Health Parity Addiction and Equality Act, the contract with C.A. Mayo and Associates will be terminated effective December 31, 2011. Notice was sent to Mr. Mayo via certified mail on November 30, 2011. Additionally, Mr. Mayo was notified of his ability to join the CIGNA network as a participating provider and was put in contact with the appropriate personnel at CIGNA.

E. ***For Your Benefit* Newsletter**

Mr. Tierney noted the October 2011 *For Your Benefit* newsletter was mailed to participants. The newsletter contained the Newborns' & Mothers' Health Protection Act Notice.

F. **Jessup Logistics – Benefit Period**

Mr. Tierney reported the rules established regarding the benefit period for participants that worked at Giant Warehouse on the date of the transfer to Jessup Logistics, March 20, 2011, which states: (A) if the last date worked was prior to December 31, 2011; (B) And if the effective date of his/her pension is prior to December 31, 2011 and the participant was eligible for benefits in the Welfare Fund on the pension effective date, then; (C) the participant is eligible for the pre-Medicare HMO, self-pay, COBRA, and retiree prescription drug benefit.

All other former Jessup employees that left or leave employment prior to December 31, 2011 are not eligible for self-pay, COBRA or retire benefits.

G. **Healthcare Reform – Annual Limits and Summary of Benefit Coverages**

Mr. Tierney reported that the annual limit for essential health benefits will be increased to $1.25 million effective January 1, 2012, in accordance with the Affordable Care Act.

He also noted that the March 23, 2012 effective date for the new Summary of Benefit Coverages has been delayed.

H. **Retiree Drug Subsidy – 2012 Application**

Mr. Tierney said the application for the 2012 Retiree Drug Subsidy Program had been filed timely on behalf of the Fund.

XII. NEXT MEETING DATE AND LOCATION

After discussion the Trustees elected April 13, 2012 as their next regular meeting in Landover, Maryland.

XIII. ADJOURNMENT

There being no further business to come before the Trustees, the meeting was adjourned.

Respectfully submitted,

Jason Paradis
Secretary