



MEMORANDUM TO THE BOARD

DATE: April 29, 2010

TO: Members of the Retirees Committee

FROM: Kathy Foster, Assistant Chief Executive Officer

SUBJECT: **Healthcare Legislation Reform Update**

This month, Staff requested our Benefits Consultant, Woodruff-Sawyer & Co. (WS&Co.) to focus their national healthcare reform report on impacts pertaining to ACERA for 2010 and 2011. Attached is WS&Co.'s update on this item. In their presentation to the Committee in May, the following topics will be covered.

2010

- Medicare Part D: \$250 Rebate for individuals who reach the “donut Hole” (applies to ACERA members who *declined* Medicare medical coverage through ACERA)
- Early Retiree Reinsurance Program

2011

- Medical coverage for dependent children under the age of 26
- Lifetime dollar limits eliminated
- Pre-Existing Condition exclusion eliminated on children under 19
- Preventative care service co-pays and co-insurance eliminated
- Over-the counter drugs reimbursement eliminated

Important News

- Medicare Advantage Subsidies
- Medicare Part B Income Level Thresholds

In conjunction, Staff is working with WS&Co. on the following items to present at a future Retirees Committee meeting.

- Trend information to determine the cost to cover a dependent to age 26 on our medical plans
- Cost impact to extend coverage for dependent children “to Age 26”; currently both the Dental & Vision Plans are “to Age 24”

ACERA's Call Center/Member Services

- As of April 26, 2010, ACERA has not received any calls from members inquiring about the changes to the Medicare subsidy. However, there have been at least 20 calls regarding coverage for over age dependents.



DT April 27, 2010

TO Ms. Kathy Foster
Assistant Chief Executive Officer – Benefits
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, CA 94612-1900

RE Healthcare Reform Update
May 5, 2010

There are two provisions of the Healthcare Reform legislation that could affect ACERA and/or its members in 2010. The one that could occur first is a rebate of \$250 that will be paid to Medicare Part D beneficiaries who reach the "donut hole". The rebate will increase each year until the donut hole is eliminated in 2020. This seems to be the provision with the least amount of guidance provided to date.

ACERA members *who declined coverage* under an ACERA medical plan, but are covered on an individual Medicare Prescription Drug Plan (PDP) will be eligible for the rebate if their pharmacy expenses reach the defined initial coverage limit of their particular plan, which in 2010 is generally \$2,830. It is not known if the rebate will be available to an ACERA member who is covered under a group Medicare plan that has a donut hole in the pharmacy coverage.

There is no information currently available that explains the timing or process involved with the rebates.

The provision will not affect any member currently covered under one of ACERA's Medicare medical plans, as no ACERA Medicare medical plan has a "donut hole", or gap, in pharmacy coverage.

The second provision that could affect ACERA is the Early Retiree Reinsurance Program. This program is scheduled to start on June 23, 2010. This is a temporary reinsurance program that will be established to reimburse employers up to 80% of the cost of benefits in excess of \$15,000 but below \$90,000, provided to early retirees aged 55 through 64. The program will sunset the earlier of January 1, 2014 or the allocated \$5 billion fund is exhausted. Many experts predict the funds will be exhausted within six to 12 months. It is known that employers must apply for the program, but very few details are available at this time. It is not known what criteria, if any, will be used to determine the allocation of the funds.

The provision that will have the greatest effect on ACERA in 2011 is the extension of coverage to adult children. ACERA must extend coverage to dependent children under the age of 26, regardless of student status as of February 1, 2011. The child does not need to be an IRS tax dependent. The only restriction is the child must not be eligible for

Insurance Services
Risk Management
Employee Benefits

T 415.391.2141
F 415.989.9923

220 Bush Street, Floor 7
San Francisco, CA 94104

CA License 0329598
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www.wsandco.com



coverage under another employer's health plan. The child can be married, but the child's spouse and any child(ren) of the dependent adult child may not be covered. In 2014, the limitation of "not being eligible for coverage under another employer's health plan" will be removed.

We have asked ACERA's health care providers (Medical, Dental and Vision) to estimate the financial impact of the new dependent eligibility rules on the February 1, 2011 renewals. We have seen estimates of an increase of 1 to 1.4% to the cost of the plan. ACERA will have the option to charge a different member contribution to cover dependents who would not have been eligible under the existing definition of dependent children.

Additional 2011 changes are:

- Plans may not impose lifetime dollar limits, and can impose only "restricted" annual limits. It is not yet known if the annual dollar limit on Hearing benefits can be maintained. (2/1/2011 effective date for ACERA plans)
- No pre-existing exclusion can be imposed on children under age 19. (2/1/2011 effective date for ACERA PPO plan)
- Cost sharing (copays and co-insurance) for preventive care services are eliminated. (2/1/2011 effective date for ACERA plans)
- Over-the-counter (OTC) drugs will no longer be eligible Flexible Spending Account (FSA) expenses. This is not a benefit offered through ACERA. (1/1/2011 effective date for all FSA plans)

Healthcare Reform will reduce federal government funding of Medicare Advantage (MA) plans, but not before 2012. There will be no reduction in funding in 2011. Currently, the federal government reimburses MA insurers at a level approximately 14% higher than it spends to cover those on traditional Medicare. Under Healthcare Reform, Medicare Advantage funding will be cut by \$136 billion over the next decade. MA funding will be determined on a county by county basis, with deeper cuts applied in areas with high Fee-For-Service Medicare costs.

Kaiser has expressed some optimism. Beginning in 2014, MA plans can earn 5% bonus funding if they implement programs to improve the health of members or demonstrate efficiency of care. Kaiser's expects to be eligible for the bonus funding.

There is some good news for ACERA members. The current \$85,000 income level threshold for determination of Medicare Part B premiums will be frozen through 2018.