

February 3, 2010

To: Members of the Retirees Committee

From: Liz Koppenhaver, Chair, Retired Trustee

Subject: Summary of the February 3, 2010 Retirees Committee Meeting

Trustee Liz Koppenhaver called the February 3, 2010 meeting to order at 10:30a.m. Committee members present were George Dewey, Dale Amaral, Annette Cain-Darnes, and Elizabeth Rogers. Other Board members present were Keith Carson, Darryl Walker, and Dave Safer. Staff present were Chuck Conrad, Chief Executive Officer; Catherine Walker, Assistant Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Lori Schnall, Associate Counsel; J.P. Singh, Chief Financial Officer; Rose Kwong, Benefits Manager; Harsh Jadhav, Internal Auditor; and Mike Fara, Communications Manager.

ACTION ITEMS

1. Annual Supplemental Cost of Living Adjustment (Supplemental COLA)

The Supplemental COLA is a Board-approved non-vested benefit designed to maintain retiree purchasing power at no less than 85% of the member's original benefit. Retirees who have an accumulated loss of purchasing power greater than 15% due to inflation are eligible to receive this benefit. The benefit is provided by ACERA in accordance with Government Code Section 31618 and is paid out of the Supplemental Retiree Benefits Reserve (SRBR). The Segal Company, ACERA's Actuary, calculates the loss in purchasing power from year to year.

Based on the accumulated loss of purchasing power as of December 31, 2009, Tier I members who retired on or before April 1, 1982 and Tier II members who retired on or before April 1, 1991 will receive the Supplemental COLA increase, effective with their April 1, 2010 monthly benefit allowance. The benefit approved for this year remains effective through March 31, 2011.

Staff reported that the cost to provide the Supplemental COLA has decreased each year since the benefit was restructured in 1998. The cost for 2009 was approximately \$3.5 million.

Staff presented its recommendation to the Committee to adopt the Supplemental COLA increase for Tier I members who retired on or before April 1, 1982 and Tier II members who retired on or before April 1, 1991 effective with the April 1, 2010 monthly retirement allowance. This annual supplemental benefit is non-vested and is funded by the Supplemental Retiree Benefits Reserve (SRBR). The recommendation was moved by Elizabeth Rogers, seconded by Dale Amaral, and passed unanimously.

INFORMATION ITEMS

1. Annual Cost of Living Adjustment (COLA)

Annually, ACERA's Actuary reports the year-over-year percentage change in the San Francisco Bay Area Consumer Price Index and the resulting cost of living factor to be used by the Association (ACERA) effective April 1st. The annual CPI change from December 31, 2008 to December 31, 2009 was 2.61%, which according to California Government Code Sections 31870 and 31870.1, should be rounded to the nearest one-half percent to determine the cost of living factor which is 2.5%. In accordance with the California Government Code Sections cited above, Tier II members are entitled to a maximum COLA of 2% and Tier I members a maximum of 3%.

For 2010, Tier I retirees will receive a COLA of either 2.5% or 3% depending on their retirement date. Tier I retirees who retired on or before April 1, 1988 will receive a cost of living increase of 3% due to carry-over banked from prior years. Tier I retirees who retired after April 1, 1988 will receive 2.5%. Tier II retirees will receive a cost of living increase of 2%, the maximum allowed by statute, with .5% added to their bank for future years.

Cost of living increases will be processed effective with the April, 2010 monthly payroll. ACERA will send a communication to retirees with the March payroll and in its upcoming newsletter. ACERA will also issue a County-wide email informing members of the 2.5% cost of living factor for 2010.

2. Report on Vision Care Coverage Request for Proposal

As part of its due diligence practices, ACERA has directed its Benefits Consultant, Woodruff Sawyer & Co., to issue a Request for Proposal (RFP) for retiree vision care coverage for plan year 2011. This process will allow an assessment of whether the coverage currently offered to retirees is the most advantageous and cost-effective. In February, Woodruff Sawyer will contact sixteen vendors, including the current contract holder, Vision Service Provider (VSP), to solicit responses to the RFP. Based on Staff's current timeline, completed proposals will be due the week of March 22nd. Woodruff Sawyer will then conduct an analysis of the submissions by April 19th and conduct interviews the week of May 3rd. Staff will then present the selected finalists to the Retirees Committee at its June 2nd meeting.

A member of REAC reported that many retirees with whom she has spoken said they are very satisfied with the service they receive from VSP.

3. Healthcare Reform Update

Ken Drummer and Doug Smith of Woodruff Sawyer and Co., ACERA's Benefits Consultants, discussed current challenges to enactment of healthcare reform legislation. Scott Brown's election to the Senate on January 19th as the 41st Senator in the minority party has impacted the healthcare reform debate, ending the Democratic

Party's super majority. This may delay passage of any substantive reform legislation, although the Consultants expect the process will continue with bipartisan outreach and consideration of tort reform playing a role. They do not believe progressive Democrats will opt for reconciliation in order to get a reform bill passed with 51 votes. In general, the future of healthcare reform is uncertain.

The Consultants believe that partial healthcare reform is not feasible because key aspects of the legislation are tied together. Although both parties agree in principle on basic insurance reform, without a mandate to increase the number of insured, these reforms will likely fail any Congressional Budget Office (CBO) scoring. For example, eliminating lifetime maximums and exclusions based on pre-existing conditions without requiring mandated enrollment would continue to raise premiums.

Increasing Medicaid subsidies to expand coverage to a greater number of medically indigent would put pressure on state budgets and would likely be opposed. Any new taxes would likely meet strong resistance from Republicans in Congress. Medicare changes may still be included in legislation since the Part D "doughnut hole" has long been seen as a bi-partisan target. The Consultants speculate that eliminating subsidies for Medicare Advantage Plans may be difficult for Republicans to support in any compromise bill.

The Consultants believe that healthcare reform at the state level (e.g. a bill for single-payer health plan in California) is not currently viable due to lack of funding.

4. Report on Kaiser and PacifiCare/UnitedHealth Care Plan Renewal Analysis

In 2009, ACERA and its Benefits Consultant, Woodruff Sawyer, conducted a Request for Proposal for separate retiree medical plans. The rate quotes received from the responding carriers, Kaiser and PacifiCare/UnitedHealth Care, were respectively slightly lower and slightly higher than the rates currently being charged by the County.

This year, Woodruff Sawyer will again request updated renewal information from Kaiser and PacifiCare/UnitedHealth Care for ACERA to evaluate. Renewal quotations obtained through this process will be compared with final rates and plan coverage obtained by the County during their renewal negotiations for plan year 2011. ACERA will request rate quotations from the two providers based on actual experience of ACERA's retiree group and will take into account the implicit subsidy currently paid to the County for retiree plan participation.

5. 2010 Benefits Consultant Work Plan

Staff presented an outline of consulting duties and actions which under contract will be performed by Woodruff Sawyer & Co. on behalf of ACERA during calendar year 2010.

6. Report on Planned SRBR Workshops

To accommodate Board Member schedules, the first SRBR workshop will be scheduled for March and will combine the topics of the February and March workshops. Staff will poll all Board members for their availability prior to selecting a final date. At the workshop, ACERA's Actuary will present various funding valuations based on different earnings assumption rates, as well as a comparison of Category I and II Benefits. The workshop will focus on issues related to separate retiree medical plan contracts, possible taxation of retiree health benefits, restructuring of the Implicit Subsidy program, and other potential impacts to retirees and ACERA staff. Staff will present comprehensive premium and coverage information that compares the current plan structures with changes that would result under separate contracts.

7. 2010 Retiree Educational Sessions

Since 2008, ACERA has developed and conducted special educational seminars for retirees, starting with health plan provider seminars. In 2009, ACERA started a Medicare Transition seminar for members approaching age 65 and/or becoming Medicare eligible. Staff reported that these seminars have proved very helpful for retirees in understanding their plan coverage options and how to complete the necessary forms. In 2010, staff will continue these seminars as well as the seminars on Wills, Trusts, and Power of Attorney. New seminar sessions planned for this year will be on wellness and disease management and financial planning. ACERA will mail a complete schedule of educational seminars to all retirees.

8. Medical Benefit Plan Issues (ACERA-sponsored plans)

Staff informed the Committee that Kaiser reported a security breach of some member's personal data. No social security numbers were involved, but the compromised information did include other information such as name, date of birth, and phone number. Eighty-six ACERA members are among those affected. Kaiser has sent a letter to plan enrollees informing them of the breach. The breach raises a performance guarantee issue under the County contract. ACERA Staff will engage in follow-up discussions with the County to determine what is due from the carrier as a result. The Committee directed Staff to determine what liability, if any, Kaiser has in regard to identify theft.

STAFF INPUT

ACERA's first Medicare Seminar for 2010 was held on January 20th. Open Enrollment confirmations were mailed January 21st. 1099R Forms for 2009 were mailed on January 25th, as scheduled. Staff continues to meet with the medical plan carriers on wellness and disease management. At a future Committee Meeting, Staff will report on wellness initiatives available to retirees under the County-contracted plans, and how retirees can take advantage of these benefits.

TRUSTEE/PUBLIC INPUT

A member of REAC alerted Staff to an enrollment packet she received from SEIU Local 1021 for retiree health insurance. This may be confusing for retirees who think they need to enroll. She also reported that two members received a notice from PacifiCare/UnitedHealth Care stating that their prescription drug coverage was not renewed even though these members are health plan enrollees. The names of the members have been given to ACERA's Benefits Facilitator who will follow up with the carrier.

RECOMMENDATIONS

The Committee recommends, and I move that:

The Board of Retirement adopt the Supplemental COLA increase for Tier I members who retired on or before April 1, 1982 and Tier II members who retired on or before April 1, 1991 effective with the April 1, 2010 monthly retirement allowance. This annual supplemental benefit is non-vested and is funded by the Supplemental Retiree Benefits Reserve (SRBR).

FUTURE DISCUSSION ITEMS

As noted on the agenda.

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for March 3, 2010 at 10:30 a.m.

MEETING ADJOURNED

The meeting adjourned at 11:50a.m.

DISCLOSURES/RECUSALS

None.