

April 6, 2011

To: Members of the Retirees Committee

From: Liz Koppenhaver, Chair, Retired Trustee

Subject: Summary of the April 6, 2011 Retirees Committee Meeting

Committee Chair Liz Koppenhaver called the April 6, 2011 meeting to order at 10:34 a.m. Committee members present were Liz Koppenhaver, Annette Cain-Darnes, Dale Amaral and George Dewey. Alternate Board member present was David Safer. Staff present was Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Rose Kwong, Benefits Manager; Mike Fara, Communications Manager; JP Singh, Chief Financial Officer; Latrena Walker, Project and Information Services Manger; and Harsh Jadhav, Internal Audit Manager.

ACTION ITEMS

1. Report on Benefits and Communications Consultant Request for Proposal (RFP).

Staff presented its analysis of the responses to the Benefits and Communications Consultant Request for Proposal (RFP). Responders that were included in the rating process were Buck Consultants, Keenan & Associates, The Segal Company, Towers Watson, and Woodruff-Sawyer & Co. Staff rated the firms based on the Proposal Questionnaire responses, fee proposal and interviews conducted by staff.

Based on staffs' rating, Keenan & Associates ranked highest based on the highest number of public agency clients, GASB and Medicare knowledge, and the lowest fee for benefits consulting. Keenan's fee for communications consulting was also lower than the incumbent firm, The Segal Co. The savings based on the difference in quotes from both current incumbents Woodruff-Sawyer & Co. and The Segal Co. compared to obtaining both services from Keenan & Associates is \$8,550 annually.

It was moved by Annette Cain-Darnes and seconded by George Dewey that the Committee recommends to the Board of Retirement that it approve the appointment of Keenan & Associates as ACERA's Benefits and Communications Consultant beginning on June 1, 2011.

INFORMATION ITEMS

1. Supplemental Retiree Benefit Reserve (SRBR) Policy and Valuation

At the March 2, 2011 Retirees Committee meeting, a request was made to have staff provide additional options for the Long Term Goal Funding Policy section of the Supplemental Retiree Benefit Reserve (SRBR) policy to allow the Retirement Board to make adjustments to benefits within certain parameters in the event the lifespan of the fund is below 15 years.

It was noted that Dale Amaral's position is that he has a concern with the proposed revisions to the policy and would not support the proposed policy. The concern for his position is that the proposed revisions assume there would be no additional money added to the SRBR fund and do not take into account the possibility of the SRBR fund growing.

There was discussion that the goal is to have a flexible policy with parameters that will not require on-going changes as a result of specific situations, addresses the fund's sustainability, and not cause undue harm to the beneficiaries. The following changes, in underlined texts, are the proposed language for pages four and five of the SRBR policy (Long-Term Goal Funding section, paragraph three):

In managing the relationship between assets and liabilities, The BOARD shall manage approved SRBR benefits with a goal towards meeting the projected liabilities of the plan over a 15-year period, as determined by the actuary. If it is reported that current SRBR program benefits will not sustain for 15 years, benefit adjustments may be made based on the amount of funds needed in order to attain a prolonged lifespan of the fund without causing undue harm to beneficiaries.

Staff will revise the policy with the proposed language and present it at the next Retirees Committee meeting.

Staff advised the Committee of changes to the SRBR actuarial valuation process, the results of which will be presented at the May Retirees Committee meeting. In the past the actuary used the benefit amounts already adopted by the Board of Retirement for the following year to create the valuation. The valuation to be presented in May will be created using projections based on ACERA's substantive plan including a 50% of medical inflation trend increase for the Monthly Medical Allowance, and increases based on full inflation for dental, vision and Medicare Part B Reimbursement. This will be a "baseline valuation" because the Board of Retirement has not yet made any decisions for benefits next year. A final report will be provided once benefit amounts for 2012 are final.

2. Supplemental Retiree Benefit Reserve (SRBR) Financial Status

Staff provided a 10 year history of SRBR activity through December 31, 2010. The 2010 beginning balance of the SRBR account was approximately \$658.7 million and the December 31, 2010 ending balance was approximately \$624.2 million. Approximately

\$4.8 million of interest was credited to the SRBR fund for the second half of 2010, using the semi-annual interest crediting of 0.758%. There were insufficient earnings in the first half of 2010 to credit to the SRBR fund. There were only \$42.2 million actual earnings. This entire amount was used to augment the contingency reserve account.

Over the last 10 year period, the expenses have doubled. The reasons for this increase are due to the payment of Implicit Subsidy and the increase in the healthcare costs.

The total SRBR fund deductions for the year ended December 31, 2010 were approximately \$39.4 million. The deductions included the transfer to the employer advance reserve for 401(h) contributions, 2009 employer implicit subsidy, and payment of supplemental COLA, burial and active death benefits.

Staff agreed to review retirement trends and follow-up on medical inflation trends.

3. Report on ACERA's Wellness Program

Staff provided the following high level summary of actions taken regarding ACERA's Wellness and Disease Management Plan during the first quarter of 2011:

- Established internal ACERA Wellness Team and conducted monthly meetings
- Notified all carriers of ACERA's Wellness initiative and disease being tackled is diabetes
- Presented and provided program information at Retirement Associations' Board meetings and at the spring luncheon
- Conducted retiree seminars to include customized presentations on diabetes and scheduled BMI testing for retirees, and prepared newsletter articles and other educational communications

Staff provided measurements for 2008, 2009, and 2010 for ACERA sponsored plan coverage including costs for ambulance service, home health services, emergency room services and generic/brand pharmacy costs on a per member per month basis.

Staff provided the following measurements for retirees and their dependents who have VSP coverage:

- Total number receiving an eye exam and the number identified as having diabetes
- The number identified as having diabetic retinopathy
- The number of re-exam reminders for those identified as having diabetes

Staff agreed to find out the maximum age of dependents covered under the VSP program.

4. Retiree Benefits Survey

Staff reported that in addition to providing a draft copy of the Retiree Benefits Survey to the Trustees for review, it provided the survey to a focus group of a few retirees and active members. Staff discussed feedback, incorporated changes, and made further clarification revisions where appropriate.

Active employees will be able to complete the survey online. Retirees will complete the paper version of the survey.

There was discussion for the need to clarify that the “Implicit Subsidy” item in the ranking section is provided for information purposes only and that it is not an item to be ranked. Otherwise, there was general consensus that the survey looked good and there was agreement to move forward. Staff agreed to make the appropriate clarification to the “Implicit Subsidy” item and present the revised survey to the Board of Retirement at its next meeting. Staff would like to distribute the finalized survey by the end of April to allow sufficient time for results to be tallied and reported back to the Retirees Committee in July.

The objectives of this survey are to educate retirees as well as active members that the board may need to make some adjustments in non-pension benefits if the lifespan of the SRBR continues to decrease. In addition it will inform the board how members rank the current benefits and give the board an idea of members’ opinions on potential changes to the these benefits.

5. Introduction to Medicare Advisory/Consultancy

Based on concerns regarding the amount of the Medicare plan premiums being charged for coverage under the ACERA United Healthcare Senior Supplement Medicare Medical Plan compared to an Individual Plan, staff reported that the following steps were taken in researching this matter:

- Requested United Healthcare to provide a comparison of ACERA’s current group plan design to an Individual Plan design.
- Requested United Healthcare to provide factors which would cause ACERA’s premiums to be twice as high as the Individual Plan cost.
- Requested Woodruff-Sawyer & Co., ACERA’s Benefits Consultant, to do a comparison of United Healthcare plans and United Healthcare Individual Plans as well as Kaiser Senior Advantage Plan (a Medicare medical plan).
- Met with a representative from Extend Health, a company that acts as a liaison between employers and Medicare eligible retirees to assist in the selection of Individual Medicare Medical plans based on health care needs, the area of residence, and comparison of premiums.

Staff reported that the results of the comparison were compelling and warranted further investigation in this area. ACERA’s Benefits Consultant, Woodruff-Sawyer & Co., is

conducting a Request for Information (RFI). Through this process, Staff will find out specifically what services a Medicare advisory firm is willing and able to provide, as well as its clients' level of satisfaction of the services provided. Staff will provide full results of its findings on this topic at the June Retirees Committee meeting.

6. Miscellaneous Update Review

Staff provided a written report on the Delta Dental Update; Exams, Cleanings & Other Procedures, Delta Dental Missed Performance Guarantee, and ACERA Retiree Seminar – Medicare Transition. In addition, staff provided and reviewed the following information regarding ACERA Service Retirements over the last three years:

- April 2008 retirements were 117
- April 2009 retirements were 58 (*no COLA*)
- April 2010 retirements were 127 (*119% increase due to COLA*)
- April 2011 retirements were 107 (*as of 3/29/2011*) and 120 (*as of 4/6/2011*)
- 2009 (**entire year**) retirements were 350
- 2010 (**entire year**) retirements were 437
 - Increased by 25%
- Counseling appointments between 2009 and 2010
 - Increased by 24%
- All seminars and counseling appointments have also been full
- Estimate requests for 2009 and 2010
 - Increased by 23%

STAFF INPUT

None.

TRUSTEE/PUBLIC INPUT

None.

RECOMMENDATIONS

The Committee recommends, and I move that the Board of Retirement adopts and approve the appointment of Keenan & Associates as ACERA's Benefits and Communications Consultant.

FUTURE DISCUSSION ITEMS

- Adoption of 401(h) Resolution for 2011/2012
- Possible Declaration of Intent to fund Implicit Subsidy program for 2012
- Presentation and Adoption of SRBR Funding Report/Study

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ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for May 19, 2011 at 10:30 a.m.

MEETING ADJOURNED

The meeting adjourned at 12:10 p.m.