April 7, 2010

To: Members of the Retirees Committee

From: Liz Koppenhaver, Elected Retired Trustee

Subject: Summary of the April 7, 2010 Retirees Committee Meeting

Trustee Liz Koppenhaver called the April 7, 2010 meeting to order at 10:55a.m. Committee members present were George Dewey, Dale Amaral, and Annette Cain-Darnes. Other Board members present were Keith Carson. Staff present were Kathy Foster, Assistant Chief Executive Officer; Bob Gaumer, Chief Counsel; J.P. Singh, Chief Financial Officer; Rose Kwong, Benefits Manager; Harsh Jadhav, Internal Auditor; and Mike Fara, Communications Manager.

ACTION ITEMS

1. Adoption of 401(h) Account Resolution for 2010/2011

Annually, ACERA's Participating Employers authorize ACERA to establish a 401(h) account on their behalf by resolutions of their governing bodies. Simultaneously, the Board of Retirement contributes an equal amount from the Supplemental Retiree Benefits Reserve (SRBR) to their Employer Advance Reserve. This procedure provides retirees with contributions towards their health benefits coverage on a tax-free basis in compliance with Internal Revenue Code Section 401(h).

The actuarially determined 401(h) expense amount for each Participating Employer is based on the number of retirees eligible for non-vested OPEB benefits. These percentages were applied to the projected 401(h) contributions of approximately $35.4 million, and adjusted by the estimated balance remaining in the 401(h) account as of June 30, 2010 for fiscal year 2010-2011. The estimated contributions for all Participating Employers include projected health premium subsidy increases of 4.25% for medical and 5% for Medicare Part B, dental and vision coverage effective January 1, 2011, and an additional 10% subsidy requirement to provide a margin for unexpected retirements.

The percentage breakdown of the 401(h) expense and the corresponding net contribution amount by Employer are as follows:

Alameda County	$28,560,864.74	90.07%
ACMC	$2,147,003.40	6.71%
Superior Court	$792,503.65	2.45%
Housing Authority	$125,030.85	0.39%
LARPD	$112,805.75	0.35%
First 5	$9,527.23	0.03%

ACERA will send a letter to each Participating Employer requesting their respective governing bodies pass a resolution to approve the funding of their 401(h) account.

Recommendation

Staff recommended that the Retirees Committee recommend to the Board of Retirement that after contributions are made to the 401(h) accounts by the respective Participating Employers, ACERA, in accordance with the CERL, treat an equal amount of Supplemental Retiree Benefits Reserve (SRBR) assets as employer contributions for pensions and transfer the amount equal to the pro rata share of the 401(h) contributions for the 2010-2011 fiscal year for each Participating Employer. The exact amount will be adjusted by the balance remaining in each of their 401(h) accounts and is contingent upon receipt by ACERA of an authorizing resolution from each of the Participating Employers' governing bodies. The item was moved by Annette Cain-Darnes, seconded by Dale Amaral, and passed unanimously.

INFORMATION ITEMS

1. SRBR Financial Status

ACERA's Chief Financial Officer presented the ten year history of the Supplemental Retiree Benefits Reserve (SRBR) account through December 31, 2009. The semi-annual interest posting as of December 31, 2009 resulted in interest credited to the SRBR of approximately $12.8 million at the rate of 1.9313% (this is in addition to the $5.0 million already credited during the June 30, 2009 interest crediting process). Total deductions to the SRBR during 2009 were approximately $36.5 million, which included payment of healthcare subsidies, the 2008 implicit subsidy payment, Supplemental COLA, burial benefits, and the active death equity benefits.

The ending balance in the SRBR account as of December 31, 2009 (after annual interest crediting) was approximately $658.7 million.

2. Report on March SRBR Workshop

On March 30th, ACERA held a workshop for the Board of Retirement, Participating Employers, and other stakeholders to present alternative Supplemental Retiree Benefits Reserve valuation projections, and information on separating retiree medical plan contracts from the County.

Paul Angelo and Andy Young of the Segal Company presented the alternative SRBR valuation projections which included scenarios based on investment earnings assumptions of zero, 4%, 6%, 8% and 10% through the year 2013, reverting back to 8% in 2014. The first scenario using zero earnings results in the SRBR ("fund") being depleted in 2022. Each projection thereafter using 4% to 10% caused the fund to last one year more for each scenario revealing that the longest the fund is projected to last is 2026, based on the 10% assumption rate. The projection using Category 1 benefits only resulted in the fund lasting until 2027.

Staff then presented information regarding the use of the 401(h) account to provide tax-free retiree health benefits. ACERA will seek endorsement from the IRS to approve the current backfill method in 2011. If approval is not granted, ACERA will have to discontinue using a 401(h) account. Retiree health benefits would be taxed as a result.

Medical plan comparisons were then provided by staff using the current early retiree premiums, decomposite premiums, and ACERA-only (separate contract) premiums which were acquired from Kaiser and Pacificare/United Health via a Request for Information conducted last year by ACERA's Benefits Consultant. Staff then gave an overview of the current Implicit Subsidy program and presented options for distributing the implicit subsidy to retirees under separate contracts. Staff also presented advantages and disadvantages of separating from the County's medical plan contract, as well as the anticipated impacts to staff and retirees under separate plans.

Staff plans on providing updated 2011 ACERA-only premiums to the Retirement Board in June or July. At that time staff will make a recommendation for the Board to consider regarding the retiree medical plan contracts.

At the Workshop, Staff took note of Board Member discussion and concern on how to possibly reduce SRBR costs. In May or June, Staff will present to the Board ideas for future benefit payment structures designed to preserve the lifespan of the SRBR account. This presentation will coincide with Staff's annual presentation concerning the Monthly Medical Allowance (MMA) benefits for the 2011 plan year.

Because the Workshop was held the same day as the County Board of Supervisors Meeting, the County CAO and Auditor, as well as Supervisor Carson, were not able to attend the majority of the workshop. In response, Staff will provide a briefing at the April Board Meeting.

3. Report on Vision Care RFP Process

In compliance with ACERA's due diligence process, Staff directed Woodruff-Sawyer & Co., ACERA's Benefits Consultant, to issue a Request for Proposal (RFP) for vision care coverage for the 2011 plan year. Of the fourteen carriers who received the RFP, six responded: Anthem, Davis Vision, EyeMed, Superior Vision, VSP, and SACRS VSP. Analysis of the proposals will be completed by Woodruff-Sawyer by April 19th. Interviews will be extended to the top three candidates, as well as to the SACRS VSP plan, and conducted the week of May 3rd. Staff will present its recommendation on the Vision Care Proposal at the June 2nd Retirees Committee Meeting.

At the June 2nd meeting, the Benefits Consultants will also report on how the Anthem and EyeMed plans are differentiated, and how the SACRS VSP plan works. They noted that although VSP is still considered the gold standard, other carriers are making improvements to their plans in the area of network capabilities, etc., that make them more competitive. Members of the Retiree Associations commented that retirees are highly satisfied with the services and coverage they currently receive under the contracted VSP plan.

4. Report of Medical Benefit Plan Issues (ACERA-sponsored plans)

Staff provided a status update of current issues all of which involve the PacifiCare/United health care plans. PacifiCare issued a new Group Number for the 2009 plan year. The carrier will notice plan enrollees in June or July, and include a HIPAA notification showing proof of coverage for the period prior to the group number change. Coverage is not terminating or changing; only the group number has changed.

Senior Supplement members who were charged incorrect prescription drug co-pays will receive refund checks for any overpayments. The carrier will send an explanatory letter to affected members with their check. This issue occurred because UnitedHealthcare did not update their system for the month of January to override copay changes instituted by the Centers for Medicare & Medicaid Services (CMS). The CMS changes go into effect January 1, but do not apply to ACERA's plans until February 1.

United Healthcare found eighty-one ACERA members who were affected by prescription drug tier changes of which they were not notified timely due to the late release of the Annual Notice of Change (ANOC). In response, United Healthcare has added an authorization of the lower copay and will refund members for higher copays for the period February 1st through April 30th.

Staff reported an administrative change to the Medicare Part D Low-Income Premium Subsidy program provided by CMS. In 2010, UnitedHealthcare will begin refunding members directly who pay a Part D premium. This will currently affect ten ACERA members. For the four members who receive and MMA, ACERA will receive a monthly reimbursement from the carrier to apply to the SRBR account. The remaining six members will receive a monthly reimbursement check from the carrier.

5. Healthcare Reform Update

ACERA's Benefits Consultant highlighted provisions of the House approved "Patient Protection and Affordable Care Act Bill" (HR 3590) that could potentially affect ACERA-sponsored medical benefit plans.

Provisions to take effect in 2010 under the new legislation:

- Reinsurance Programs for Early Retirees, which establishes a temporary fund of $5 million to reimburse employers 80% of retiree claims between $15,000 and $90,000. The program terminates in 2014 or when funds are exhausted. This may reduce costs to ACERA by offsetting claims experience which factors into premium renewal negotiations.

- Prohibiting of lifetime limits on the dollar value of coverage. This would affect ACERA's PPO plans, in that plan provisions would need to be changed, however, minimal cost impact is expected.

- Medical loss ratio rate reviews. Large group plans must spend at least 85% of premium revenue on claims. It is unclear how the percentage will be calculated and monitored. The consultants expect a minimal impact of this provision on ACERA.

- Effective in 2011, a parent (member) will have the option to cover their uninsured dependent (child) on their health plan to age 26. Technically, the provision goes into effect on the date of the group's first renewal on or after September 23, 2010. For ACERA, this would be February 1, 2011.

- One provision that will directly affect the ACERA population is that the Medicare Part B premium income threshold will be frozen at 2010 level for the next nine years, with decreased reimbursement expected for enrollees with incomes that exceed the threshold.

Woodruff Sawyer also covered items to be addressed in future years. Of major concern is that beginning in 2011, the payment (reimbursement) for Medicare Advantage plans in areas in which the fee for service rate is high will drop to 95% of the fee-for-service rate. This may, in effect, eliminate the advantages of Medicare advantage plans (e.g. Kaiser Senior Advantage) and make them more expensive, thus resulting in a transition of people into a fee for service plan. The consultants are in communication with Kaiser to try and determine how they expect the provision to affect their Medicare advantage plan.

Woodruff-Sawyer's newsletter containing details of the bill's provisions, including those effective in future years, is being placed on the ACERA Website.

TRUSTEE/PUBLIC INPUT

None.

RECOMMENDATIONS

The Committee recommends, and I move:

That after contributions are made to the 401(h) accounts by the respective Participating Employers, ACERA, in accordance with the CERL, treat an equal amount of Supplemental Retiree Benefits Reserve (SRBR) assets as employer contributions for pensions and transfer the amount equal to the pro rata share of the 401(h) contributions for the 2010-2011 fiscal year for each Participating Employer. The exact amount will be adjusted by the balance remaining in each of their 401(h) accounts and is contingent upon receipt by ACERA of an authorizing resolution from each of the Participating Employers' governing bodies.

FUTURE DISCUSSION ITEMS
As noted on the agenda.

ESTABLISHMENT OF NEXT MEETING DATE
The next meeting is scheduled for May 5, 2010 at 10:30 a.m.

MEETING ADJOURNED
The meeting adjourned at 11:55a.m.

DISCLOSURES/RECUSALS
None