

May 19, 2011

To: Members of the Retirees Committee

From: Liz Koppenhaver, Chair, Retired Trustee

**Subject: Summary of the May 19, 2011 Retirees Committee Meeting**

Committee Chair Liz Koppenhaver called the May 19, 2011 meeting to order at 10:34 a.m. Committee members present were Liz Koppenhaver, Annette Cain-Darnes, George Dewey, and Elizabeth Rogers. The other Board members present were Darryl Walker, and George Wood. Alternate Board member present was David Safer. Staff present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Rose Kwong, Benefits Manager; JP Singh, Chief Financial Officer; and Harsh Jadhav, Internal Audit Manager.

## **ACTION ITEMS**

### **1. 401(h) Account Resolution Request to ACERA Participating Employers**

Each year the governing bodies of ACERA's Participating Employers authorize ACERA to establish a 401(h) account on their behalf. These accounts are funded by the Participating Employers with a portion of their normal annual contributions to ACERA. Simultaneously, after contributions are made in accordance with the County Employee Retirement Law (CERL), ACERA treats an equal amount of Supplemental Retiree Benefits Reserve (SRBR) assets as employer contributions for pensions and transfers that amount to the appropriate Employer Advance Reserve. This procedure provides retirees with contributions towards their Retiree Health Benefits on a tax-free basis in compliance with Internal Revenue Code Section §401(h).

The estimated contributions for all Participating Employers include:

- Projected health premium subsidy increases of 4.75% for medical and 5% for Medicare Part B, dental and vision effective January 1, 2011;
- An additional 10% subsidy requirement for 2011-2012 to provide a margin for unexpected retirements (e.g., if the employer grants Golden Handshake benefits);
- Administrative expenses for health benefits effective July 1, 2011.

ACERA will be sending a letter to each of the Participating Employers requesting that their respective governing bodies pass a resolution to approve the funding of their 401(h) account in the upcoming fiscal year in the amount specified by ACERA's actuary and adjusted by the balance remaining in their 401(h) account.

Concerns were raised by the Committee that sufficient details regarding the administrative expenses for health benefits and the process of how they will be paid were not provided. Staff responded that since identifying expenses related to administering the SRBR fund as a separate item is a new legal requirement, the details of how it will be managed has not yet been finalized. It was agreed that at the next Retirees Committee meeting, Staff would present a breakdown of the administrative expenses contained in the 2011 401(h) total amount. Staff also agreed to provide the current budget.

It was moved by George Dewey and seconded by George Wood that the Committee recommends to the Board of Retirement a revised recommendation that after contributions are made to the 401(h) accounts by the respective Participating Employers, ACERA, in accordance with the CERL, treats 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 2011-2012 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. An additional expense for the cost to administer Other Post Employment Benefit (OPEB) expenses is also included in the 401(h) total provided to the employers. The amount and process in which these funds are transferred are in the process of being determined.

## **2. Supplemental Retiree Benefit Reserve (SRBR) Policy Update**

The following changes (in underlined texts), are the proposed language for page four 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 fund 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.

It was moved by Annette Cain-Darnes and seconded by George Wood that the Committee recommends to the Board of Retirement that it adopts the amendment to the Long Term Goal Funding section of the SRBR policy.

## **3. Approval of Payment for Implicit Subsidy Cost for 2010**

Staff provided a letter from Alameda County stating the final Implicit Subsidy estimate for 2010, as calculated by its Consultant, the Hay Group. Staff also provided a letter from ACERA's Benefits Consultants, Woodruff-Sawyer & Co., verifying that the correct Implicit Subsidy reimbursement for plan year 2010 is \$4,402,603.

It was moved by Annette Cain-Darnes and seconded by George Dewey that the Committee recommends to the Board of Retirement that it authorizes Staff to transfer \$4,402,603 from the SRBR to the County Advance Reserve to be amortized over 22 years as the Implicit Subsidy payment for plan year 2010.

#### **4. Possible Declaration of Intent to Fund Implicit Subsidy Program for 2012**

Staff recommended that ACERA state its intent to fund the Implicit Subsidy Program for plan year 2012. The Implicit Subsidy cost for plan year 2011 is estimated by Alameda County to be \$4,549,910. The estimated cost of the Implicit Subsidy for plan year 2012 will not be known until the County has completed its medical plan contract negotiations.

It was moved by Elizabeth Rogers and seconded by George Wood that the Committee recommends to the Board of Retirement that it adopts a Statement of Commitment to continue the Implicit Subsidy Program for health plan year 2012, following a determination by ACERA at the end of plan year 2012 that the amount is not greater than the actual retiree Implicit Subsidy.

### **INFORMATION ITEMS**

#### **1. Presentation and Report on Supplemental Retiree Benefit Reserve (SRBR) Funding Status**

The Segal Company (Segal), ACERA's actuary, provided the Retiree Committee a preliminary report of the SRBR financial status. This overview of the valuation is based on projections using substantive plan and medical inflation trends, as well as other assumptions consistent with ACERA's pension valuation.

During this process, a closer look was taken at the Implicit Subsidy. This was done because of the decrease in cost for 2010, and the estimated 2011 cost which increased slightly from 2010 but is still lower than the 2009 cost. The rates used to determine the Implicit Subsidy were also provided to Segal based on its request. This information was used to revise its Implicit Subsidy calculation method resulting in extending the Other Post-Employment Benefits (OPEB) for a full year.

In addition, The Segal Company has incorporated an actuarial reduction in the Active Death Equity Benefit, not previously used that resulted in an additional nine months of payments.

Last year it was reported that the SRBR funds would exhaust in 2026. The results of this preliminary December 31, 2010 valuation indicate that the terminal year of OPEB benefits is projected to be 2027 with full benefits paid through 2026, for a total of 16 full years and one partial year. Segal stated that liabilities associated with SRBR benefit payments have been discounted at an assumed rate of 7.9%; therefore, if the investment earnings of the SRBR fund are less than 7.9%, the terminal years of the SRBR may decrease.

There was discussion regarding retiree trends and retirement assumptions based on the actual number of retirements. Segal stated that there is an assumption that the retirement benefits for the retirees have been funded, and that the retirement pattern changes are reviewed each year.

Staff will give a presentation on the Monthly Medical Allowance for 2012 and healthcare trends at the June Retirees Committee meeting.

## **2. 2012 Plan Year Open Enrollment Timeline**

Staff provided a report on the annual open enrollment timeline, including information on plans for ACERA's Retirees Health Fair & Wellness Center, Enrollment Forms, Open Enrollment Brochure, and the Retiree Annual Statement. The health fair will again be held at the Oakland Airport Hilton, which has been the location for the last several years.

## **3. Status Report on Medicare Advisory/Consultancy and United Health Plans Review**

Staff and representatives from UnitedHealthcare met in April to discuss Medicare Medical Plan options. These options included UnitedHealthcare's Medicare Solutions and its Medicare Advocacy/Coordinator services. This meeting proved very informative and helpful to better understand ACERA's choices with a possible continued relationship with UnitedHealthcare in the group Medicare marketplace. It also provided further support of potential substantial premium savings for our members and ACERA.

In May, Staff met with Woodruff-Sawyer & Co. (WS&Co.), ACERA's current Benefits Consultant, to discuss the Request for Information (RFI) responses and WS&Co.'s analysis of the seven responding firms. Out of these responding firms, WS&Co. considered six to be viable options, if ACERA wanted to move forward with transitioning the UnitedHealthcare Medicare plan enrollees (in both the Senior Supplement Plan and Secure Horizons Medicare Complete Plan) from a *Group* Medicare medical plan to an *Individual* Medicare medical plan with a possible February 1, 2012 effective date.

There are still many steps, which would need to happen before such a move would or could be considered by the Committee. In June when ACERA's new Benefits and Communication Consultant contract begins with Keenan & Associates, Staff will instruct them to review all documents gathered/presented to Staff thus far, and to provide an opinion on further considerations and next steps. Staff will then present this information at a future Committee meeting.

## **4. Report on Annual Health Plan Meeting with Retiree Group**

On April 6, 2011, ACERA hosted the Annual Health Plan Meeting with Retiree Groups consisting of representatives from ACRE's and REAC's Board. Also present at this meeting were representatives from the County of Alameda (COA), ACERA's Benefits Consultant, WS&Co., as well as Liz Koppenhaver and David Safer from ACERA's Retirees Committee of the Board of Retirement. The agenda consisted of an overview of global carrier issues, the dental & vision renewal requests, new requests for Plan Year 2012 through the renewal letter to the COA, highlights for the 2010 Retirees Health Fair & Wellness Center, discussions on current Open Enrollment materials used by ACERA, an update on the Benefits and/or Communications Request for Proposal and the Medicare Advisory/Consultancy concept. Staff thanked Janet Waring, a member of the REAC

Board, for developing an extensive questions/comments list prior to the meeting. This information was useful in providing for productive discussions regarding various topics.

No issues were presented for the vision coverage provided through ACERA by VSP. Aside from the recent January 2011 preventive services not being processed appropriately as well as other rendered dental services in this month, minimal issues or complaints were raised against ACERA's dental vendor, Delta Dental. Staff is working with Delta Dental to explore the possibility of developing a specific section of Delta Dental's website that would be geared toward ACERA retirees.

## **5. Miscellaneous Updates**

Staff provided updates regarding the conclusion on retiree dental services rendered in January 2011 through the ACERA Delta Dental PPO Dental Plan; results of ACERA's Retiree Seminar, "Defeat Diabetes with a 1-2 Punch"; a report on a new Costco/VSP relationship; as well as VSP measurement statistics; and an update on the release of the ACERA Benefits Survey. Staff also reported on the results of the Body Mass Index (BMI) testing.

### **STAFF INPUT**

None.

### **TRUSTEE/PUBLIC INPUT**

None.

### **RECOMMENDATIONS**

#### **1. 401(h) Account Resolution Request to ACERA Participating Employers**

The Committee recommends, and I move that 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, treats an equal amount of Supplemental Retiree Benefit 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 2011-2012 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. An additional expense for the cost to administer Other Post Employment Benefit (OPEB) expenses is also included in the 401(h) total provided to the employers. The amount and process in which these funds are transferred are in the process of being determined.

**2. Supplemental Retiree Benefit Reserve (SRBR) Policy Update**

The Committee recommends, and I move that the Board of Retirement adopts the amendment to the Long Term Goal Funding section of the Supplemental Retiree Benefit Reserve (SRBR) policy.

**3. Approval of Payment for Implicit Subsidy Cost for 2010**

The Committee recommends, and I move that the Board of Retirement authorizes Staff to transfer \$4,402,603 from the Supplemental Retiree Benefit Reserve (SRBR) to the County Advance Reserve to be amortized over 22 years as the Implicit Subsidy payment for plan year 2010.

**4. Possible Declaration of Intent to Fund Implicit Subsidy Program for 2012**

The Committee recommends, and I move that the Board of Retirement adopts a Statement of Commitment to continue the Implicit Subsidy Program for health plan year 2012, following a determination by ACERA at the end of plan year 2012 that the amount is not greater than the actual retiree Implicit Subsidy.

**FUTURE DISCUSSION ITEMS**

**ESTABLISHMENT OF NEXT MEETING DATE**

The next meeting is scheduled for June 1, 2011 at 10:30 a.m.

**MEETING ADJOURNED**

The meeting adjourned at 12:17 p.m.