June 2, 2010

To: Members of the Retirees Committee

From: Liz Koppenhaver, Elected Retired Trustee

Subject: Summary of the June 2, 2010 Retirees Committee Meeting

Trustee Liz Koppenhaver called the June 2, 2010 meeting to order at 11:10a.m. Committee members present were George Dewey, Dale Amaral, Annette Cain-Darnes, and Elizabeth Rogers. Other Board members present were David Safer and George Wood. Staff present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Bob Gaumer, Chief Counsel; J.P. Singh, Chief Financial Officer; Latrena Walker, Project and Information Services Manager; Betty Tse, Chief Investment Officer; Rose Kwong, Benefits Manager; Harsh Jadhav, Internal Auditor; and Mike Fara, Communications Manager.

ACTION ITEMS

1. **Analysis and Selection of Vision Care Provider for Plan Year 2011**
   ACERA's Benefits Consultant, Woodruff-Sawyer & Co., and Staff presented an analysis of the retiree vision care proposals obtained through the Vision Care Request for Proposal (RFP) conducted in May. Staff also provided scoring results of the interviews conducted with the top three responding firms: Davis Vision, EyeMed, and Vision Service Plan (VSP).

   Analysis of the proposals was based on responses in the following three areas: 1) Initial Qualifying Criteria 2) Scope of Work and 3) Interview. All bidding providers were required to submit proposals which at a minimum matched ACERA's current vision plan design. Of the top three firms, Vision Service Plan (VSP) received the highest ranking.

   Although the three top-rated firms were comparable in terms of financial rating, client retention, network provider services, and claims adjudication, VSP was found to be the superior candidate in the areas of public sector market share, knowledge of ACERA's retiree population, customer service, overall years of experience, and a large member base of just over 15 million. VSP was also the only responding firm to have a formal diabetes disease management program in place, and had the lowest network turnover of 0.4%.

Of the three firms interviewed, EyeMed provided a 4 year rate guarantee, Davis 3 years, and Superior 3 years. VSP provided a 2 year rate guarantee with a 3% rate cap for 2 additional years. Monthly premiums provided by the carriers were $4.91 (Davis Vision), $4.27 (EyeMed), $4.22 (VSP Choice Plan), and $5.52 (VSP Signature Plan).

Beyond having competitive rates, Staff noted the chief advantages of remaining with VSP. There would be no disruption in plan coverage to retirees and their dependents, ACERA's account would be managed locally, and ACERA retirees would continue to receive superior customer service.

Staff put forth its recommendation that the Retirees Committee recommend to the Board of Retirement to continue ACERA's retiree vision care coverage through Vision Service Plan (VSP) and to approve award of the vision care coverage contract to VSP for Plan Year 2011. The recommendation was moved by Elizabeth Rogers, seconded by Dale Amaral, and passed unanimously.

As part of the RFP process, Staff obtained cost data for the current VSP Signature Plan and two other VSP plan options: the VSP Choice Plan, and the SACRS VSP Plan. Staff also presented different options for administering each plan that could afford cost savings to ACERA by either changing to voluntary enrollment and/or structuring subsidy payments based on years of service.

The Committee requested additional information to help evaluate the potential cost-saving options. In response, Staff will provide at a future Committee meeting: 1) Report of ACERA members who would be affected by a switch from the Signature plan network to the Choice plan network; 2) Number of ACERA members with less than 10 years of service who have not sought vision care services; and 3) Number of ACERA members as a whole who have not sought services.

The Committee noted they might consider a plan change to the VSP Choice Plan, but would most likely not consider a change to the current subsidy structure whereby ACERA pays a subsidy to cover the vision plan premium for all retirees. A motion to adopt the actual vision plan contract for plan year 2011 will be brought before the Committee in August.

2. Approval of Payment for Implicit Subsidy Cost for 2009

In 2007, the Board of Retirement adopted resolutions authorizing the establishment of a mechanism to reimburse Alameda County for the expense associated with enrollment of pre-65 (non-Medicare eligible) retirees in County sponsored health benefit plans.

The annual implicit subsidy amount is provided by the County through its healthcare consultant and is then verified by ACERA's Benefits Consultant. The implicit subsidy amount for plan year 2009, as reported by the County and verified by ACERA's Benefits Consultant, is $5,287,767.

Staff put forth its recommendation that the Committee approve and recommend to the Board of Retirement to authorize a **transfer of $5,287,767 from the Supplemental Retiree Benefits Reserve (SRBR) to the County Advance Reserve as the Implicit Subsidy payment for plan year 2009**. The recommendation was moved by Elizabeth Rogers, seconded by Dale Amaral, and passed unanimously.

3. Possible Declaration of Intent to Fund Implicit Subsidy Program for 2011

Staff is recommending that the Board state its intent to fund the Implicit Subsidy Program for the Plan Year 2011. The Committee agreed to defer action on this item until the July Committee meeting so that Staff can present information on the 2011 decomposite rates on which the implicit subsidy is based.

INFORMATION ITEMS

1. Supplemental Retiree Benefits Reserve Sustainability Policy

Staff reviewed a memo from Chuck Conrad, CEO, to the Board dated May 20, 2010 in which he proposed a possible framework for developing an SRBR sustainability policy based on an overall funding objective. The policy intent would be to evaluate and adjust benefit levels concurrent with the annual SRBR valuation in order that liabilities are funded for a “rolling” period of 15 years. Mr. Conrad further suggested in his memo that the Board might want to consider a benefits change mitigation rule to avoid any dramatic change to benefit levels from year to year. He noted that the Monthly Medical Allowance (MMA) will have the most leverage in controlling the sustainability period. Thus, should the funding period prove relatively stable, the Board may always resume the practice of adjusting the MMA by one-half the rate of medical inflation.

Staff also responded to questions by the Committee concerning possible cost-saving measures. Staff and the Board will determine which of these cost-saving ideas hold merit for further discussion. Staff plans to bring the current SRBR Policy before the Board later this year to discuss any potential changes.

2. Discussion of Possible Restructuring of Monthly Medical Allowance

Each year, the Retirees Committee recommends to the Board a suggested dollar amount to be contributed towards retiree health care costs for the following plan year.

This contribution, known as the Monthly Medical Allowance (MMA), is funded through the Supplemental Retiree Benefits Reserve (SRBR).

Staff recounted the history of the MMA and provided the Committee with options to consider in setting the MMA for Plan Year 2011. One option is to continue to follow the GASB substantive plan and base the MMA on an amount equal to 50% of the 10.0% inflation assumption provided by ACERA’s Actuary, thereby increasing the current MMA maximum by 5% from $522.16 to $548.27. If the Board elects this option and approves a 5% increase to the MMA, projected out-of-pocket costs for early (non-Medicare) retirees with 20 or more years of service are estimated to increase by an average of $59.00 per month. For the Kaiser HMO Plan, in which the majority of early retirees are enrolled, the monthly out-of-pocket cost for 20+ year members is estimated to increase by $27.45 (from $13.44 to $40.89). Medicare enrollees with 20 or more years of service would continue to have no out-of-pocket cost.

Another option is to maintain the MMA at the current 2010 plan year level, with no increase for plan year 2011. Under this option, projected out-of-pocket costs for early retirees with 20 or more years of service would increase by an average of $85.00 per month. For the Kaiser HMO Plan, the monthly out-of-pocket cost for 20+ year members would increase by an estimated $53.56 (from $13.44 to $67.00). Medicare enrollees with 20 or more years of service enrolled in the Kaiser Senior Advantage or PacifiCare Medicare Advantage plans would continue to have no out-of-pocket cost. Retirees enrolled in the Senior Supplement Plan would have an estimated out-of-pocket cost of $12.97 per month.

Staff then reviewed the annual cost to ACERA to provide the MMA. The current cost to provide the MMA subsidy for plan year 2010 is $1.8 million. The cost of maintaining the MMA at the current level for plan year 2011 given a 10% inflation assumption is projected at $1.95 million. If the MMA were increased by 5% for 2011, the projected cost would be $2.01 million.

At the July Committee Meeting, Staff will present a formal recommendation to the Committee for setting the MMA for Plan Year 2011. If Staff's recommendation will be to increase the MMA by 50% of medical inflation, Staff will also present a recommendation to approve the health care trend assumptions provided by Segal for the December 31, 2009 valuation.

3. Report on Healthcare Inflation/Trends

In April of this year, Segal provided ACERA its recommended assumptions to be used for the December 31, 2009 health plan valuation, wherein they reset the near term trend assumption to start at 10.00%. Based on the substantive plan definition under GASB, the MMA for plan year 2011 would therefore increase by 50% of that trend factor, or 5.0%. Segal still expects that the trend factor will have to decrease in future years to avoid healthcare becoming an unsustainable percentage of the GDP. Woodruff-Sawyer & Co., ACERA's Benefits Consultant, have reported a medical trend factor of 9.0% for 2011 based on survey data obtained through the actuarial firm Milliman Inc.

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

ACERA has provided responses to REAC to the questions they raised at the Annual Health plan meeting with Retiree Groups held in April. As reported last month, ACERA Senior Supplement enrollees were charged incorrect co-pays for prescriptions and received the annual notice of Rx tier changes late and refund checks are being issued. Staff has asked the carrier to conduct an additional audit to ensure that no ACERA enrollees were missed during their claims review of over-charged prescriptions.

5. **Healthcare Reform Update**
   The Committee asked if ACERA or its retirees will be affected by the requirement that Employers report healthcare costs on W2 forms starting in 2011. Woodruff-Sawyer reported that ACERA does not need to take any action in response to this provision of the healthcare reform legislation.

   A member of ACRE asked about the status of legislation that would delay cuts to Medicare reimbursement rates. Woodruff-Sawyer advised that the Senate will likely take action upon their return from recess, but it is unknown how long they will delay the cuts, which could affect access to care for retirees.

   Staff reported that the County is waiting for the application to apply for the Early Retiree Reinsurance (Reimbursement) Program, which was scheduled to start in June 2010. To prepare, the County has requested ACERA retiree claims experience from the carriers. ACERA Staff is holding bi-weekly meetings with the County keep informed and to provide any assistance.

TRUSTEE/PUBLIC INPUT
None.

RECOMMENDATIONS

The Committee recommends, and I move:

1. That the Board of Retirement approve to continue ACERA's retiree vision care coverage through Vision Service Plan (VSP) and to approve award of the vision care coverage contract to VSP for Plan Year 2011.

2. That the Board of Retirement authorize a debit of $5,287,767 from the Supplemental Retiree Benefits Reserve (SRBR) to credit the County Advance Reserve on account of the Implicit Subsidy for plan year 2009.

FUTURE DISCUSSION ITEMS
As noted on the agenda.

ESTABLISHMENT OF NEXT MEETING DATE
The next meeting is scheduled for July 7, 2010 at 10:30 a.m.

MEETING ADJOURNED
The meeting adjourned at 12:35p.m.