July 7, 2010

To: Members of the Retirees Committee

From: Liz Koppenhaver, Elected Retired Trustee

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

Trustee Liz Koppenhaver called the July 7, 2010 meeting to order at 10:35a.m. Committee members present were George Dewey, Dale Amaral, Annette Cain-Darnes, and Elizabeth Rogers. Other Board members present were David Safer, Darryl Walker, and George Wood. Staff present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Bob Gaumer, Chief Counsel; 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. **Adoption of Monthly Medical Allowance for 2011**

   Annually, Staff brings a recommendation before the Retirees Committee for adoption of the Monthly Medical Allowance (MMA) for the following plan year. To complete ACERA's substantive plan definition under GASB 43, the Board in 2007 adopted a formula which bases future MMA contributions on an amount equal to 50% of the rate of health inflation assumptions, as provided by ACERA's Actuary. The updated trend factor (assumption) supported by the Segal Company for 2010 is 10%, which is applied to the 2011 premiums. Therefore, if the Board were to adopt an increase using the substantive plan definition, ACERA would increase the 2011 maximum MMA by 5.0% from $522.16 to $548.27.

   Under current Board practice, the MMA is a non-vested benefit applied to the cost of an ACERA retiree's healthcare premium and is stated as a monthly dollar amount which varies by years of service credit. The MMA can only be used towards ACERA-sponsored health premiums.

   Staff provided two recommendations for the Committee to consider in setting the MMA for plan year 2011. One is to continue to base the MMA on GASB 43 healthcare inflation assumptions and approve a 2011 MMA based on 50% of the 10% inflation assumption provided by ACERA's Actuary. The other is to approve a 2011 MMA equal to the 2010 MMA (no increase). Staff reported that maintaining the current MMA for the 2011 plan year rather than adopting a 5% increase would yield a projected savings of approximately $57,000/month or $692,000/year.

By consensus of the Committee and Staff, this item will be deferred for action until the August Committee Meeting to allow time for the Retiree organizations (ACRE and REAC) to discuss the two recommendations and to take a formal position in support of one.

2. Intent to Fund Implicit Subsidy Program for Plan Year 2011

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. This expense is known as the implicit subsidy.

Given that ACERA will remain in the County's contracted plans for plan year 2011, Staff recommends that ACERA state its intent to fund the Implicit Subsidy program for that plan year. 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 2010 was estimated by the County to be $4,567,125. The estimated implicit subsidy for plan year 2011 will be known after the County has completed its medical plan contract negotiations.

Staff put forth its recommendation that the Committee approve and recommend to the Board of Retirement to adopt a Statement of Commitment to continue the Implicit Subsidy Program for health plan year 2011, following a determination by ACERA at the end of plan year 2011 that the amount is not greater than the actual retiree implicit subsidy. The recommendation was moved by Elizabeth Rogers, seconded by Dale Amaral, and passed unanimously.

INFORMATION ITEMS

1. UnitedHealthcare Prescription Drug Coverage Issues

Sharen Stanek-Lowe, Assistant Benefits Manager for Retiree Benefits, recounted issues previously reported to the Committee concerning higher prescription co-pays charged by PacifiCare/UnitedHealthcare (PUHC). Higher co-pays were prematurely charged to PUHC Senior Supplement members due to late release of the Annual Notice of Change (ANOC) which was not mailed to members until February 25th and 26th, for the plan year beginning February 1st. Staff reported that in response, the carrier reviewed co-pay charges of ACERA plan enrollees and issued refund checks to affected members. Staff confirmed that the Center for Medicare and Medicaid Services requires members be notified 60 days in advance of changes to their prescription drug coverage. The 60 day time period utilized by PUHC is February 1st through April 30th, thus any prescriptions filled or obtained during this time period were reprocessed at the lower co-pay. Staff advised that ACERA took appropriate actions to ensure that members received co-pay refunds as soon as possible.

ACERA Retiree, Ms. Mari Vlastos, presented to the Committee problems she experienced with PUHC and ACERA concerning a co-pay increase she incurred for a long-standing prescription. Ms. Vlastos reported she did not receive her ANOC from the carrier until March 10^{th}, and therefore did not receive advance notice that her prescription medication was reclassified from Tier 1 to Tier 2, and that her co-pay increased from \$10.00 to \$20.00. After approximately four months, she finally received a refund from PUHC. Ms. Vlastos has notified the State Department of Insurance and plans to bring an official complaint to Medicare.

Next year, Staff will include language in ACERA’s open enrollment materials to alert members that prescription drug co-pays are subject to change due to tier changes, or reclassification from generic to brand name or vice versa. At the request of Ms. Vlastos, Staff will provide her written notice within 10 days as to whether the carrier plans to issue her an additional refund for the month of May (60 days from when Ms. Vlastos received her ANOC).

Following discussions, the Committee and Staff thanked Ms. Vlastos for alerting ACERA to the co-pay issue, noting it has affected multiple PUHC clients. Staff also reported that PUHC has filed a grievance on Ms. Vlastos’ behalf. Representatives of the County reported they worked diligently on the issue with the carrier and advised that PUHC has formed a special task force and has escalated the issue internally.

2. ACERA/County Medical Plan Contracts for Plan Year 2011

Staff reported that ACERA will not move forward in attempting to separate retiree medical plan contracts for plan year 2011.

In 2009, ACERA’s Benefits Consultant conducted a Request for Information for separate retiree medical plan contracts. Although the quoted rates from the responding carriers, Kaiser and PacifiCare/UnitedHealthcare, were favorable, Staff informed the Committee of other important factors that should be considered including healthcare reform and the timing of when ACERA can receive stand-alone rates due to Kaiser’s breakaway policy and the County’s protocols for releasing renewal rates. If there is a time in the future when Staff believes it is advantageous to pursue separate medical contracts, they will approach the Retirees Committee and Retirement Board at that time.

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

Staff informed the Committee of communications pieces mailed to ACERA members by the medical carriers during the month of June. Anthem Blue Cross mailed a letter to all members informing them of the acquisition of NextRx Mail Service pharmacy and the transition to Express Scripts Home Delivery benefit effective July 1, 2010. PacifiCare sent three mailings. A Nurseline Handbook was mailed to all new Secure Horizons members and all Senior Supplement members. A Silver Sneakers Network brochure was mailed to ACERA’s Secure Horizons and Senior Supplement members, and a third mailing, an Ovations Clinical Diabetes mailer, was sent to ACERA members diagnosed with diabetes and identified by the carrier through claims data.

Staff then reported on the impact to ACERA retirees of the CalPERS Long-Term Care (LTC) premium increases effective July 1, 2010. Staff received 340 changes to members' monthly LTC premiums, ranging from $4.66 per month to $151.89 per month. The majority of monthly increases were under $40.00. The CalPERS LTC program is not an ACERA program; ACERA only administers premium deductions from benefit checks for members enrolled in the plan.

4. Healthcare Reform Update

ACERA's Benefits Consultant reviewed for the Committee insurance reforms going into effect February 1, 2011 that will impact ACERA, including the Early Retiree Reimbursement Program which establishes a $5 billion fund to defray the cost of retiree medical benefits. Ava Lavender, Employee Benefits Manager for the County, reported that the County has completed its application for reimbursement and submitted the final version on July 2nd. No formula for reimbursement has been announced. Also effective February 1, 2011, adult children to age 26 (without access to another employer-sponsored health insurance) are eligible for coverage under ACERA's plans.

The Consultant advised there is a proposed rule for 2011 that would reduce physician reimbursement by 6.1%, but that actual reimbursement rates will be not be announced until November.

Starting in 2012, Medicare Advantage reimbursement levels are to be set county-by-county based on each county's Fee for Service rates relative to all counties nationwide. Reimbursement rates in the Bay Area are expected to be at a 95% level due to high fee for service rates of physicians in this region. A quality of care bonus of up to 1.5% would be available for plans with four-star or higher rating. Kaiser expects they will qualify for the bonus reimbursement. The impact to ACERA of structural changes beginning in 2014, including healthcare exchanges, is unknown at this time.

The "Cadillac Tax" to be effective in 2018 would impose a 40% excise tax on plans with annual premiums above specified thresholds. The tax would be based on ACERA's decomposite rates and would affect premiums of early retirees over age 55.

TRUSTEE/PUBLIC INPUT

None.

RECOMMENDATIONS

The Committee recommends, and I move:

That the Board of Retirement adopt a Statement of Commitment to continue the Implicit Subsidy Program for health plan year 2011, following a determination by ACERA at the end of plan year 2011 that the amount is not greater than the actual retiree implicit subsidy.

FUTURE DISCUSSION ITEMS

As noted on the agenda.

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for August 4, 2010 at 10:30 a.m.

MEETING ADJOURNED

The meeting adjourned at 12:15p.m.