REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 18, 2014

CAO File No. 0420-00594-0000
Council File No. 14-1200
Council District: All

To: Honorable Members of the City Council

From: Miguel A. Santana, City Administrative Officer

Reference: August 28, 2014 Letter from the Los Angeles City Employees' Retirement System Board of Administration

Subject: **REQUEST TO INCREASE THE RETIREE MAXIMUM MEDICAL SUBSIDY FOR PLAN YEAR 2015-TIER 1 DISCRETIONARY RETIRED MEMBERS**

SUMMARY

The Board of Administration for the Los Angeles City Employees' Retirement System (LACERS) has requested an increase in the retiree maximum medical subsidy of 7.93 percent for plan year 2015 for Tier 1 Discretionary Retired Members. This group of retirees consists of individuals who retired on or before July 1, 2011 and did not pay additional contributions to receive vested increases to their maximum subsidies.[1] The proposed increase is the equivalent of a $116.08 increase to the maximum monthly medical plan premium subsidy (i.e., from $1,464.00 to $1,580.08) or $1,392.96 a year per employee.

Tier 1 Discretionary Retired Members are entitled to a maximum medical plan premium subsidy increase that is determined by the Board each year. Pursuant to the Los Angeles Administrative Code Section 4.1111(b), the Board has the authority to increase the subsidy up to the amount of the increase in the Kaiser Permanente HMO two-party premium, subject to the conditions noted below.

1) The increase does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and B premium; and,

2) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

[1] This excludes Tier 1 Vested Members who retired on or after July 1, 2011 and have made additional contributions to LACERS as active members; and, Tier 1 Capped Members who retired on or after July 1, 2011 and did not make additional retirement contributions as active members. Subsidy amounts for the former are set based on increases in the Kaiser Permanente non-Medicare HMO two-party premium whereas the subsidy amounts for the latter are capped at 2011 amounts.

Any change made by the Board that exceeds the limits set forth in 1 and 2 above must be submitted for Council review accompanied by an actuarial report. Any increases that are not acted upon by the Council within thirty (30) days after receipt of the report to Council for consideration of the increase are deemed approved. Should the Council reject the subsidy set by the Board, the Council shall determine the amount, if any, by which the subsidy shall be increased and shall adopt such change by resolution.

Inasmuch as the Board transmitted the proposed increase along with the corresponding actuarial report to the Council on August 28, 2014, the last day for the Council to act is September 26, 2014.

According to the LACERS actuary (Segal Consulting), until recently, the three-year average maximum subsidy increase has not exceeded the three-year average actuarial medical trend assumption. However, for 2015 the three-year average year-to-year maximum subsidy increase exceeded the actuarial trend assumption. Consequently, the maximum subsidy increase must now be reviewed by the Council.

Current 3-Year Average				
Year	**2013**	**2014**	**2015**	**3 Year Average**
Year-to-Year Maximum Medical Subsidy Increase	14.9%	7.1%	7.93%	***9.98%***
Actuarial Trend Assumption	9.0%	8.5%	8.0%	***8.5%***

Note: Per LACERS staff, the 14.9 percent increase in 2013 was due to an unusually high number of high-cost claims which can drive premium increases. After 2015, the 2013 spike will fall off the rolling three years.

Impact on the City Contribution

The actuary further notes that a 7.93 percent increase to the 2015 Tier 1 Discretionary Retired member's maximum monthly medical plan premium subsidy will result in a net actuarial gain of $0.1 million, which would *decrease* the City contribution by .0005% as a percentage of payroll. This slight actuarial gain is due to the increase being lower than the current 8.0 percent actuarial medical trend rate that was anticipated in the valuation and already reflected in the 2014-15 City contribution rate. The fiscal impact will be ongoing for 15 years under the current LACERS funding policy for experience gains.

Based on the City's total covered payroll for the 2014-15 Adopted Budget, and existing actuarial valuation assumptions, this would result in first year savings of approximately $7,649 (General Fund) or $9,443 (General Fund plus proprietary departments). A smaller increase would result in larger savings. Under the current actuarial assumptions, the savings are expected to increase every year along with the assumed payroll growth rate of 4.25 percent over the remaining 14 years.

Impact on Tier 1 Discretionary Retired Members
According to LACERS' initial estimate, more than 1,500 retired members will be negatively impacted if the 7.93 percent increase in the maximum medical subsidy approved by the LACERS Board is not adopted. Certain members who have single-party coverage will not see a change in their subsidy. More than half of these 1,500 members had at least 25 years of service and therefore are considered career employees. Further, the average monthly retirement allowance of these members is approximately $4,327.61 (an estimated $51,924 annually). It should also be noted that the size of this group is expected to diminish in the future as members of this group age into Medicare at age 65 and are no longer provided this discretionary medical subsidy benefit.

Difference Between Kaiser HMO Two-Party Premium-Active Employees vs. Retirees
The 2015 Kaiser HMO two-party premium for Discretionary Retired Members of $1,580.08 is greater than what was negotiated for active civilian employees ($1,196.66) due to differing demographics (i.e., an aging population is generally associated with greater medical needs). Also, the premium is negotiated separately with Kaiser by LACERS staff.

This Office recommends approval of a 7.93 percent increase in the 2015 maximum medical plan premium subsidy based on the following:

- Discretionary Retired Members did not have the opportunity to pay additional retirement contributions in exchange for vested health benefit increases. The proposed increase provides equity with other retired members who had the opportunity to pay additional contributions to receive vested increases in their maximum subsidies.

- More recent retirees are Vested Retired Members or Capped Retired Members. Discretionary Retired Members are a diminishing group as they will age out into Medicare at age 65.

- At this time, there is no negative fiscal impact to the General Fund as the proposed increase is less than the current 8 percent actuarial medical trend rate that was assumed in the LACERS valuation.

RECOMMENDATION

That the City Council:

Approve the 2015 maximum medical plan premium subsidy increase of 7.93 percent for Tier 1 Discretionary Retired Members as recommended by the Board of the Los Angeles City Employees' Retirement System.

FISCAL IMPACT

Approval of a 7.93 percent increase to the 2015 Tier 1 Discretionary Retired Member's maximum monthly medical plan premium subsidy will result in no additional costs to the City as the proposed increase is lower than the current 8.0 percent actuarial medical trend rate that was anticipated in the LACERS valuation and reflected in the 2014-15 City contribution rate. This translates into minor savings to the City contribution to LACERS. The fiscal impact will be ongoing for 15 years under the current LACERS funding policy for experience gains. First year savings to the City contribution are estimated at approximately $7,649 (General Fund) or $9,443 (General Fund plus proprietary departments), however, a smaller increase would result in larger savings. The savings are expected to increase every year over the remaining 14 years along with the assumed (actuarial) payroll growth rate of 4.25 percent.

MAS:BC:JW:mdg:01150020c