

Pension Perspectives



LOS ANGELES FIRE & POLICE PENSIONS

AUGUST 2018



The Board of Fire and Police Pension Commissioners (“Board”) recognizes the increasing costs of health care for retirees and has provided annual increases to the maximum non-Medicare subsidy. The Board also understands the value of having the Relief Associations and unions (collectively, the “Associations”) provide health plan administration services for LAFPP and its retirees.

The Board is requesting each Association to provide claims and financial data, as well as comply with regular audits, so that LAFPP can independently ensure that their negotiated premiums are appropriate and that the retiree healthcare program overall is fair and affordable. Information from the Associations regarding insurance carrier contracts, payments for large medical claims, and prescription costs will help the Board meet its fiduciary duties with respect to providing suitable health plans for retired

members. Some of the Associations have expressed concern that this information will be used to “shop” for replacement health and dental plans. But there is no need for them to worry about being replaced if the plans they provide for LAFPP members are the best value and they agree to contracts that provide the transparency and accountability needed to ensure that the retiree health program is serving the best interest of all LAFPP members.

All LAFPP Members Deserve a Fair and Affordable Retiree Health Program

The Los Angeles City Charter authorizes the Board to administer the retiree healthcare program. The Board administers this program in a manner consistent with its fiduciary duties— primarily to serve the overall best interests of all LAFPP members and beneficiaries.

The Board is responsible for making three critical decisions about the retiree healthcare program:

- 1 With whom to contract to provide health plans for LAFPP retired members and eligible

beneficiaries, including whether to contract directly with insurance carriers (e.g., Anthem Blue Cross, Kaiser Permanente, etc.) or contract with third-party administrators (e.g., Relief Associations, unions);

2 Which health plans to approve as “suitable” for LAFPP retired members and eligible beneficiaries, given their cost-sharing arrangement, covered benefits, provider network, and premium rates; and

3 Determining any annual increase to the non-Medicare subsidy given the premium rates of approved health plans, the actuarial retiree health assumptions adopted by the Board, and other relevant data.

The ongoing evaluation of the retiree healthcare program has revealed that there are aspects of the current system that can be improved for the benefit of all LAFPP members. For example, retirees with the same years of service now pay different out-of-pocket costs for the same type of plan. And some members pay the same or more out of pocket when they change from a non-Medicare plan to a Medicare plan, despite Medicare plans being federally subsidized. Additionally, LAFPP and members pay over one million dollars each year in administrative fees to the Relief Associations and unions to administer these health and dental plans, without knowledge of how these fees are spent and how premiums are set. These issues must be addressed by the Board in order to improve the retiree healthcare program and make it fairer and more affordable for all members.

TRANSPARENCY AND ACCOUNTABILITY IS EXPECTED FROM ALL SERVICE PROVIDERS

The current retiree healthcare program has been in place for over 40 years. It began with LAFPP providing subsidies with very little oversight of the organizations providing LAFPP members with access to group health insurance plans. In 2001, a City Controller’s audit revealed this legal deficiency and the need to formalize the working relationship between LAFPP and each Association. In 2006, after several years of negotiation, the first Operations Agreements were executed. These agreements set the guidelines by which each organization would receive funds from LAFPP and exchange some limited information, but they did not include terms that would ensure transparency and accountability, and did not include the formalities required by the City Charter.

After many years of minimal oversight, the Board is working towards formalizing its relationship with the Los Angeles Firemen’s Relief Association (LAFRA), Los Angeles Police Relief Association (LAPRA), United Firefighters of Los Angeles City (UFLAC), and the Los Angeles Police Protective League (LAPPL). LAFPP’s prior written agreements with the Associations that administer your retiree medical and dental plans have all expired. The City Charter requires new contracts to be established in order for LAFPP to continue

paying millions in subsidy and premium dollars to each Association. Of the total projected \$126.5 million to be paid in subsidies and pension check deductions, LAFPP and members will pay approximately \$1.4 million in administrative fees to the Associations for the 2018 coverage period. In addition to requiring specific health plan data, the new contracts will require the Associations to provide information about financial factors that impact overall cost to members and the Plan.

The Board’s goal in these new contracts is to provide increased transparency and accountability and develop common sense solutions to address subsidy disparities between similarly situated members to make the subsidy program fairer and more affordable for all LAFPP members.

NEXT STEPS

The current proposed contracts will ensure the Associations are making decisions about the medical and dental plans that are in the best interest of all LAFPP members. If contracts cannot be executed in a timely manner, the Board will need to explore other options to legally provide subsidy dollars on behalf of retired members and their beneficiaries, and to fulfill its fiduciary duty and legal authority to administer the retiree healthcare program with current and future retirees in mind.

Q&A

1 Why is the Board reviewing the Retiree Healthcare Program?

To ensure that you are able to purchase high quality health care and that subsidy benefits can be provided equally to all eligible members. The Board also wants to provide members with plans that have the best possible combination of quality, service, and rates.



2 Do I have to be enrolled in a Board-approved plan to receive my retiree health subsidy?

To receive a retiree health subsidy, you must meet the minimum age and service requirements (see Summary Plan Description for your Tier) and be enrolled in a state-regulated health plan. You may enroll in a plan that is also Board-approved, which allows the administrator to receive subsidies directly from LAFPP and pay insurance premiums on your behalf. If you are not enrolled in Board-approved plan, you must participate in the Health Insurance Premium Reimbursement Program to receive health subsidy benefits.

3 How is LAFPP working to keep my premium and out-of-pocket costs as low as possible?

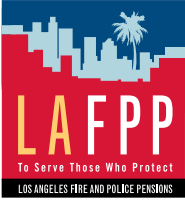
The Board is working with the Associations to establish contracts that increase transparency and accountability. The Board has requested claims data to better understand how member premiums are set. The Board is evaluating all aspects of the retiree healthcare program to develop solutions that benefit current and future retirees.

4 What is the Board's goal in creating new contracts with the Associations? What changes should I expect?

The Board is legally required to have contracts with any organization providing a service for members and receiving a large sum of compensation for those services. Approximately \$1.4 million in administrative and pass-through fees are provided to the Associations each year from members and LAFPP. If the Associations agree to sign the provided contracts, they will be authorized to receive subsidy dollars on your behalf. If contracts cannot be signed, the Board will have to explore other ways to legally provide subsidies on behalf of members.

Is LAFPP getting new health plans? The Board has authorized a feasibility study of implementing a LAFPP-managed Kaiser plan to reduce the number of duplicate plans and create equal benefits for all retirees.

Will I continue to have my choice of PPO, HMO, and Kaiser? Yes. The goal is to provide a variety of group health plan options for members. LAFPP will continue to subsidize suitable PPO, HMO, and Kaiser plans so that you can enroll in the most appropriate plan for you (and your family).



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If the Associations provide claims data, how will LAFPP ensure my information remains confidential?

LAFPP is responsible for maintaining the confidentiality of sensitive information related to a member's participation in the LAFPP retirement system, which includes financial records, contact information, and personal data. LAFPP will treat all members' health-related information with the utmost confidentiality and in compliance with the Health Insurance Portability and Accountability Act (HIPAA). Individual claims data provided to LAFPP would NOT be subject to disclosure if LAFPP were to receive a public records request and we would NOT release this information to the public.

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What are the best ways to stay informed about updates to the retiree healthcare program and other LAFPP news? How can I be more involved as a retired member?

Please visit www.LAFPP.com for current postings and updates. You are welcome to attend the Board meetings, which occur every 1st and 3rd Thursday of the month. Periodically, LAFPP will conduct surveys to collect member feedback. You can also call the Medical and Dental Benefits section at 213-279-3115 or send an email to MDB@LAFPP.com to share your concerns at any time.