

**CITY OF BELLEVUE
LEOFF 1 DISABILITY BOARD
Meeting Minutes**

June 14, 2011
5:30 p.m. – Administration
6:00 p.m. – Business Meeting

Conference Room 1E-118
Bellevue City Hall

MEMBERS PRESENT: Chairperson Susan Neiman
Councilmember Claudia Balducci
Boardmember Wayne Bergeron
Councilmember John Chelminiak

MEMBERS ABSENT: Boardmember Bryan Reil

OTHERS PRESENT: Roger Burton, Healthcare Actuaries, LLC
Paula Dillon, Human Resources
Warren Merritt, Fire Department
Siona Windsor, City Attorney's Office

MINUTES TAKER: Michelle Cash, *via recording*

I. CALL TO ORDER

The meeting was called to order at 6:03 p.m. by Chair Neiman.

II. ROLL CALL

III. LEOFF 1 ACTUARIAL STUDY

Mr. Burton summarized the GASB 45 LEOFF 1 OPEB Valuation Report as of 12/31/2010, which was included in the Board packet. He explained that the LEOFF 1 actuarial valuation builds on the prior actuarial study as of January 1, 2009 but reflects the new reporting and disclosure requirements under GASB No. 45 as well as updating the LEOFF 1 retiree health plans experience and actuarial assumptions. The study estimates the future liability for providing healthcare coverage, including welfare benefits, for LEOFF 1 members.

Mr. Burton explained that LEOFF 1 is a closed block, meaning the liability will decrease as members decrease.

Mr. Burton explained that the report includes liabilities for projected taxes due under the Affordable Care Act's excise tax on high-cost health benefits plans set to begin in 2018.

This tax is also known as the “Cadillac Plan” tax. He also noted that the report shows a large increase in the accumulated postretirement benefit obligation (APBO). The following are the primary drivers of the increase:

- Group Health pre-Medicare and Medicare 2010 premiums increased by 130% and 186%, respectively, over the 2008 premiums, which is well above the assumed trend increases;
- The Premera per capita claims cost increased by more than the assumed increases used in the 2008 valuation;
- The Affordable Care Act excise tax increased the APBO by \$4,596,190.

Page 2 of report included an accounting summary listing the elements that GASB 45 requires. Mr. Burton noted that the increases listed above, like the Affordable Care Act excise tax, are informational and do not need to be reported on the books.

Ms. Windsor requested clarification between “pre-Medicare” and “Medicare” premiums. Mr. Burton explained that pre-Medicare members are typically not eligible for Medicare but will be eligible (i.e., members that retire early but do not qualify for Medicare due to age). He added that there was an increase in Group Health premiums. Ms. Windsor was perplexed about the premium difference, since LEOFF 1 pays the premium and the obligation is the same. Mr. Burton explained that Group Health and other carriers charge different rates for non-Medicare eligible retiree or a Medicare-eligible retiree because Medicare will compensate for a portion of the retiree’s medical costs.

Ms. Windsor requested clarification about the breakdown of participants in the plan for the assumed annual per capita claims costs.

Councilmember Balducci questioned why the Group Health experience is substantially more than Premera. Mr. Burton noted that the Group Health underwriting was not reviewed. However, he suggested that the difference might be because sicker retirees are selecting Group Health.

Councilmember Balducci questioned how the evaluation compares to the general City employee’s experience. She used King County as an example noting that the County recommends the Group Health plan because it is typically a less expensive plan. Councilmember Chelminiak thought the smaller numbers in LEOFF 1 may affect the comparisons between Premera versus Group Health. He questioned if there should be a policy consideration for people that retire early to suggest Premera.

Ms. Windsor called attention to the difference between Premera versus Group Health noting that the Premera assumed annual per capita claim costs do not include the total liability because there are out-of-pocket expenses associated with Premera.

On page 2 of the report, Mr. Burton noted that the 2009 report was updated with revised interest rate information but not claims or census counts. For fiscal year ending December 31, 2009, the amount projected for active and retired LEOFF 1 members, through life, was \$36,229,708. For fiscal year ending December 31, 2010, this figure

increased to \$50,835,606. Healthcare reform accounts for approximately \$4 million of the increase. However, this liability does not begin until 2018. The balance is largely represented by the decrease in interest rates and by the increase in Group Health premiums.

Ms. Windsor questioned if there is an exception that would eliminate Bellevue from the Affordable Care Act excise tax increase or an appeal process for dispensation from the liability. Mr. Burton explained that the legislation does not mention any exceptions or an appeal process for the tax. However, there are other municipal organizations that are under similar circumstances. Therefore, a change in legislation or an exception may be made before 2018.

Mr. Burton explained that the term Other Post Employment Benefits (OPEB) generally refers to health and welfare benefits (i.e., life insurance or long-term disability). The annual required contribution listed on page 2 under Annual OPEB cost is the liability. In other words, the net OPEB obligation is approximately \$3.5 million per year, for 60 years. Councilmember Balducci noted that this figure is more than what the LEOFF 1 Board spends, in cash, each year with minimal interest to draw down.

Councilmember Balducci questioned how much is needed each year to fund the LEOFF 1 obligation. Mr. Burton explained that \$3.5 million per year is required in order to pay off the obligation over a 30 year time period, which is the GASB 45 amortization period. In other words, the amortization of the \$50,835,606 million would be \$3.5 million per year for 30 years.

Mr. Burton confirmed that Bellevue has an unallocated reserve of approximately \$13.8 million for LEOFF 1.

Councilmember Balducci called attention to the projected benefit payments on page 11 of the report. If the City pays on a “pay-as-you-go” basis, then \$3.5 million per year is not necessary. Mr. Burton clarified that the amortization of the \$3.5 million does not include the reserve balance. If this is the case, Councilmember Balducci suggested that the projected benefit payments should be lower. Mr. Burton explained that page 9 and page 11 of the report are hypothetical projections that include the reserve that is not officially assigned to the LEOFF 1 plan. Therefore, when the amortizations are calculated on page 2, this reserve information is not included.

If the City opted for the “pay-as-you-go” system, Mr. Burton confirmed that the projected benefit payments listed on pages 9 and 11 are the City’s obligation. The difference between the two pages is the excise tax.

Mr. Burton clarified that page 2 of the report includes theoretical calculations. All of Healthcare Actuaries’ clients select the “pay-as-you-go” method.

Committee members discussed page 8 of the report, which included the LEOFF 1 reserve projections without deposits—including ACA excise tax. The report shows a negative balance at the end of 2018.

Councilmember Balducci requested information to depict various scenarios for a one-time balloon payment so no further deposits are required and the fund is exhausted at the end of the payment stream.

Councilmember Chelminiak requested further information to compare a similar LEOFF 1 organization to Bellevue's.

Mr. Burton clarified that there are mortality and aging assumptions built into the report. He called attention to page 9 noting that the projected benefit payments start to decrease in 2029, due to mortality projections. In addition, he noted that the amount owed is a liability, which may affect the City's bond rates.

Ms. Dillon explained that LEOFF 1 claims not paid directly by the Board are processed through the healthcare plans. LEOFF 1 members do not have healthcare premiums.

Councilmember Balducci requested a breakdown of the increase drivers separated by Group Health versus Premera. In addition, she requested a breakdown, similar to the chart on page 2, that shows the line item contributing factors between 2009 (\$36,229,708) to 2010 (\$50,835,606).

Mr. Burton summarized the requested exhibit information, which includes:

- Reserve and projected benefit payment chart to show the one-time balloon payments broken down by year.
- Breakdown of primary drivers for the increase in liability and the amount each one contributed.

Ms. Dillon will confirm the number of Group Health members and forward the information to Mr. Burton.

Councilmember Balducci suggested that a summary of the Actuarial Study be provided to City Council.

IV. APPROVAL OF MINUTES

Motion by Councilmember Chelminiak and second by Councilmember Balducci to approve the January 5, 2011 Disability Board Regular Meeting minutes as presented. Motion carried unanimously (4-0).

Motion by Councilmember Chelminiak and second by Boardmember Bergeron to approve the May 3, 2011 Disability Board Regular Meeting minutes as presented. Motion carried unanimously (4-0).

V. CONSIDERATION OF APPLICATIONS FOR DISABILITY ALLOWANCES

A. Applications for Disability Allowances

Motion by Councilmember Balducci and second by Boardmember Bergeron to approve the Applications for Disability Allowances as presented. Motion carried unanimously (4-0).

B. Applications for Disability Allowances Greater than 1 month

None.

VI. CONSIDERATION OF MEDICAL CLAIMS

A. Routine Claims

Motion by Boardmember Bergeron and second by Councilmember Chelminiak to approve the Routine Claims as presented. Motion carried unanimously (4-0).

B. Special Claims

None.

VII. PRE-APPROVED RECURRING LONG TERM CARE CLAIMS

Motion by Councilmember Balducci and second by Councilmember Chelminiak to approve the Pre-Approved Recurring Long Term Claims as presented. Motion carried unanimously (4-0).

VIII. STAFF REPORTS

Ms. Dillon attended the Washington State LEOFF Association Conference in May. One of the main discussions was about HB 2097, which proposes a merger of LEOFF Plans 1 and 2. This Bill is still active pending action. This Bill was created by the LEOFF 2 Board without consulting LEOFF 1 members.

Other conference topics included: HIPAA, Public Records, Physical Therapy, Diabetes, and Veteran Benefits.

Councilmember Balducci suggested that procedural requirements for Veteran benefits be added to a future agenda.

IX. UNFINISHED BUSINESS

None.

X. NEW BUSINESS

None.

XI. ANNOUNCE DATE & TIME OF NEXT MEETING

Due to the 4th of July holiday and City Council schedule, the next Disability Board meeting will be held on Tuesday, July 12, 2011.

XII. ADJOURNMENT

By general consensus, the meeting was adjourned at 7:05 p.m.