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Via Email

September 26, 2024

Mr. Carlos Barrios
Assistant Chief Executive Officer, Benefits
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, CA 94612-1916

**Re: Alameda County Employees' Retirement Association (ACERA)
Proposal to Study the Impact of Higher Monthly Medical Allowance Payments for Members Enrolled in the Group Plans**

Dear Carlos:

As requested by the Retiree Committee and your office, we have outlined in this letter the methodology, scope and estimated fees to perform an actuarial study to estimate the impact on the assets available to pay the Monthly Medical Allowance (MMA) if higher MMAs were to be paid from the Supplemental Retiree Benefit Reserve (SRBR) for members enrolled in the group and individual plans.

Background

While the Board does not establish any contribution requirements for the OPEB and non-OPEB benefits paid from the SRBR, for the purposes of sustaining the payment of benefits for both current and future retirees, determining the sufficiency periods to provide OPEB and non-OPEB benefits and satisfying the financial reporting requirements, the Board has followed a general practice of increasing the annual MMA by no greater than one-half of the expected medical inflation assumption[1, 2] used in the actuarial valuation.

However, due to unfavorable market conditions and after considering the sufficiency periods to pay benefits as determined by Segal, there were several years when the Board decided to not grant any annual increase to the MAA. As the sufficiency periods for the SRBR are currently higher than the 15-year period referenced by the Board in its SRBR Policy, a question has been raised with respect to the feasibility of granting annual increases to the MMA based on the full expected medical inflation assumption used in the actuarial valuation.

[1] Based on our research, we understand that practice started with the December 31, 2006 valuation.
[2] Whenever the medical trend assumptions are different between the non-Medicare and Medicare plans, we have used one-half of the lesser of the two assumptions to project future MMA increases in our actuarial valuation.

Methodology and scope of study

Methodology

We believe a study to determine the additional cost to grant an annual MMA based on the full expected medical inflation assumption could be performed either prospectively or retrospectively.

Under a prospective method, we would start with the assets available in the SRBR based on the most recent valuation as of December 31, 2023, and project the sufficiency period for the OPEB benefits by adjusting the annual MMA using the full medical inflation assumptions as if those assumptions were to come true. We note that when using the prospective method, the results would be very sensitive to the medical inflation assumptions applied in the analysis.

Under a retrospective method, we would study the amount of assets available as of December 31, 2023 if the annual MMA had been adjusted with the full medical inflation assumptions used in the historical valuations. We would not need to make any assumptions about the actual increase in the historical medical premium costs for the available plans as those increases have been known to ACERA. Furthermore, we would also be able to incorporate in the study the actual regular earnings and excess earnings (above the assumed rate) earned in the historical valuations.

As requested, we have outlined in this proposal the scope associated with using a retrospective method for this study.

Scope

The first valuation performed by Segal for the SRBR was as of December 31, 2003. Based on our preliminary research, there was an about 13.5% increase in the MMA amount applied in that valuation from calendar year 2004 to calendar year 2005. However, in the next valuation as of December 31, 2004, there was no increase in the MMA amount applied in that valuation from calendar year 2005 to calendar year 2006.

For the study, we would estimate the balance in the SRBR as of December 31, 2023 if a fully indexed MMA had been provided starting with calendar year 2006.

In order to streamline and to minimize the fees required to complete the study, we are proposing the following simplifying assumptions for the Board to consider:

- To reduce the amount of data work that would be required if we work with individual retiree records, the study would use (to the extent possible) summary schedules that have been prepared by ACERA staff in the past to inform the Board annually of the number of retirees enrolled in each group medical plan and the amount of subsidy the member would receive based on their years of service. We understand that similar summary schedules have been compiled by ACERA staff for members who chose an individual medical plan through the exchange and included in those schedules are the number of members who drew the maximum annual MMA.

- Retirees age 65 and over who enrolled in the group plans and had between 10-14 years of service would have benefited from the higher MMA under this proposal and would be included in our study. The retirees age 65 and over who enrolled in the group plans and had 15 or more years of service would not have benefited from the higher MMA under this proposal because the Medicare premiums were lower than the MMA amounts they received.

  Also, some retirees age 65 and over and enrolled in the medical exchange had been drawing the maximum amount under the current program and we would include them in our study assuming that they would draw the new maximum MMA as proposed in the study.

- For members who were younger than 65 and enrolled in the group plans, we would compare the actual historical premiums with the higher MMA as proposed in the study. For those retirees who were younger than 65 and enrolled in the individual plans through the medical exchange, we would assume the members who had been drawing the maximum amount under the current program would draw the new maximum MMA as proposed in the study.

- There would be no change in the proportion of members enrolled in the different medical plans as observed in the historical valuations.

Fees

We anticipate that it would cost about $30,000 to $40,000 to analyze the additional drawdown on the SRBR from January 1, 2006 to December 31, 2023. Our final invoice would be based on the actual time charges required to complete the study. We anticipate that it would take about 6 to 8 weeks to complete the analysis once we receive approval to perform the study.

Please let us know if you have any questions.

Sincerely yours,

Andy Yeung

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary

Mehdi Riazi

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ST/bbf