Date: July 5, 2018

To: Joint Labor-Management Benefits Committee

From: Staff

Subject: Employee Benefits Trust Fund Member Refunds

RECOMMENDATION
That the JLMBC receive and file update regarding member refunds from the Employee Benefits Trust Fund.

DISCUSSION

A. Employee Benefits Trust Fund Background

On January 7, 1997, the City established an Employee Benefits Trust Fund (Trust Fund) under Los Angeles Administrative Code (LAAC) Division 4, Chapter 95. The purpose of the Trust Fund is for the receipt and retention of City and member contributions for the LAwell Civilian Benefits Program (LAwell Program). Amounts deposited into the Trust Fund may be used to pay for benefit premiums, cash-in-lieu benefits, and administrative costs as approved by the JLMBC.

Revenues - The Trust Fund operates as a temporary pass-through account for the funding of premium payments to benefit service providers. Funding sources include General Fund and proprietary transfers for employer-paid costs and applicable employee payroll contributions for coverage. Other potential revenue sources include the following:

- Excess premium amounts returned from benefit service providers with participating contracts and with whom stabilization reserves are maintained
- Legal settlements
- Insurance company de-mutualization
- Employee direct payments for coverage when off payroll
- Interest earned by the Trust Fund

Payments – In addition to payments to benefit service providers, potential expenditures and liabilities include the following:

- Salary reimbursements for positions authorized for reimbursement by the JLMBC
- Travel, office supplies, and equipment purchases
- Contractual service payments (e.g. for consulting, auditing, and Third-Party Administrator services)
B. Member Refunds Processing – Chronology of Legal Authority to Issue Refunds

Approximately $6.6 million in employee refunds from former benefit service providers has been deposited to the Trust Fund including the following deposits (note that these amounts do not include interest calculations):

<table>
<thead>
<tr>
<th>Employee Refund Category</th>
<th>Explanation for Refund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudential Life Insurance</td>
<td>Supplemental Life Surplus for final contract period ending in 2011</td>
<td>$ 5,459,847</td>
</tr>
<tr>
<td>Anthem</td>
<td>HMO and PPO participant contributions</td>
<td>$ 419,348</td>
</tr>
<tr>
<td>Delta Dental Insurance</td>
<td>DeltaCare USA PPO and Delta Preventive Only Refunds</td>
<td>$ 723,977</td>
</tr>
</tbody>
</table>

**Total-->** $ 6,603,172

At its **December 3, 2015** meeting, the JLMBC approved a refund methodology and plan to issue refunds to participants in 2016. The approved refund methodology included three components:

- Calculation of each eligible member’s estimated contributions as a percent of total employee contributions during the period of time that the refund amount was accrued;
- Application of that individual member percentage amount against the total refund amount to derive a proportional share of the refund owed to that member; and
- Application of an interest factor to the refund amount.

At its **August 2, 2016** meeting, staff indicated that certain issues had been raised by the City Attorney’s office with respect to whether interest payments from the Trust Fund were permissible pursuant to Internal Revenue Code rules. At its **September 1, 2016** meeting, staff reported that the City Attorney had advised that before processing the refunds it may be necessary to make certain changes to LAAC Chapter 95.

At its **December 6, 2016** meeting, the JLMBC reviewed proposed modifications to LAAC Chapter 95 regarding the establishment and operation of the Trust Fund to clarify the nature of the fund and the authority to provide benefit overpayment refunds to City employees. The JLMBC further requested that the Personnel Department proceed with a report to City Council from the JLMBC with a recommendation to enact the changes.

At the City Council meeting of **October 10, 2017**, a report from the Personnel Department regarding changes to LAAC Chapter 95 was referred to the Personnel and Animal Welfare Committee (PAW). On **January 17, 2018**, PAW recommended approval of approved proposed amendments to LAAC Chapter 95 requesting the City Attorney to prepare and present the necessary ordinance. On **January 30, 2018**, the City Council adopted the PAW recommendations.
At its February 8, 2018 meeting, the JLMBC reviewed and provided feedback to the City Attorney regarding the draft ordinance. On June 6, 2018, the draft ordinance was considered by PAW. On June 19, 2018, Council approved the draft ordinance. The ordinance will become final 30 days following Council action.

C. Member Refunds Processing – Current Status

Approximately 25,600 individuals have been identified as entitled to a refund. Over the past six months staff has been meeting with the City Controller and Information Technology Agency (ITA) to identify and outline administrative processes required to execute the refunds. Separate processes will be executed for (1) actively employed members, (2) retired/terminated members, and (3) heirs of deceased members.

(1) Active Member Refunds

A total of approximately 15,600 active employee members will receive refunds. Active members will receive their refunds as part of their regular August 29, 2018 paycheck. This is a “No Deduction” paycheck where most other voluntary City deductions will not be taken. The detail of the refund will be displayed on paystubs as follows:

<table>
<thead>
<tr>
<th>CODE (CD)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1R</td>
<td>Health Insurance Reimbursement</td>
</tr>
<tr>
<td>2R</td>
<td>Dental Insurance Reimbursement</td>
</tr>
<tr>
<td>3R</td>
<td>Life Insurance Reimbursement</td>
</tr>
<tr>
<td>NI</td>
<td>Interest Payment Taxable</td>
</tr>
</tbody>
</table>

Refund recipients will receive two communications regarding the refunds: 1) a preliminary announcement to be sent July 30, 2018, and 2) a final communication to be sent immediately prior to the August 29, 2018 paycheck. In addition, staff is providing the City’s employee labor organizations with advance notice of the refunds so that they can, if they wish, separately communicate to their members regarding the refunds.

(2) Retired/Terminated Member Refunds

A total of approximately 9,500 retired/terminated employee members will receive refunds. Retired/terminated members will receive their refunds in the form of a physical check mailed to their homes. In June 2018 staff issued preliminary communications to this population to verify address information. Payments are targeted to be issued on September 5, 2018.

(3) Deceased Members

Heirs to a total of approximately 500 deceased members will receive refunds. Payment of decedent refund checks will require identification and verification of the appropriate heir as per requirements of the State of California Probate Code. Staff is currently working to finalize the administrative
process needed to proceed with decedent refund payment processing. A target payment issue date is pending.

Submitted by: ________________________________
                        Paul Makowski

Approved by: ________________________________
                        Steven Montagna