Date: August 2, 2018
To: JLMBC
From: Staff
Subject: Employee Benefits Trust Fund Member Refunds Update

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 participant 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>
<tr>
<td></td>
<td><strong>Total---&gt;</strong></td>
<td><strong>$6,603,172</strong></td>
</tr>
</tbody>
</table>

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
➢ Applicant 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 were permissible from the Trust Fund based on 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 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 became final 30 days following Council action.

At its **July 5, 2018** meeting, staff informed the JLMBC that refunds to active members were scheduled to take place on the August 29th, 2018 payday, and refunds to retired/terminated members were scheduled to be issued on September 5, 2018. Staff further outlined the communication plan for active members.

C. **Member Refunds Processing – Proposed Refund Structure and Timing**

Approximately 25,600 individuals have been identified as entitled to a refund. 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. 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.

Staff continues to work with the City Controller and Information Technology Agency (ITA) to identify and refine the administrative processes required to execute the refunds. Payroll testing commenced in July and is scheduled to continue through early August. Staff will work with the Controller and ITA on any programming and processing modifications needed as a result of payroll testing.

The preliminary announcement to active members was sent to the General Services Department’s Print Shop for production and was scheduled for delivery to Mail Services on July 30, 2018. A copy of this announcement is included as **Attachment A**. Staff also provided employee Unions with an opportunity to request active member listings to directly notify their refund-eligible members. To date, four employee Unions have requested the information to initiate their own communications. In addition to the direct notifications to members, staff will provide notification of the refund to each City department’s payroll section so that they will be informed and able to address employee inquiries.

(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**. Staff is also working on process testing with the Controller and ITA for the retired/terminated member refunds.
(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 under the California Probate Code. Staff has worked with the Office of the City Attorney and is close to finalizing 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
RE: Employee Benefits Refunds

This is to inform you that the Personnel Department’s Employee Benefits Division will be issuing benefit premium refunds for certain lines of benefit coverage to members of the LAwell Civilian Benefits Program (LAwell Program) on the August 29, 2018 payday. Our records indicate that you will be receiving one or more of the refund types listed below.

The refunds are the result of premium amounts from insurance benefits that were returned to the City from the City’s current or former benefit service providers. Refunds will be processed through the City’s regular payroll process. The amount of each member refund will vary based on which benefits a member elected, how much that member paid for the benefit (payroll contribution(s) amount(s) and duration of payments made during the applicable period(s)), the member’s portion of the overall premium amount returned, and applicable interest.

Only payroll contributions made during specific calendar years for each benefit are part of the refund calculation. The refund types, service provider/coverage types, and employee deduction contribution periods are noted below.

<table>
<thead>
<tr>
<th>Code (CD)</th>
<th>Description</th>
<th>Service Provider and Coverage</th>
<th>Calendar Years of Employee Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1R</td>
<td>Health Insurance Reimbursement</td>
<td><strong>Anthem</strong> PPO and HMO</td>
<td>2011</td>
</tr>
<tr>
<td>2R</td>
<td>Dental Insurance Reimbursement</td>
<td><strong>Delta</strong> PPO and Preventive</td>
<td>2007 and 2008</td>
</tr>
<tr>
<td>3R</td>
<td>Life Insurance Reimbursement</td>
<td><strong>Prudential</strong> Supplemental Life</td>
<td>2006 to 2010</td>
</tr>
<tr>
<td>NI</td>
<td>Interest Payment</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
Please note the following with respect to each refund type:

- **Health Insurance Refund** - Applies only to 2011 employee payroll deductions for Anthem Blue Cross PPO and HMO coverage.
- **Dental Insurance Refund** – Applies only to 2007-2008 employee payroll deductions for Delta PPO and Delta Preventive coverage.
- **Life Insurance Refund** - Applies only to 2006-2010 employee payroll deductions for Supplemental Life Insurance.

Since the original deductions were taken on a pre-tax basis, the payment will be treated as taxable income. The income will be included on your City of Los Angeles W-2 for 2018.

If you have any questions about your refund(s), please contact the LAwell Program’s Benefits Service Center at 800-778-2133 or per.empbenefits@lacity.org. Thank you for your attention to this matter.

Steven Montagna, Chief
Employee Benefits Division
Personnel Department