Date: September 6, 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 (Chapter 95). The purpose of the Trust Fund is for the receipt and retention of employer and employee contributions for the LAwell Civilian Benefits Program (LAwell Program). 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, employee contributions for supplemental coverage, and interest earnings. Other one-time potential revenue sources that have occurred in the past or may occur in the future include refunds of premiums from participating insurance contracts or legal settlements. The Trust Fund also issues payments to benefit service providers, salary reimbursements for positions authorized for reimbursement by the JLMBC, contractual service payments, travel, and internal administrative expenses.

B. Member Refunds Processing – Chronology of Legal Authority to Issue Refunds

Approximately $6.6 million in benefit provider deposits and $700,000 in accrued interest is being refunded to current and former LAwell Program members:

<table>
<thead>
<tr>
<th>Employee Refund Category</th>
<th>Explanation for Refund</th>
<th>Refund Amount</th>
<th>Interest Amount (Estimated as of August 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudential Life Insurance</td>
<td>Supplemental Employee Life Insurance</td>
<td>$ 5,459,847</td>
<td>$ 585,383</td>
</tr>
<tr>
<td>Anthem</td>
<td>HMO and PPO participant contributions</td>
<td>$ 419,348</td>
<td>$ 29,709</td>
</tr>
<tr>
<td>Delta Dental</td>
<td>DeltaCare USE PPO and Delta Preventative Only</td>
<td>$ 723,977</td>
<td>$ 92,096</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>$ 6,603,172</td>
<td>$ 707,188</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
- 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 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. At its August 2, 2018 meeting, staff provided further updates.

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

Approximately 26,600 individuals have been identified as entitled to a refund. Separate processes have been or will be executed for (1) active employees currently on City payroll, (2) retired/terminated/inactive members not on City payroll, and (3) heirs of deceased members.
(1) Active Employees Currently On City Payroll

A total of approximately 14,100 employees were identified as being in an active payroll status and received refunds as part of their regular August 29, 2018 paycheck. Additional members are currently employed with the City but were not issued payment through the City’s payroll system based on issues related to changes in their payroll status (e.g. employees who transferred to the Department of Water and Power). The latter group had checks issued to their home addresses (along with the retired/terminated population - see next section) on September 5, 2018.

(2) Retired/Terminated/Inactive Member Refunds

A total of approximately 9,500 retired/terminated/status change members were issued checks mailed to their home addresses on September 5, 2018. Approximately 2,500 additional former LAwell Program member payments are pending address verification.

(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 required under the State of California Probate Code. Staff continues to work 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 still pending.

(4) Member Support

A refund confirmation was mailed to the approximately 14,100 active members receiving refunds on the August 29, 2018 payday. A copy of this confirmation is included as Attachment A. The approximately 9,500 members who received a physical special check issued on September 5, 2018 received an insert included with their check payment. The insert is included as Attachment B. Staff has contacted payroll supervisors to notify them of both payment sets and to answer any questions or concerns that they have about the refund process. In all correspondence pieces, members are instructed to call the Benefits Service Center at 1-800-778-2133 if they have any questions about the refund they have received, if they would like to confirm their enrollment into a specific benefit, or if they would like to confirm their eligibility to receive a refund.

Submitted by: __________________________________________

Paul Makowski

Approved by: __________________________________________

Steven Montagna
August 29, 2018

Subject: EMPLOYEE BENEFITS REFUNDS

In correspondence dated July 30, 2018, the Personnel Department’s Employee Benefits Division informed you that your August 29, 2018 paycheck would include one or more premium refunds issued to LAwell Civilian Benefits Program members. This letter is to confirm that your refund was processed as scheduled.

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 have been 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>
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<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>
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<tr>
<td>3R</td>
<td>Life Insurance Reimbursement</td>
<td><strong>Prudential</strong> Supplemental Life</td>
<td>2006 to 2010</td>
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<td>NI</td>
<td>Interest Payment</td>
<td>n/a</td>
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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 and subject to all applicable withholdings. The income will also be included on a City of Los Angeles 2018 Form W-2, which will be issued to you at the conclusion of tax year 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
Date: September 5, 2018

To: Retired and Former City Employees

From: Personnel Department/Employee Benefits Division

Subject: EMPLOYEE BENEFITS REFUNDS

Our records indicate a premium refund is due to you for one or more lines of benefits coverage provided to former members of the LAwell Civilian Employee Benefits Program (LAwell Program). Enclosed is your refund based on 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. The amount of your refund was based on the benefits you elected, how much you paid for the benefit (payroll contribution(s) amount(s) and duration of payments made during the applicable period(s)), your portion of the overall premium amount returned, and applicable interest.

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Attachment B
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