



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

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December 19, 2006

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**APPROVAL OF MEDICARE PART B PREMIUM REIMBURSEMENT FOR 2007
(3-VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Renew for the 2007 calendar year County reimbursement of retiree Medicare Part B premiums for retirees who enroll in a LACERA administered Medicare Risk HMO, or Medicare Supplement Plan, with the understanding that such reimbursement will cover adjustments in the basic Part B premium effective January 1, 2007. Beginning January 1, 2007, Medicare will institute a means test that will impose additional Part B premiums on higher income individuals. This recommendation does not intend that the County reimburse any additional costs for persons affected by the new means test.
2. Instruct the Chief Administrative Officer to report back to your Board prior to January 1, 2008, with recommendations regarding Part B reimbursement policy for the 2008 calendar year.
3. Reaffirm your Board's right to change or terminate the Medicare Part B premium reimbursement program, at any time, if it ceases to be cost effective.

PURPOSE/JUSTIFICATION OF THE RECOMMENDED ACTION

Since 1992, the County has sponsored retiree health insurance plans designed to encourage retirees to fully participate in the Federal Medicare program. This has included reimbursing retirees for the cost of participating in Medicare Part B in those instances where the retiree has enrolled in one of the Medicare Risk HMOs, or the Medicare Supplement Plan administered by LACERA.

Medicare Part B premiums will increase 5.6 percent on January 1, 2007, resulting in an increase in cost of \$5.00 per month per covered individual.

The purpose of the recommended action is to authorize the inclusion of the \$5.00 charge in the costs reimbursable by the County, effective January 1, 2007. This will affect approximately 24,600 retirees and eligible dependents. The recommended action also requires the Chief Administrative Officer to report back to your Board prior to January 1, 2008, with additional recommendations regarding the Part B reimbursement program for the 2008 calendar year. Medicare Part B premiums are routinely adjusted on January 1 of each year, and it is important that the cost/benefit of this program be re-evaluated in light of the January 1, 2008, Part B adjustments, as well as any intervening adjustments in the cost of LACERA health insurance.

Background

The County pays a subsidy toward the cost of retiree health insurance based on each retiree's length of active County service. The subsidy equals 4 percent of the cost of the coverage chosen by the retiree for each year of service if the retiree has a minimum of 10 years of service. No subsidy is paid with less than 10 years of service. For example, a retiree with the minimum 10 years of service receives a subsidy of 40 percent of premium costs, and a retiree with 25 years of service receives a subsidy of 100 percent of premium costs. In no event, however, may the subsidy exceed the subsidy payable for the LACERA indemnity health plans currently known as "Blue Cross I and II." These plans have identical premiums which set a cap on the subsidy. Within these limitations, the subsidy amount covers the cost of coverage for the retiree and any eligible dependents.

Medicare includes two key elements known as "Part A" and "Part B." Part A generally covers hospitalization costs, and Part B generally covers physician services and other ancillary items such as laboratory testing and durable medical equipment. Part A coverage may be earned by working the requisite number of quarters in Medicare covered employment, and Part B may be purchased by anyone eligible for Part A.

In 2006, the charge for Part B was \$88.50 per month for a person enrolling at age 65. Effective January 1, 2007, the price will increase by \$5.00 or approximately 5.6 percent, to \$93.50 per month, for beneficiaries below a certain income level. Medicare beneficiaries' incomes will be means tested beginning in 2007, and unmarried individuals with incomes above \$80,000, and "married filing jointly" participants earning above \$160,000, will pay higher premiums for Part B coverage. The higher premiums will be phased in over a three-year period (one-third each year), and the full amount will apply starting in 2009.

We are recommending that the County reimburse only the basic Part B cost without any increases attributable to a retiree's income level.

The menu of County sponsored LACERA administered retiree health plans include both Medicare Risk HMOs and a Medicare Supplement Plan. A Medicare Risk HMO is an HMO in which the participants have assigned over all rights to Medicare Parts A and B to the HMO. The participant effectively agrees to receive all of his or her medical care from the HMO, and to waive any right to use Medicare benefits outside the HMO. In exchange, Medicare agrees to pay the HMO a monthly "capitation" fee, on behalf of the participant. That fee defrays much of the cost of the HMO coverage. The reduction in cost is passed on to the retirees and the County in the form of lower premiums and subsidy costs.

A Medicare Supplement Plan is an indemnity plan that complements Medicare Part A and Part B benefits. Medicare becomes the primary payer, meaning Medicare pays first on each claim. A Medicare Supplement Plan essentially picks up where Medicare leaves off within the limitations set forth in the plan. Like the Medicare Risk HMO concept, the Medicare Supplement concept reduces County and retiree costs by the value of the Medicare Part A and B benefits.

LACERA currently administers three Medicare Risk HMOs and one Medicare Supplement Plan. The HMOs are known as "Kaiser Senior Advantage," "SCAN," and "PacifiCare/Secure Horizons." The Medicare Supplement Plan is known as "Blue Cross III."

Medicare Part B Reimbursement

In 1992, your Board approved the Medicare Part B Reimbursement Program as a means of encouraging retirees to enroll in a Medicare Risk HMO, or the Medicare Supplement Plan. From 1992 through 2006, the County has generally paid the full cost of Part B for any retiree who has earned Part A, and enrolled in one of these plans. The justification advanced to the Board in 1992 and that we believe is still valid today, holds that the cost of Part B coverage is more than offset by the reduction in subsidy costs for the lower cost Medicare Risk HMO and Medicare Supplement coverage.

In the original 1992 Board action, the Board limited its liability to the then published Part B premium schedule through 1995. The Board's action also provided that, after June 30, 1996, the Part B Reimbursement Program is subject to change or cancellation at the discretion of the Board, and that it should be continued only "if cost savings are realized." In fact, all adjustments in the Part B premiums since the inception of the

program have been fully reimbursed by the County. Clearly, the original stated purpose of this program is to spend money as a means of saving more money. In this connection, it is appropriate to re-evaluate whether continuing to pick-up the full cost of the Part B coverage, including the 5.6 percent increase in 2007, is cost justified.

The 2006 County cost for Part B reimbursement is estimated at \$26 million for approximately 19,200 retirees and 5,400 eligible dependents (24,600 total). Although there is no way to be certain what the costs of the retiree health insurance program would be in the absence of this incentive, the County's actuary has estimated that overall program costs (including the \$26 million) would increase by \$16 million to \$30 million per annum, while LACERA's actuary's estimate can be even higher depending on migration. The estimates vary depending on the assumptions made with regard to which alternative health plans retirees would choose in the absence of the Medicare Risk HMO and Medicare Supplement options.

Recommended Pick-Up of January 1, 2007 Part B Increase

Picking up the 2007 Part B premium would add approximately \$1.5 million per annum to the current level of Part B reimbursement expenditures. This is less than 1 percent of the County's overall annual expense for the retiree health insurance program. The key question at this point is whether spending \$1.5 million would produce more than \$1.5 million in savings. That is, is spending \$1.5 million necessary to retain the current level of participation in the Medicare Risk HMOs and Blue Cross III, and thereby avoid more than \$1.5 million in higher subsidy costs that could be caused by a possible reverse migration out of these plans?

Although a \$5.00 cost shift would presumably not cause the majority of the participants in the Part B Reimbursement Program to immediately abandon their current coverage in favor of higher cost LACERA coverage, it would not take a lot of change to generate additional County costs of more than \$1.5 million per annum. Of the 19,200 retirees currently in the Program, approximately 10,200 (53%) are receiving a 100 percent County subsidy because they have 25 or more years of County service. These individuals could enroll in any LACERA health plan, and have the full premium paid by the County up to the aforementioned maximum subsidy limit established by the Blue Cross I and II Plans. This fact is reflected in the aforementioned LACERA and County estimates as to the overall cost savings from the Part B Reimbursement Program.

Of the 10,200 retirees receiving the full subsidy, approximately 5,700 are in the Kaiser Senior Advantage Plan. These individuals could convert to a non-Medicare Risk version of Kaiser known as "Kaiser Excess I," where Part B coverage is not required. Based on the current LACERA premium rates, and taking into account the \$5.00 cost

shift, a 25 or more year retiree making this change could do so at no cost to the retiree. The County's cost, however, would range from approximately \$439 per month to \$878 per month depending on family size. This being the case, a migration of 5 percent of the Kaiser Senior Advantage group would completely offset any program-wide savings from the \$5.00 cost shift. Any other migration to more expensive coverage on the part of other retirees with less than 25 years of service would further increase County costs. For these reasons, we are recommending that the existing policy of picking up the full Part B cost be continued through 2007.

Attachments I through VI provide additional information on the difference in current retiree costs and benefit coverage between the Kaiser Senior Advantage and Blue Cross III plans, and the alternative non-Medicare related Kaiser Excess I and Blue Cross I, and II Plans. The populations in Kaiser Senior Advantage and Blue Cross III represent approximately 91 percent of the total Part B reimbursement program participants.

Implementation Of Strategic Plan Goals

The recommended action supports the County's Strategic Plan Goal of financial responsibility.

FISCAL IMPACT

The recommended action would result in additional Part B reimbursement costs of approximately \$1.5 million per annum (all funds). However, the costs of not approving the recommendation could be much greater.

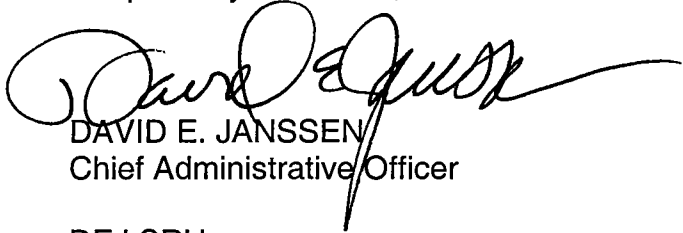
FACTS AND PROVISIONS

The recommended \$5.00 increase in Part B reimbursement costs would take effect on January 1, 2007, and be initially reflected in LACERA retiree warrants issued on December 30, 2006.

Honorable Board of Supervisors
December 19, 2006
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The Chief Administrative Officer will report back prior to January 1, 2008, with additional recommendations relating to Part B reimbursement policy for the 2008 calendar year.

Respectfully submitted,



DAVID E. JANSSEN
Chief Administrative Officer

DEJ:SRH
WGL:WW:df

Attachments (6)

c: LACERA
Auditor-Controller
County Counsel

ATTACHMENT I

KAISER MEDICARE AND NON-MEDICARE HEALTH PLAN RATE COMPARISON
 (Based on 7-1-06 through 6-30-07 Rates)
 Retiree Only

		MEDICARE RISK HMO						HMO			
		Kaiser Senior Advantage (Assigned both Parts A & B)						Kaiser Excess I (Assigned only Part A)			
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2006 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	RETIREE COST	TOTAL INSURANCE PREMIUM	
10 YOS (40%)	\$313.11	\$88.50	\$63.09	\$151.59	\$94.63	\$157.72	\$0	\$273.90	\$410.86	\$684.76	
15 YOS (60%)	\$469.67	\$88.50	\$94.63	\$183.13	\$63.09	\$157.72	\$0	\$410.86	\$273.90	\$684.76	
20 YOS (80%)	\$626.22	\$88.50	\$126.18	\$214.68	\$31.54	\$157.72	\$0	\$547.81	\$136.95	\$684.76	
25 YOS (100%)	782.78	\$88.50	\$157.72	\$246.22	\$0	\$157.72	\$0	\$684.76	\$0	\$684.76	

ATTACHMENT II

KAISER TWO-PARTY MEDICARE HEALTH PLAN RATE COMPARISON
 (Based on 7-1-06 through 6-30-07 Rates)
 Retiree & Spouse

	Kaiser Senior Advantage (Retiree & Spouse assigned both Parts A & B)						Kaiser Excess I (Retiree & Spouse assigned only Part A)					
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2006 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	
10 YOS (40%)	\$564.96	\$177.00	\$124.98	\$301.98	\$187.46	\$312.44	\$0	\$546.61	\$546.61	\$819.91	\$1,366.52	
15 YOS (60%)	\$847.44	\$177.00	\$187.46	\$364.46	\$124.98	\$312.44	\$0	\$819.91	\$819.91	\$546.61	\$1,366.52	
20 YOS (80%)	\$1,129.92	\$177.00	\$249.95	\$426.95	\$62.49	\$312.44	\$0	\$1,093.22	\$1,093.22	\$273.30	\$1,366.52	
25 YOS (100%)	\$1,412.40	\$177.00	\$312.44	\$489.44	\$0	\$312.44	\$0	\$1,366.52	\$1,366.52	\$0	\$1,366.52	

ATTACHMENT III

BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN RATE COMPARISON
 (Based on 7-1-06 through 6-30-07 Rates)
 Retiree Only

		MEDICARE SUPPLEMENT						INDEMNITY PLAN							
		BLUE CROSS III (Assigned both Parts A & B)						BLUE CROSS I (Medicare not required)			BLUE CROSS II (Medicare not required)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2006 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	ACTUAL COUNTY SUBSIDY	RETIREE COST	TOTAL INSURANCE PREMIUM	ACTUAL COUNTY SUBSIDY	RETIREE COST	TOTAL INSURANCE PREMIUM	ACTUAL COUNTY SUBSIDY	RETIREE COST	TOTAL INSURANCE PREMIUM
10 YOS (40%)	\$313.11	\$88.50	\$107.68	\$196.18	\$161.51	\$269.19	\$313.11	\$469.67	\$782.78	\$313.11	\$469.67	\$782.78	\$313.11	\$469.67	\$782.78
15 YOS (60%)	\$469.67	\$88.50	\$161.51	\$250.01	\$107.68	\$269.19	\$469.67	\$313.11	\$782.78	\$469.67	\$313.11	\$782.78	\$469.67	\$313.11	\$782.78
20 YOS (80%)	\$626.22	\$88.50	\$215.35	\$303.85	\$53.84	\$269.19	\$626.22	\$156.52	\$782.78	\$626.22	\$156.52	\$782.78	\$626.22	\$156.52	\$782.78
25 YOS (100%)	\$782.78	88.50	\$269.19	\$357.69	\$0	\$269.19	\$782.78	\$0	\$782.78	\$782.78	\$0	\$782.78	\$782.78	\$0	\$782.78

ATTACHMENT IV

BLUE CROSS TWO-PARTY MEDICARE HEALTH PLAN RATE COMPARISON
 (Based on 7-1-06 through 6-30-07 Rates)
 Retiree & Spouse

	BLUE CROSS III (Retiree & Spouse assigned both Parts A & B)							BLUE CROSS I OR II (Medicare not required)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	2006 MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	
10 YOS (40%)	\$564.96	\$177.00	\$214.58	\$391.58	\$321.87	\$536.45	\$0	\$564.96	\$564.96	\$847.44	\$1,412.40	
15 YOS (60%)	\$847.44	\$177.00	\$321.87	\$498.87	\$214.58	\$536.45	\$0	\$847.44	\$847.44	\$564.96	\$1,412.40	
20 YOS (80%)	\$1,129.92	\$177.00	\$429.16	\$606.16	\$107.29	\$536.45	\$0	\$1,129.92	\$1,129.92	\$282.48	\$1,412.40	
25 YOS (100%)	\$1,412.40	\$177.00	\$536.45	\$713.45	\$0	\$536.45	\$0	\$1,412.40	\$1,412.40	\$0	\$1,412.40	

ATTACHMENT V

KAISER MEDICARE AND NON-MEDICARE HEALTH PLAN BENEFITS COMPARISON

	MEDICARE RISK HMO	
	Kaiser Senior Advantage (Assigned both Parts A & B)	Kaiser Excess I (Assigned only Part A)
Expenses		
Calendar Year Deductibles	None	
Annual Maximum Out-of-Pocket Expenses	Max Co-payments of: \$1,500 – Individual \$3,000 – Family	
Lifetime Maximum Benefits	Unlimited	
Hospital Benefits		
Room and Board	No charge	
Surgical Services	No charge	
Hospital Services and Supplies	No charge	
Emergency Benefits		
Inpatient	No charge	
Outpatient	\$5 copay; waived if admitted	
Ambulance	No charge for emergency	
Outpatient Benefits		
Doctor's Office Visit	\$5 copay	
Preadmission x-ray and lab tests	No charge	
Routine checkups	\$5 copay	
Immunizations	No charge	
Outpatient Surgical services	\$5 copay per procedure	
Physical Therapy	\$5 copay	
Speech Therapy	\$5 copay	
Prescription Drugs	\$7 copay for up to 100-day supply, covers dental prescriptions	
Vision/Hearing Care Benefits		
Eye Exams	\$5 copay	
Lenses	\$150 allowance every 24 months. Not covered	
Frames	\$150 allowance every 24 months. Not covered	
Hearing Exams	\$5 copay	
Hearing Aids	Not covered	
Durable Medical Equipment	Covered	Not covered

ATTACHMENT VI

**BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN
BENEFITS COMPARISON**

	MEDICARE SUPPLEMENT	INDEMNITY PLAN	
	BLUE CROSS III (Assigned both Parts A & B)	BLUE CROSS I (Medicare not required)	BLUE CROSS II (Medicare not required)
Expenses			
Calendar Year Deductibles	None	\$100 individual, \$100 family	\$500 individual; \$1,500 family
Annual Maximum Out-of-Pocket Expenses	None	N/A	\$2,500 including deductible
Lifetime Maximum Benefits	Unlimited	\$1,000,000	\$1,000,000
Hospital Benefits			
Room and Board	Plan pays all Medicare inpatient deductibles for approved Medicare days	\$75/day \$150/day special care unit	90% PPO hospital; 80% non-PPO
Surgical Services	Plan pays all Medicare inpatient deductibles for approved Medicare days	According to schedule + 80% of balance	80%
Hospital Services and Supplies	Plan pays all Medicare inpatient deductibles for approved Medicare days	100%	90% PPO hospital; 80% non-PPO hospital
Emergency Benefits			
Inpatient	Plan pays all Medicare inpatient deductibles for approved Medicare days	\$75/day \$150/day special care unit	90% PPO hospital; 80% non-PPO hospital
Outpatient	20% of Medicare approved charges	100% at a hospital only	80%
Ambulance	20% of Medicare approved charges	80% for transportation to first hospital where care is given	80% for transportation to first hospital where care is given
Durable Medical Equipment	Covered	Not covered	

ATTACHMENT VI (Continued)

**BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN
BENEFITS COMPARISON**

	MEDICARE SUPPLEMENT	INDEMNITY PLAN	
	BLUE CROSS III (Assigned both Parts A & B)	BLUE CROSS I (Medicare not required)	BLUE CROSS II (Medicare not required)
Outpatient Benefits			
Doctor's Office Visit	20% of Medicare approved charges	80%	
Preadmission x-ray and lab tests	20% of Medicare approved charges	100%	
Routine checkups	Not covered except for dependent children under age 17	(Adult) \$25 copay; covered in-network (Children under 17) \$25 copay; maximum of \$250; covered in-network	(Adult) \$25 copay; covered in-network (Children under 17) \$25 copay; covered in-network
Immunizations	Not covered except for dependent children under age 17	Not covered except for dependent children under age 17	
Outpatient Surgical services	20% of Medicare approved charges	100%	
Physical Therapy	20% of Medicare approved charges	80% in accordance with requirements	
Speech Therapy	20% of Medicare approved charges	80% in accordance with requirements	
Prescription Drugs	80% in-network; 60% out-of-Network: \$10 generic/\$30 brand/\$50 non-preferred brand.	80% in-network, 60% out-of-network; \$10 generic/\$30 brand/\$50 non-preferred brand.	
Vision/Hearing Care Benefits			
Eye Exams	Not covered	Covered after accident only	
Lenses	Not covered unless 1st lens after eye surgery	Covered after accident and after eye surgery	
Frames	Not covered unless after eye surgery	Covered after accident or after eye surgery only	
Hearing Exams	One per year; 80%	Covered after accident and after eye surgery	
Hearing Aids	50% up to \$300 lifetime maximum	Covered after accident and after eye surgery	