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Authority

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EXECUTIVE MANAGEMENT COMMITTEE  
June 21, 2001

**SUBJECT: RETIREE MEDICAL BENEFIT IMPROVEMENTS FOR  
ACTIVE NON-CONTRACT EMPLOYEES**

**ACTION: ADOPT REVISED RETIREE MEDICAL PLAN FOR ACTIVE  
NON-CONTRACT EMPLOYEES**

**RECOMMENDATION**

Adopt the revised non-contract and Teamsters retiree medical plan that liberalizes the eligibility requirements, therefore improving the pre-65 years of age benefit effective July 1, 2001 (Attachment A).

**ISSUE**

The proposed non-contract and Teamsters retiree medical program improves the attraction and retention of non-contract and Teamsters employees making the MTA competitive with the City and County of Los Angeles.

**POLICY IMPLICATIONS**

The proposed program is designed to improve retention by linking the MTA's retiree medical contribution based on each employee's years of service at retirement.

The new program promotes recruitment by providing a pre-65 years of age retiree medical benefit that is comparable to the benefits provided by the City of Los Angeles and the County of Los Angeles as shown on Attachment B. The proposed program improves recruitment by providing benefits much sooner for new hires. Going forward, the new plan provides an enhancement in benefits to future employees in order to improve retention and recruitment.

Should the new program be adopted, the April 2001 collective bargaining agreement with Teamsters requires that it be extended to their members.

**OPTIONS**

Alternative I (Attachment C) would provide retiree medical benefits as an active employee pre- and post-age 65 with eligibility at 5 years of service and age 50. It would bring all non-contract members of the MTA up to the retiree medical benefit currently provided to MTA employees of the former LACTC. Although the benefits

of this alternative include value for attracting new employees and eliminating all differences in retiree medical benefits for non-contract employees, this alternative provides little incentive to retain employees older than age 50 with more than 5 years of service. Over the next 10 years, the MTA actuaries have estimated this alternative would cost approximately \$20,000,000 more than the current program. This alternative is not recommended.

Alternative II (Attachment D) includes the same pre-65 benefit as the proposed alternative and indexes the Medicare Part B reimbursement benefit based on years of service at retirement. Relative to the current program, Alternative II improves the pre-65 benefit but reduces the post-65 benefit overall. The adoption of Alternative II would cost approximately \$2,600,000 over the next ten years relative to the current plan. This alternative is not recommended.

### **FINANCIAL IMPACT**

In FY02 the adoption of the proposed plan is estimated by the benefits consulting firm, William M. Mercer Inc., to cost an additional \$300,000 over the current plan. Funding for the new program is included in the FY02 budget under retiree medical expenses. Over the next 10 years, the proposed program is estimated to add an additional \$3.7 million in expenses over the current plan. Since the program will have multi-year implications, the Executive Officer of Human Resources will be accountable for budgeting the costs in future years.

### **DISCUSSION**

The current plan actuaries have indicated that:

"Retiree health plans are an important element of an employer's total retirement program and are critical to the retention of experienced staff. Employers that do not offer a pre-Medicare plan may find that it is a barrier to recruiting and retaining mid-career professionals. Enhancing the eligibility for the retiree health program should better position the MTA to attract and retain experienced professionals."

The current retiree medical benefit is not structured for maximum effect in the retention of current employees and the recruitment of new ones. The current program eligibility for new non-contract employees is so far distant from the date of hire that the benefit has little perceived benefit during recruitment.

The current benefit formula is not linked to years of service. Without a direct linkage, the value of the retiree medical benefit for retention purposes is reduced.

Retiree medical coverage is also one of the few remaining open issues related to the merger of the former Southern California Rapid Transit District (RTD) and the Los Angeles County Transportation Commission (LACTC). Teamster employees currently have no coverage.

A summary of the current MTA retiree medical benefits is shown on Attachment E. The recommended program reduces the existing program differences.

All active non-contract and Teamsters employees will have the option of electing the new plan. The proposed plan does not reduce benefits for any current, former or retired employee. All new non-contract and Teamsters employees hired after the plan adoption date of July 1, 2001 will be eligible only for the new plan. The recommended plan does not apply to current retired employees. The MTA Board of Directors may modify these plans at any time.

### **Description of Pre-65 Plan Changes**

The proposed plan changes the pre-65 employer contribution to 4% per year of service with eligibility beginning at age 50 with 5 years of service. For example, the MTA will contribute 60% of the MTA's portion of the premium to an employee with 15 years of service who retires at age 55 (4% x 15 years of service). Currently, this employee would receive no pre-65 retiree medical benefit. A small group of current employees of the former RTD and post-merger employees who are expected to retire between 62 and 65 with 10 to 24 years of service will have their current retiree medical benefit retained (100% of the MTA active employee contribution). Teamsters will also now be eligible for the 4% per year of service retiree medical benefit as will all new non-contract hires.

The proposed plan will allow all non-contract and Teamster employees separated from the MTA, except for cause, after age 60 without five years of service to extend coverage to age 65 by paying 102% of the full premium. In addition, surviving spouses of deceased retiree medical recipients will be allowed to continue coverage to age 65 by paying 102% of the full premium.

### **Description of Post-65 Plan Changes**

The proposed plan retains the Medicare Part B reimbursement coverage for employees (currently \$50 per month) but will have eligibility reduced to age 50 with 5 years of service from the current age 55 and 10 years of service, or 30 years of service.

### **NEXT STEPS**

The new program will be effective July 1, 2001. In order to develop detailed plan documentation the program elements are expected to be distributed to non-contract and Teamsters employees by August 31, 2001. Plan review sessions will be conducted with all employees between September 1 and November 1, 2001. Employees retiring before full plan rollout will be briefed individually on their options.

**ATTACHMENT(S)**

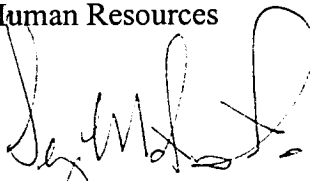
- A. Recommended Retiree Medical Plan
- B. Summary of Los Angeles City and County Plans
- C. Alternative I
- D. Alternative II
- E. Summary of Current Retiree Medical Plans

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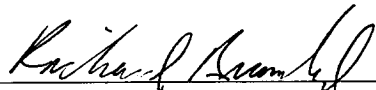
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RAY INGE  
Executive Officer  
Human Resources



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TERRY MATSUMOTO  
Executive Officer, Finance  
and Treasurer



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RICHARD BRUMBAUGH  
Chief Financial Officer



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ALLAN G. LIPSKY  
Office of the Chief Executive Officer

## ATTACHMENT A

### RECOMMENDED PLAN

	Former LACTC	MTA & Former RTD*	Teamsters
<b># of Employees</b>	207	1027	73
<b>Eligibility</b>	Age 50 with 5 years of service or 30 years of service	Age 50 with 5 years of service or 30 years of service	Age 50 with 5 years of service or 30 years of service
<b>Pre-65 Program</b>			
<b>Benefits</b>	Same as active employee	Same as active employee	Same as active NC employee
<b>Employer Contributions</b>	Same as active employee	MTA Contribution is 4% per year of service of current cost share.	MTA Contribution is 4% per year of service of current cost share.
<b>Post-65 Program</b>			
<b>Benefits</b>	Same as active employee	Medicare Part B premium reimbursement	Medicare Part B premium reimbursement
<b>Employer Contributions</b>	Same as active employee	Medicare Part B premium reimbursement	Medicare Part B premium reimbursement
<b>Dependent Coverage</b>	Yes	Employee over age 65: No	Employee over age 65: No

\*Retains 62 - 65 benefit for current employees

Estimated 10 Year Cost of Current Plan	\$	18,676,586	\$	-
Estimated 10 Year Cost of Proposed Alternative		22,054,936		275,730
Estimated Increase/(Decrease)	\$	3,378,350	\$	275,730
 Total Estimated Increase/(Decrease)	 \$	 3,654,080		

## ATTACHMENT B

### Summary of Retiree Medical Programs: City of L.A. and LACERA

	City of L.A.	LACERA
<b>Eligibility</b>	A retired employee who is receiving a monthly retirement check from the City Employees' Retirement System, or Fire/Police Pension System (Health Plan only), and eligible dependents (includes lawful spouse, domestic partner and eligible unmarried children).	A retired employee of the County of Los Angeles and participating agencies of the County of Los Angeles, including the South Coast Management District, Little Lake Cemetary District, Local Agency Formation Commission, and County Superintendent of Schools (includes lawful spouse and eligible unmarried children).
<b>Service Requirements</b>	Benefits are available for retirees after five years of service at age 50, but the benefits are full contributory. Benefits begin to be subsidized after ten years of service.	Benefits are available after either five years or ten years of service at age 50. This will depend on the pension program in which the retiree participates.
<b>Dependent Coverage</b>	Yes	Yes
<b>Under 65 Program</b>		
Plan Options	Indemnity/PPO (Pacificare); HMOs (Blue Cross, Pacificare & Kaiser Permanente)	Indemnity (Blue Cross); PPO (Blue Cross Prudent Buyer); and HMO (Pacificare and Kaiser Permanente)
Contributions	Health Plan subsidy: 4% of the maximum subsidy for each year of service; 10 years = 40% of maximum subsidy; 20 years = 80% of maximum subsidy; and 25 years = 100% of maximum subsidy.	10 years of service: subsidy of up to 40% of Plan II; more than 10 years: 4% subsidy for each year of service; 25 years or more: 100% of maximum subsidy.
Prescription Drug Benefit	Yes, with Rx card	Yes, HMO with Rx card, FFS ded coinsurance
<b>Over 65 Program (Non-Medicare Eligible)</b>		
Plan Options	Indemnity/PPO (Pacificare); HMOs (Blue Cross, Pacificare, and Kaiser Permanente)	Indemnity (Blue Cross); PPO (Blue Cross); and HMOs (Kaiser & Pacificare)
Contributions	Health Plan Subsidy: 4% of the max. for each year of service; 10 years = 40% of maximum subsidy; 20 years = 80% of maximum subsidy; and 25 years = 100% of maximum subsidy.	10 years of service: subsidy of up to 40% of Plan II; more than 10 years: 4% subsidy for each year of service; 25 years or more: 100% of maximum subsidy.
Prescription Drug Benefit	Yes, with Rx card	Yes, HMO with Rx card, FFS ded coinsurance
<b>Over 65 Program (Parts A + B)</b>		
Premium for Part B, Company Paid for Retiree and Spouse	Yes	Yes
Plan Options	Indemnity/PPO (Pacificare); Medicare Risk HMOs (Blue Cross, Pacificare, and Kaiser Permanente)	Medicare Supplement (Blue Cross), Medicare Risk (Kaiser, SCAN, Pacificare, and Secure Horizons)
Contributions	Health Plan Subsidy: 4% of the max. subsidy for each year of service; 10-14 yrs of service: 75% of member's premium; 15-19 yrs of service: 90% of member's monthly premium; 20+ yrs of service: 100% of member's monthly premium.	10 years of service: subsidy of up to 40% of Plan II; more than 10 years: 4% subsidy for each year of service; 25 years or more: 100% of maximum subsidy.
Prescription Drug Benefit	Yes, with Rx card	Yes, HMO with Rx card, FFS ded coinsurance

## ATTACHMENT C

### ALTERNATIVE PLAN I

	Former LACTC	MTA & Former RTD	Teamsters
<b># of Employees</b>	207	1027	73
<b>Eligibility</b>	Age 50 with 5 years of service or 30 years of service	Age 50 with 5 years of service or 30 years of service	Age 50 with 5 years of service or 30 years of service
<b>Pre-65 Program</b>			
<b>Benefits</b>	Same as active employee	Same as active employee	Same as active LACTC employee
<b>Employer Contributions</b>	Same as active employee	Same as active employee	Same as active LACTC employee
<b>Post-65 Program</b>			
<b>Benefits</b>	Same as active employee	Same as active employee	Same as active LACTC employee
<b>Employer Contributions</b>	Same as active employee	Same as active employee	Same as active LACTC employee
<b>Dependent Coverage</b>	Yes	Yes	Yes

Estimated 10 Year Cost of Current Plan	\$	18,676,586	\$	-
Estimated 10 Year Cost of Alternative I		37,281,705		1,120,285
Estimated Increase/(Decrease)	\$	18,605,119	\$	1,120,285
 Total Estimated Increase/(Decrease)	 \$	 19,725,404		

## ATTACHMENT D

### *ALTERNATIVE PLAN II*

	Former LACTC	MTA & Former RTD*	Teamsters
<b># of Employees</b>	207	1027	73
<b>Eligibility</b>	Age 50 with 5 years of service or 30 years of service	Age 50 with 5 years of service or 30 years of service	Age 50 with 5 years of service or 30 years of service
<b>Pre-65 Program</b>			
<b>Benefits</b>	Same as active employee	Same as active employee	Same as active NC employee
<b>Employer Contributions</b>	Same as active employee	MTA Contribution is 4% per year of service of current cost share.	MTA Contribution is 4% per year of service of current cost share.
<b>Post-65 Program</b>			
<b>Benefits</b>	Same as active employee	Medicare Part B reimbursement	Medicare Part B reimbursement
<b>Employer Contributions</b>	Same as active employee	4% per year of service with maximum benefit of Medicare Part B reimbursement	4% per year of service with maximum benefit of Medicare Part B reimbursement
<b>Dependent Coverage</b>	Yes	Employee over age 65: No	Employee over age 65: No

\*Retains 62 - 65 benefit for current employees

Estimated 10 Year Cost of Current Plan	\$	18,676,586	\$	-
Estimated 10 Year Cost of Alternative II		20,998,938		234,221
Estimated Increase/(Decrease) in Costs	\$	2,322,352	\$	234,221
 Total Estimated Increase/(Decrease)	 \$	 2,556,573		



**ATTACHMENT E**

**SUMMARY OF MTA's CURRENT RETIREE MEDICAL PROGRAMS**

	<b>Current Plan</b>	<b>Former LACTC</b>	<b>AFSCME</b>	<b>UTU</b>	<b>ATU</b>	<b>TCU</b>	<b>Teamsters</b>	<b>Proposed Plan</b>
<b>Eligibility</b>	Pre-65: Age 62 and 10 years of service or 30 years of service; Post-65: Age 55 with 10 years of service	Age 50 with 5 years of service or 30 years of service	Pre-65: Age 62 and 10 years of service or 30 years of service; Post-65: Age 55 with 10 years of service	Age 62 and 10 years of service or 23 years of service	Age 62 and 10 years of service or 23 years of service	Age 62 and 10 years of service or 23 years of service	None	Age 50 with 5 years of service
<b>Pre-65 Program Benefits</b>	Same as active employee	Same as active employee	Same as active employee	Same as active employee	Same as active employee	Same as active employee	None	Same as active employee
<b>Employer Contributions</b>	Same as active employee	Same as active employee	Same as active employee	Pre-1991 Hires: Same as active employee to age 66; Post-1991 Hires: 100% of active employee amount at age 62-66; 75% from age 58-61; 50% from age 55-57	Pre-1991 Hires: Same as active employee; Post-1991 Hires: 100% of active employee amount at age 62; 75% from age 58-61; 50% from age 55-57	Pre-1991 Hires: Same as active employee; Post-1991 Hires: 100% of active employee amount at age 62; 75% from age 58-61; 50% from age 55-57	None	MTA Contribution is 4% per year of service of current cost share.
<b>Post-65 Program Benefits</b>	Medicare Part B premium reimbursement (\$50/month)	Same as active employee	Medicare Part B premium reimbursement (\$50/month)	None	\$142.55 per Month per Employee + 1/3 of Part B Medicare Premium Reimbursement	Pre-1991 Hires: \$28.60 per month; Post-1991 hires: None	None	Medicare Part B premium reimbursement
<b>Employer Contributions</b>	None	Same as active employee	None	None	None	None	None	None
<b>Dependent Coverage</b>	Employee over age 65: No	Yes	Employee over age 65: No	Employee over age 65: No	Employee over age 65: No	Employee over age 65: No	None	Employee over age 65: No