



# Los Angeles Unified School District

## STRATEGIC BUDGET REVIEW: HEALTH & WELFARE

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January 18, 2011

Presented to: Committee of the Whole

Presented by: Wendy Macy, Chief Operating Officer

# Agenda



- I. Health & Welfare Plan
- II. Health & Welfare Cost Drivers and Trends
- III. Health & Welfare Retiree Funding Method
- IV. Other Postemployment Benefits (OPEB)
- V. Health Benefits Committee (HBC)
- VI. Concerns



# Section I: Health & Welfare (H&W) Plan

# District Benefits Summary

## Section I: H&W Plans

Benefit	Paid By		Benefit Provided To			
	District	Employee	Active	Active Dependents	Retiree	Retiree Dependents
<b>Health Care</b>						
<b>Health (Medical, Dental, Vision)</b>	✓		✓	✓	✓	✓
Health Care Flexible Spending Account		✓	✓			
Dependent Care Flexible Spending Account		✓	✓			
Employee Assistance Program	✓		✓	✓		
Continuation of Health Coverage—Cobra		✓	✓	✓	✓	✓
<b>Life Insurance</b>						
Basic Life Insurance	✓		✓			
Optional Life Insurance		✓	✓	✓		
Accidental Death & Dismemberment (AD&D)		✓	✓	✓		
<b>Retirement</b>						
State Teachers' Retirement System (STRS)	✓	✓			✓	
Public Employees' Retirement System (PERS)	✓	✓			✓	
Public Agency Retirement Services (PARS)	✓	✓			✓	
403(b)		✓			✓	
457(b)		✓			✓	

# Health Benefits Eligibility

Who	How
Regular Employees	Assigned half-time or more of a full-time assignment
Substitutes	100 days of paid status in previous fiscal year and current paid status; benefit year is from Oct - Sept
Retirees	Age and year of service credit; actual thresholds depend on hire date
Dependents	Dependents of eligible employees and retirees; active dependents to age 26 per PPAC* and retiree dependents to age 25 if full time student or as determined by PPAC
Anyone Losing District Benefits	Continuation coverage member expense (COBRA and AB528)

\* PPAC: Patient Protection and Affordable Care Act as amended by the Health Care & Education Reconciliation Act of 2010

# Eligibility for District Retiree Health Benefits

If Hired	Consecutive Service Immediately Prior to Retirement
On or before March 11, 1984	Five
Before July 1, 1987, but after March 11, 1984	Ten
Before June 1, 1992, but after July 1, 1987	Fifteen years of consecutive service immediately prior to retirement or ten years of consecutive service immediately prior to retirement plus ten years of non-consecutive service
Before March 1, 2007 but after June 1, 1992	The sum of consecutive years of service immediately prior to retirement plus age must equal or exceed 80
Before April 1, 2009 but after March 1, 2007	In addition to the rule of 80, a minimum of 15 consecutive years of service is required
On or after April 1, 2009	The sum of consecutive years of service immediately prior to retirement plus age must equal or exceed 85, a minimum of 25 consecutive years of service is required
On or after April 1, 2009 (sworn personnel only)	The sum of consecutive years of service immediately prior to retirement plus age must equal or exceed 80, a minimum of 20 consecutive years of service is required

# H&W Active & Retiree Participants Counts

Type of Participants	November 2008 Enrollment*	November 2009 Enrollment	November 2010 Enrollment	3 Year Trend Difference
Active Employees	73,648	72,413	68,645	-5,003
Retirees	34,007	34,644	35,056	1,049
Active Dependents	96,777	97,193	95,418	-1,359
Retiree Dependents	18,639	17,854	18,830	191
<b>Total</b>	<b>223,071</b>	<b>222,104</b>	<b>217,949</b>	<b>-5,122</b>

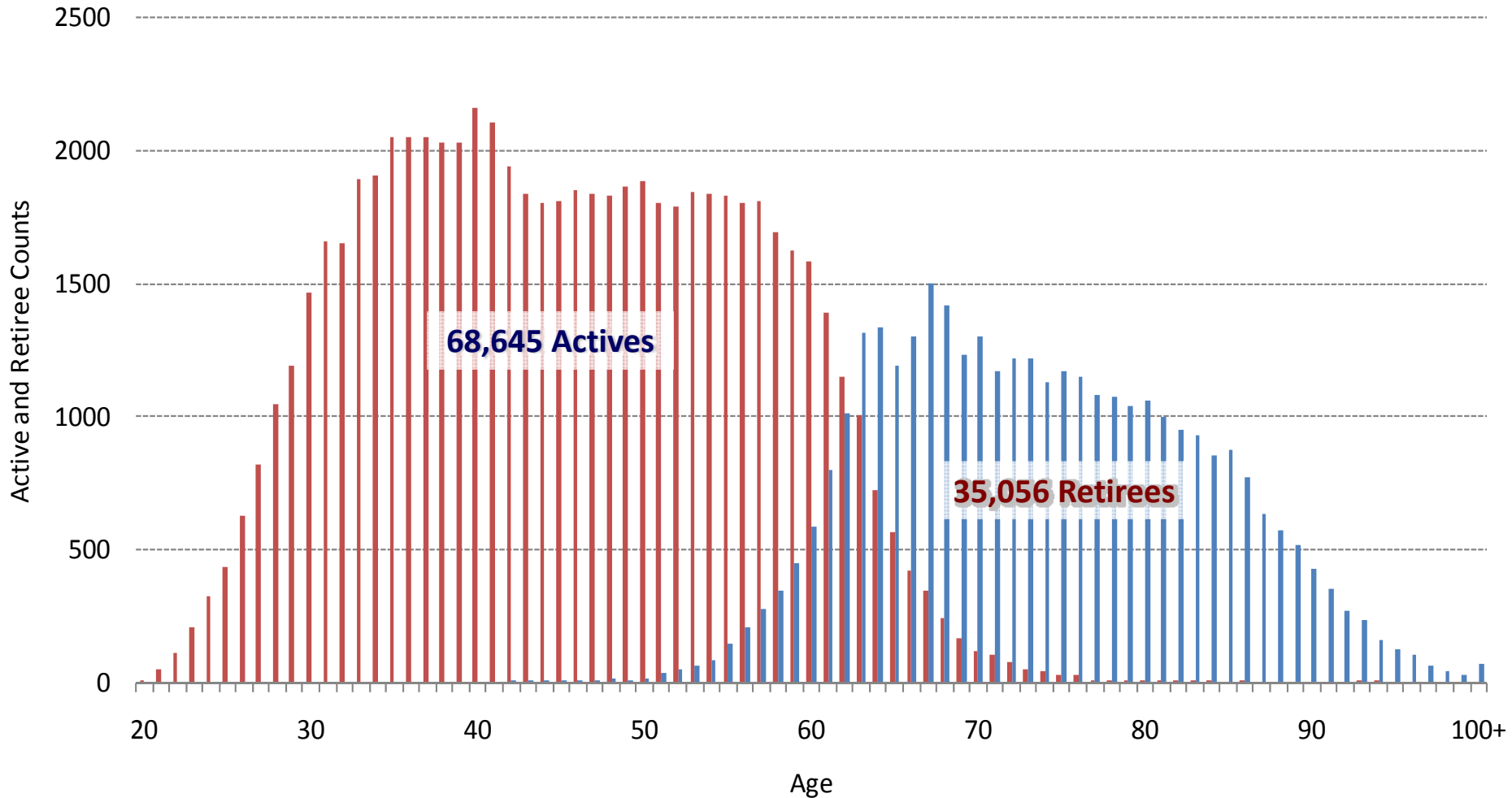
Source: LAUSD Business Tools for Schools (BTS) as of November 30, 2008, 2009, and 2010; Medical only; Excludes charter and includes TA's, half time employees, and student body

\* Memorandum of Understanding (MOU) between LAUSD and Unions/Associations Representing District Employees for CY 2009-2011

Note: These counts are not used to calculate the District contribution.

# Active and Retiree Demographics as of Nov 2010

Section I: H&W Plans

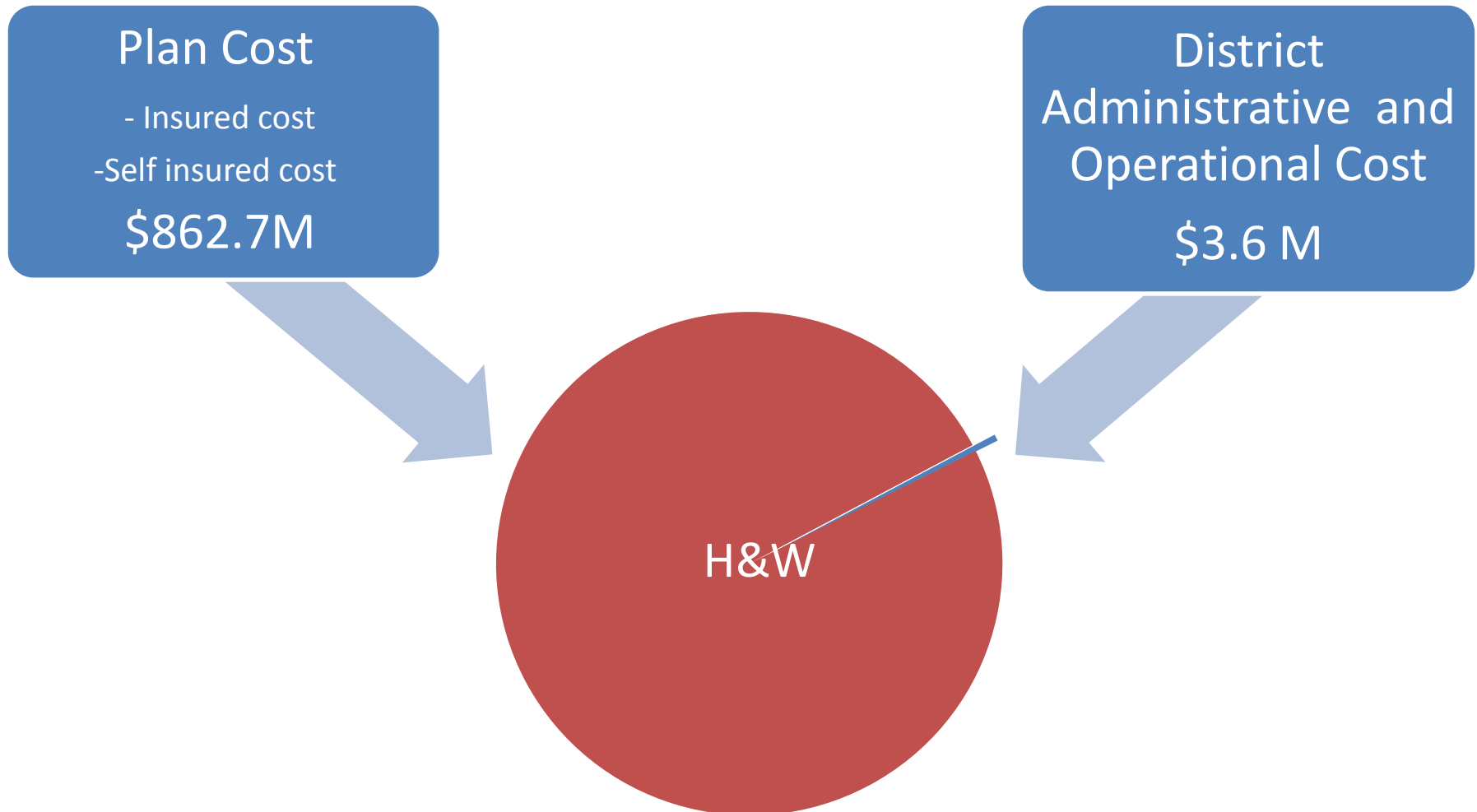


Source: LAUSD Business Tools for Schools (BTS) as of November 30, 2010; Medical only

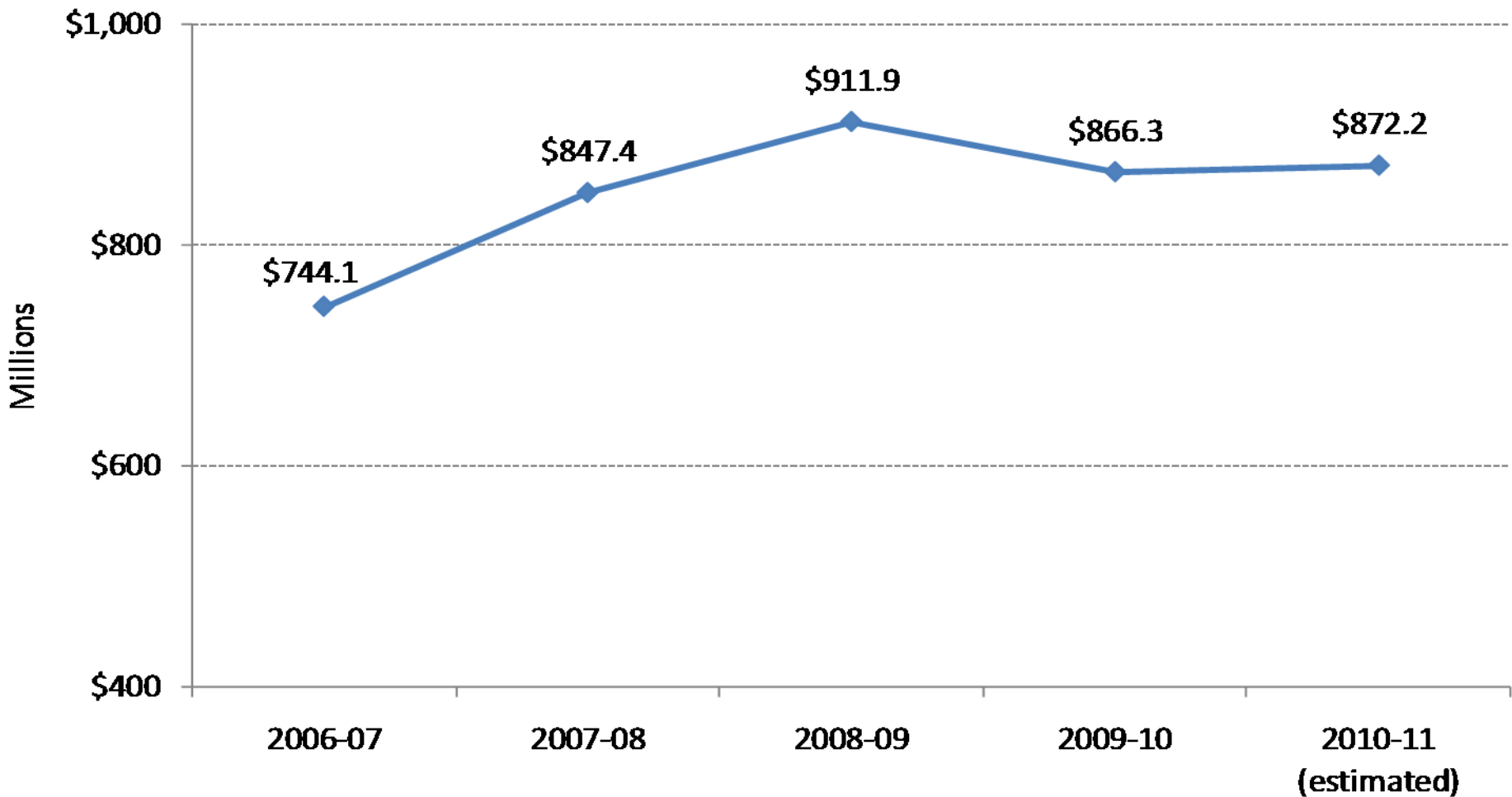


## Section II: H&W Cost Drivers and Trends

# Contributors to the Cost of H&W



# Cost of H&W – 5 Fiscal Year Trend



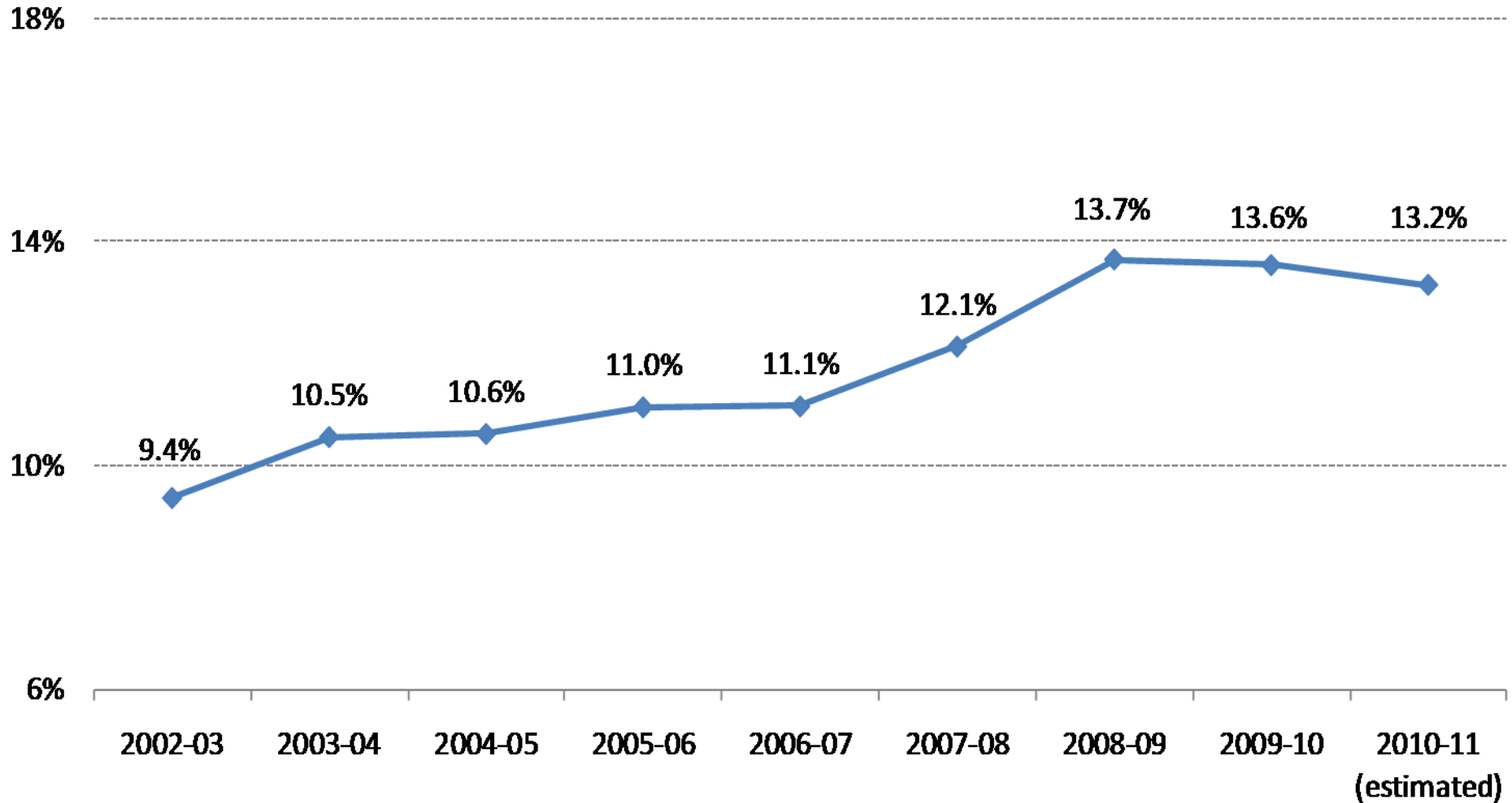
Source: Superintendent's 2010-2011 Final Revised Budget  
The Segal Company Annual Projection dated 12/03/10

# National Health Care Cost Drivers

- Provider Cost
  - Physician compensation, malpractice premiums, and supply and demand
- Hospital Cost
  - Wage pressure and workforce shortage, technology and pharmaceutical costs, hospital competition, facility expansion and technology acquisition, and increased use of inpatient, outpatient, and emergency services
- Technology: Pharmaceutical, New Advanced Diagnostic Tool
  - New and more effective drugs cost more, pharmaceutical market growth, and direct-to-consumer advertising
- Consumer Behavior
  - Patients demand for latest technology, more costly drugs, and specialty care
- Insurance Costs
  - Administrative costs and cost shifting from Government to private entities (employers)
- Longevity
  - Longer life span
- Healthcare Reform
  - Increase to dependent coverage, increase in preventative care coverage, and decrease in governmental coverage to Medicare

# Current H&W as Percentage of General Fund

## Section II: H&W Cost Drivers and Trends

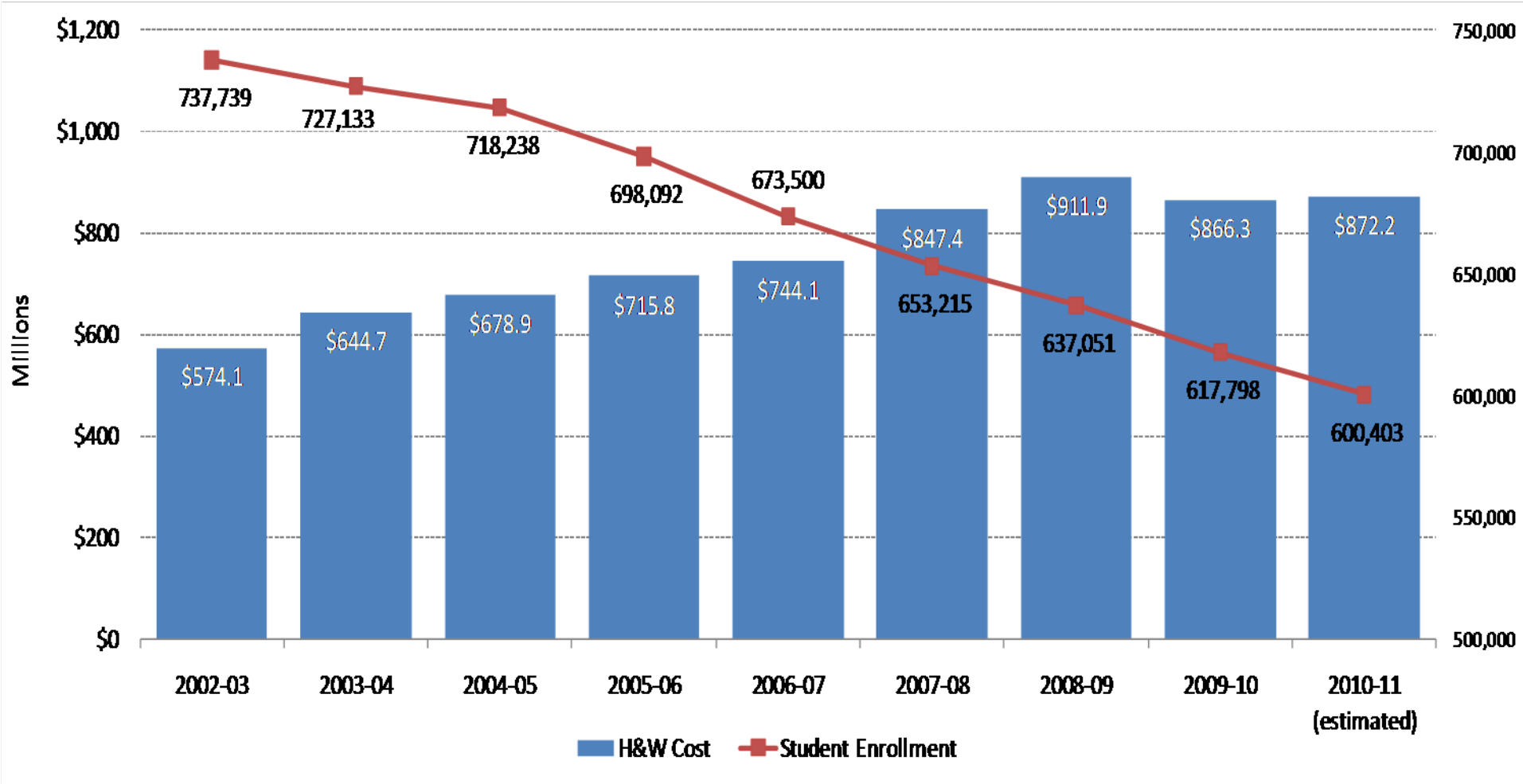


Source: Superintendent's 2010-2011 Final Revised Budget, Superintendent's 2006-2007 Adopted Final Budget  
The Segal Company Annual Projection dated 12/03/10

# H&W Expenditure vs. Student Enrollment

## Section II: H&W Cost Drivers and Trends

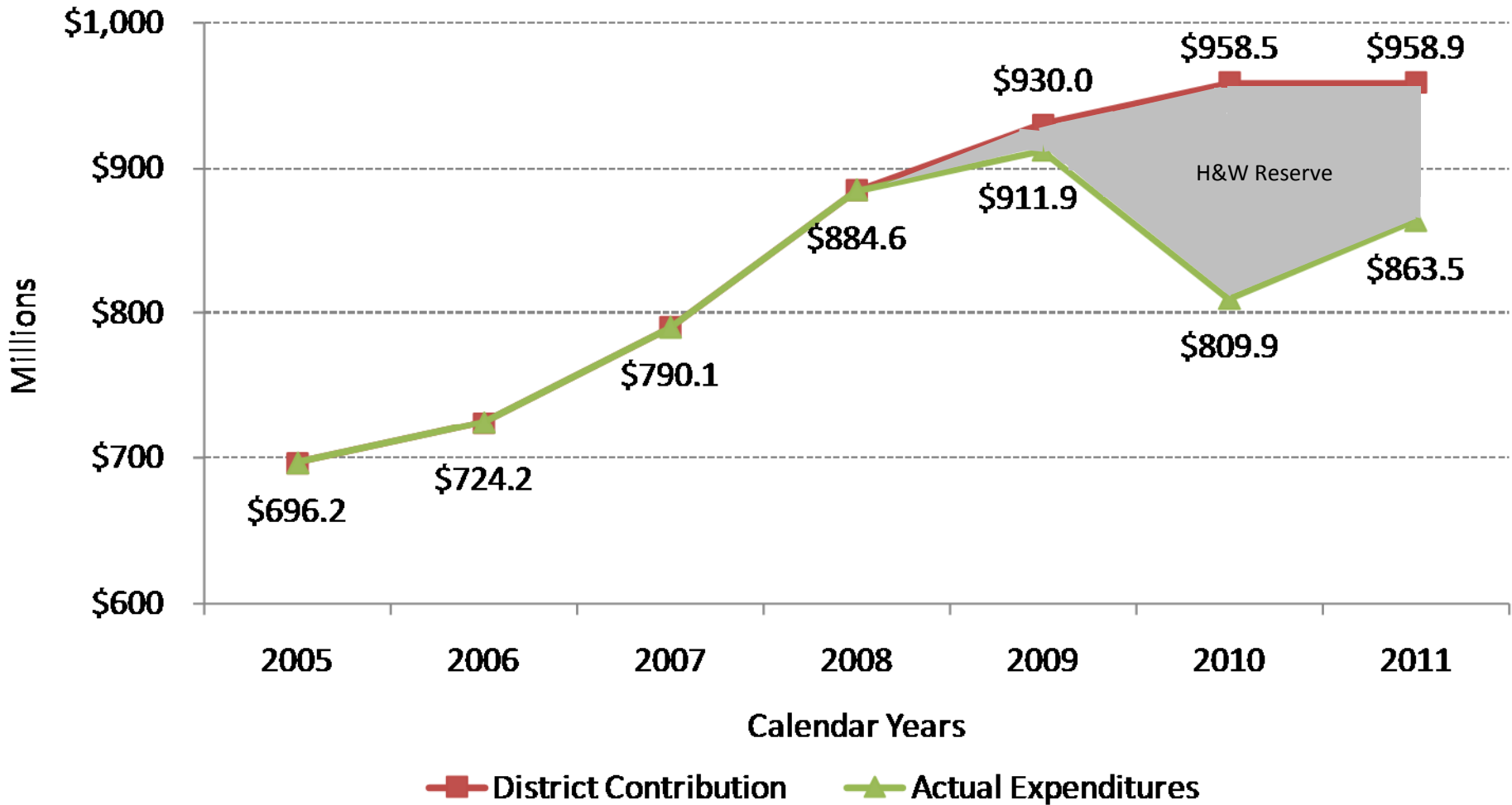
Graded and ungraded enrollment excluding independent charter schools



Source: Superintendent's 2010-2011 Final Budget, 2010-2011 Final Revised Budget, and 2006-2007 Adopted Final Budget  
The Segal Company Annual Projection dated 12/03/10

# H&W Contribution vs. Expenditures in Calendar Years

## Section II: H&W Cost Drivers and Trends



Source: Memorandum of Understanding (MOU) between LAUSD and Unions/Associations Representing District Employees for CY 2009-2011  
District contribution for calendar years 2010 and 2011 based on November headcount data per the MOU  
Actual expenditures from FRDB as of 12/13/10



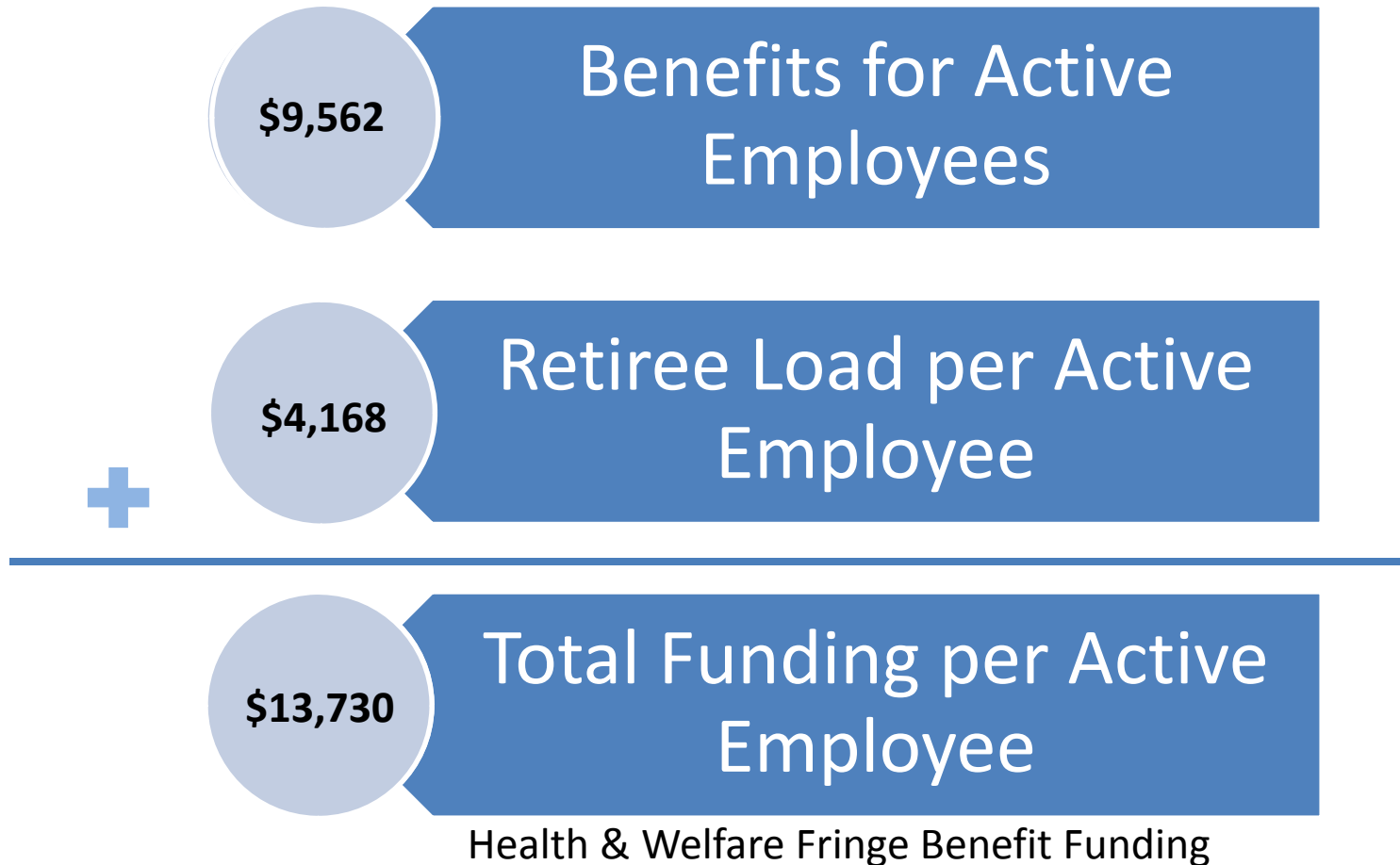
## Section III: Health & Welfare Retiree Funding Method

## Pay-As-You-Go Method



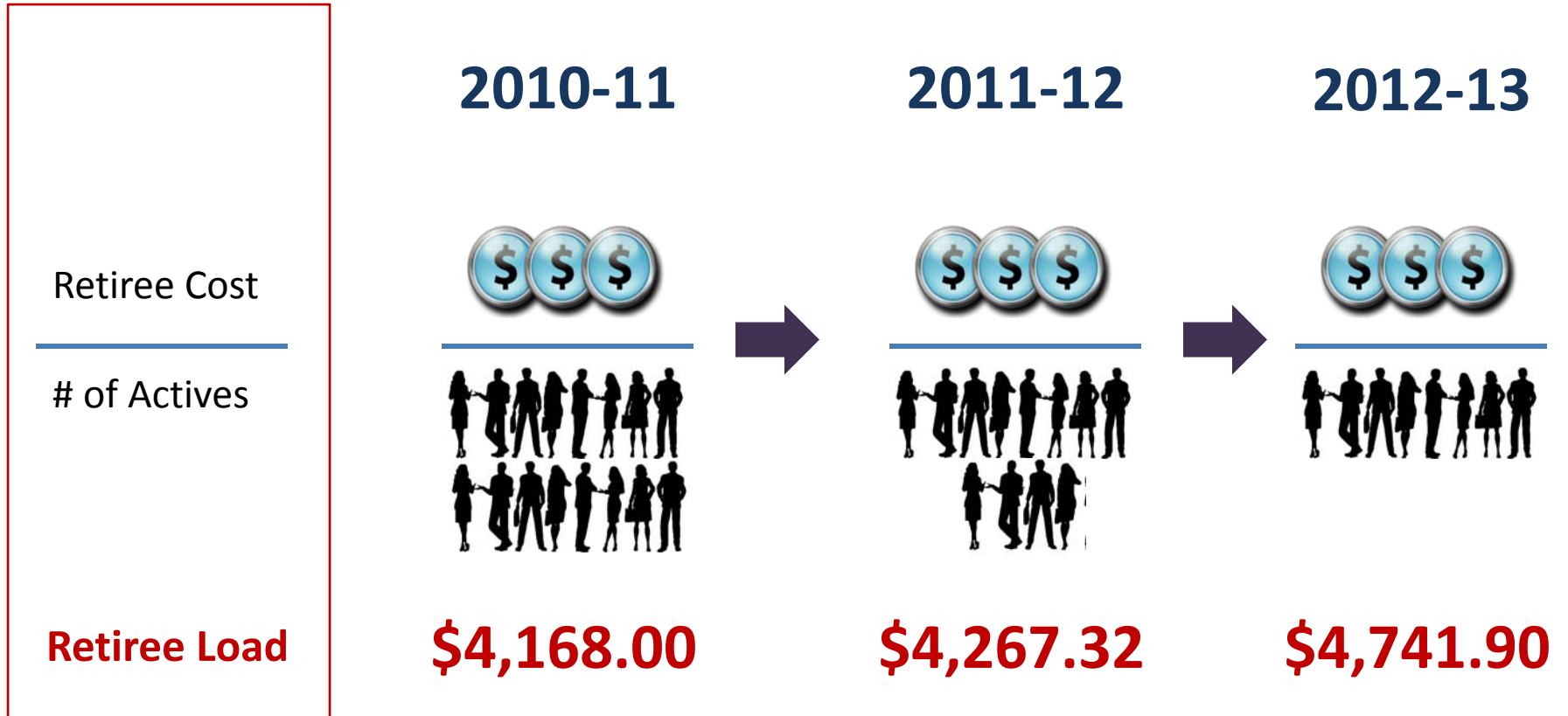
Retiree health benefits cost is added to the cost of benefits for each active employee. This is called the retiree load.

# Pay-As-You-Go Method



Source: Employee Benefit Rates for 2010-11 Budget Development, Budget Services Branch

# Retiree Load with Possible Layoffs



Source: LAUSD Business Tools for Schools (BTS) as of November 30, 2010; Medical only; Excludes charter Memorandum of Understanding (MOU) between LAUSD and Unions/Associations Representing District Employees for CY 2009-2011  
 Assumes no change in per participant contribution or retiree count and layoff of 1,700 employees for 2011-12 and 6,700 for 2012-13



## Section IV: Other Postemployment Benefits (OPEB)

- Required by Governmental Accounting Standards Board (GASB) Statement 45
  - All plans of state and local government entities that provide Other Postemployment Benefits (OPEB) are required to report the cost of these benefits on their financial statements
  - Requires public sector employers to conduct an actuarial valuation of their (OPEB)
  - Standardizes OPEB measurement and disclosure
  - Accurately quantify future financial liabilities
- Assists in budget forecasting
- Assists in understanding effect of past and current decisions
- Important tool for decision making

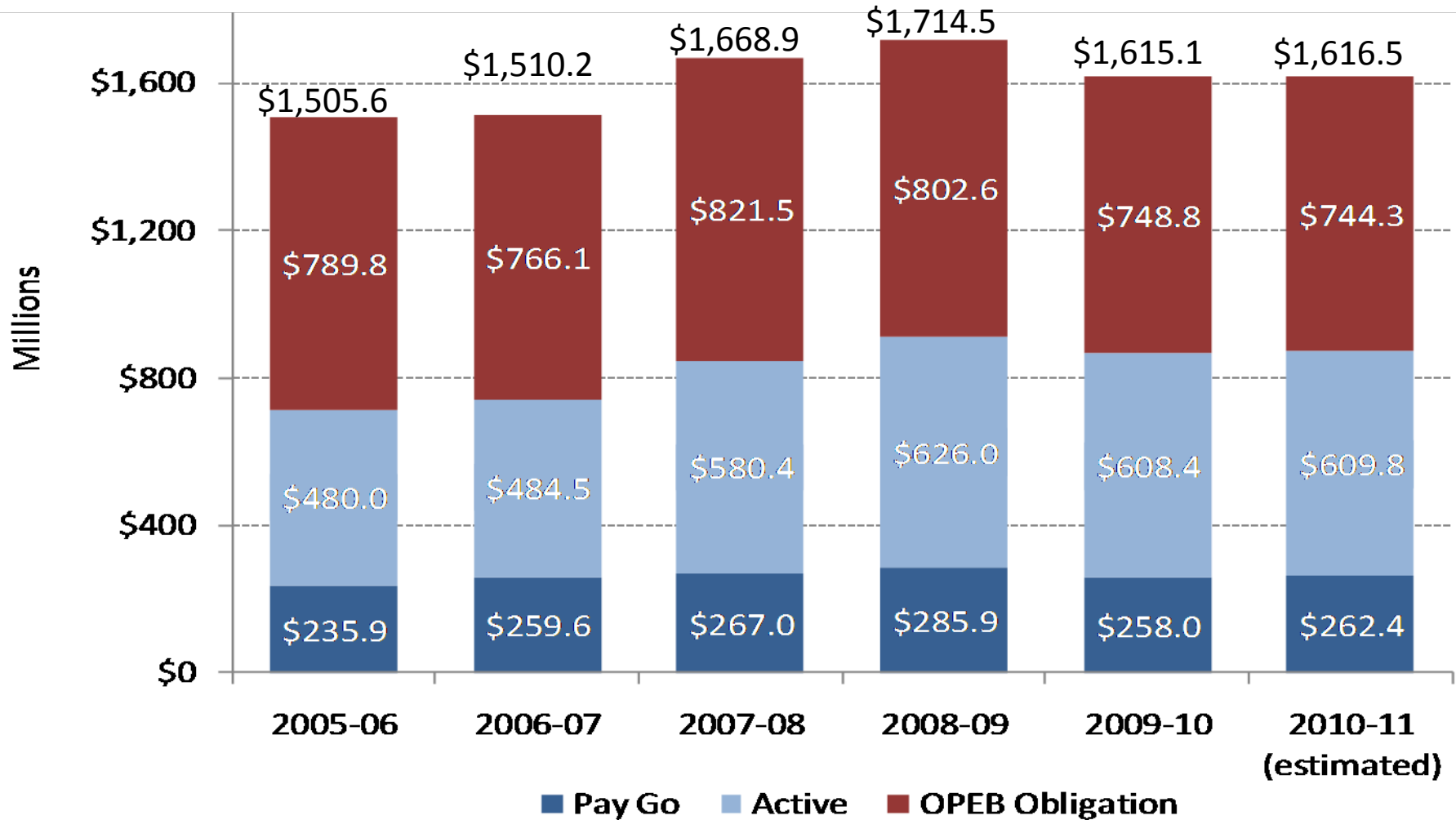
# OPEB Liability and Annual Required Contribution

- Total unfunded actuarial accrued liability (UAAL) as of June 30, 2009 is **\$9.9B**
- Annual required contribution (ARC) of \$1.0B is needed to fund the UAAL based on a 30 – year amortization
- District’s current funding policy is pay-as-you-go for OPEB
- District is beginning to set aside money to offset actuarial accrued liability
- Net OPEB liability increases each year if unfunded

Source: Buck Consultants GASB 43 &45 Valuation report as of June 30, 2009

# Fully Funding: H&W Expenditure including OPEB

Section IV: OPEB



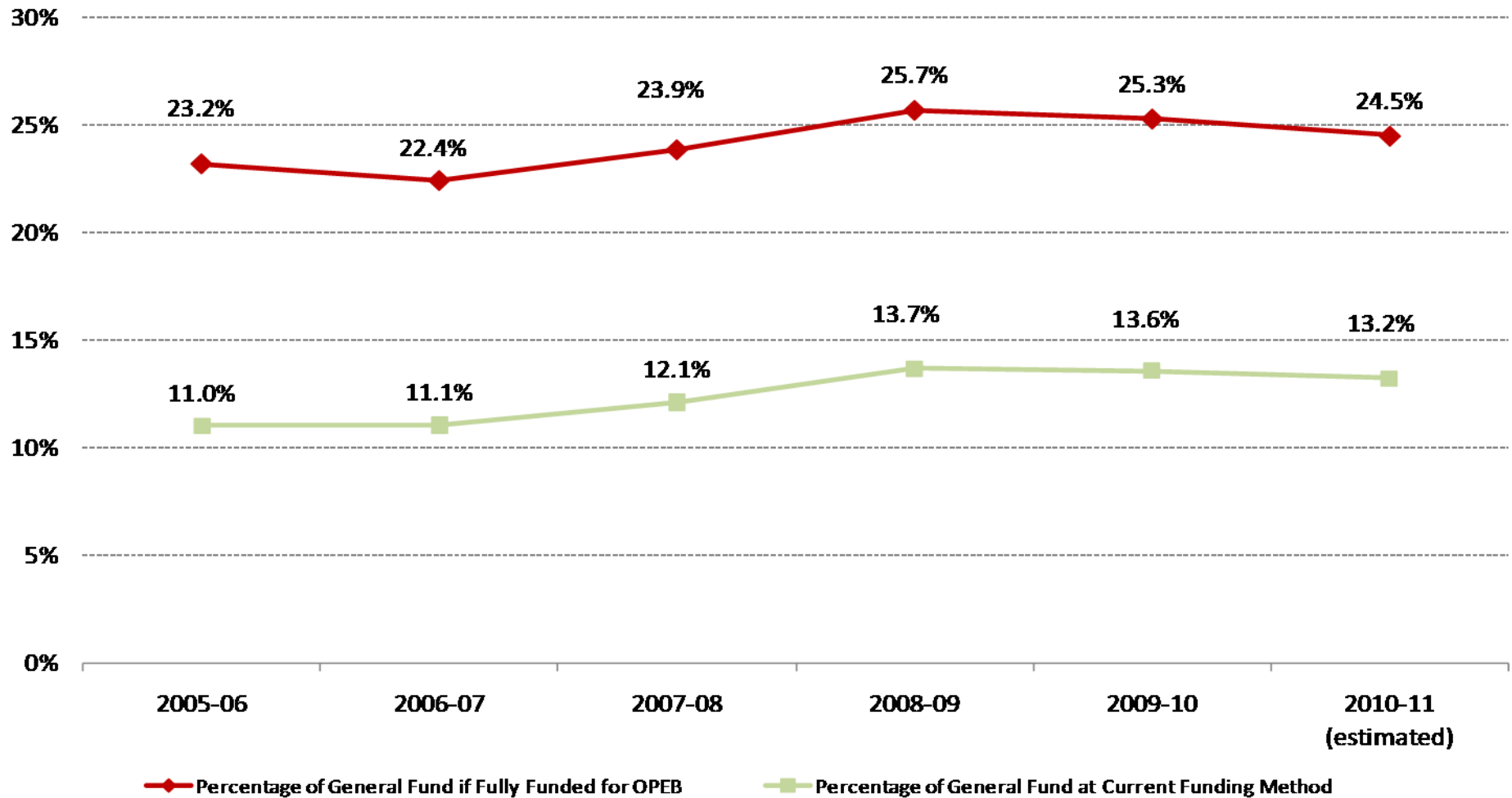
Source: The Segal Company Actuarial Valuation and Review of OPEB as of June 30, 2005 and June 30, 2007

Buck Consultants GASB 43 & 45 Valuation report as of June 30, 2009

The Segal Company Annual Projection dated 12/03/10

Superintendent's 2010-2011 Final Revised Budget, Superintendent's 2006-2007 Adopted Final Budget

# Fully Funded H&W including OPEB as Percentage of General Fund



Source: Superintendent's 2010-2011 Final Revised Budget, Superintendent's 2006-2007 Adopted Final Budget  
The Segal Company Actuarial Valuation and Review of OPEB as of June 30, 2005 and June 30, 2007  
Buck Consultants GASB 43 & 45 Valuation report as of June 30, 2009  
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## Section V: Health Benefits Committee (HBC)



## Section VI: Concerns

# Issues Impacting Cost of Retiree Health Benefits

- Retiree population continues to grow
- Active employee population decreases
- Average Daily Allowance (ADA) funding decreases as the number of students decrease



Thank You!