LACERA

February 9, 2021

TO: Each Trustee,
Board of Retirement

SUBJECT: Board of Retirement Meeting on February 11, 2021 – Item IV. CEO Update

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Following you will find additional information pertaining to the Board of Retirement meeting on February 11, 2021:

- Item IV. Chief Executive Officer Update: Long Term Care Carrier Ends Support for Monthly Payments – Impacting Small Number of LACERA Members Eligibility for $3,000 Tax Credit (Memo dated February 9, 2021)

LACERA

FOR INFORMATION ONLY

February 8, 2021

TO: Each Trustee,
Board of Retirement

FROM: JJ Popowich, Assistant Executive Officer JJ

SUBJECT: **Long Term Care Carrier Ends Support for Monthly Payments – Impacting Small Number of LACERA Members Eligibility for $3,000 Tax Credit**

In 2006, Congress passed the Pension Protection Act of 2006, which allowed retired public safety officers involved in law enforcement, firefighting, and rescue personnel (the federal definition which includes all LACERA safety members and a few general member classifications) to qualify for a $3,000 tax credit based on certain healthcare related costs, including Long Term Care insurance (LTC). The law included a requirement that the premiums for these services be paid directly from the retirement pension benefit to the carrier.

Following the passage of this law, LACERA created a program to support the law so that our retirees who qualified could take advantage of the tax benefit. This included LACERA engaging in a contractual or legal agreement with certain LTC carriers who provided services to our members. These were not arrangements where LACERA referred members to carriers or promoted carriers; these were agreements with carriers who members had independently sought out and obtained LTC policies from.

The agreements set out the parameters of the program and included releasing LACERA from liabilities, outlining how the carrier would provide us premium amounts, and how LACERA would pay the carrier. LACERA required the member be on a monthly premium schedule since our retiree payroll is on a monthly schedule. We also required the carrier to provide a single monthly list of premium changes and that the carrier accept a single check for all members with a report so they could apply the premiums appropriately among the members' accounts.

One of the carriers that signed an agreement with LACERA was Genworth. We have 27 members who have Genworth policies and participate in this program. These 27 members represent 41 individual policies since spouses are also covered.

In December, Genworth notified LACERA that they would terminate the agreement with us effective February 1, 2021 and would move all members to a quarterly billing system. In February, they finally notified their members that they would be changing the terms of their policy and moving them to a quarterly billing process and would no longer be able to support the monthly billing process. They did leave the door open for members to assign billing and payment responsibilities to a pension system. Under this process, the bills would be sent directly to the pension system on a quarterly basis 26 days before the premium is due, and the pension system would have to pay the premium amount for each policy separately by the due date. The carrier is not canceling their policies; they are simply changing the payment terms.

In order to provide some context to understand why Genworth has made this decision, I would like to share some history behind our relationship. First and foremost, Genworth has for some time expressed that they have a difficulty supporting the agreement between us because it is outside of their normal terms and conditions and billing processes. For the last several years we have worked hard to accommodate Genworth. We have spent considerable time reconciling monthly discrepancies in their reporting of premiums due. We have had to spend considerable resources working with members who reported missed premiums, incorrect premiums, and increases in premiums without proper notification by Genworth. In some cases, our member's policy was almost canceled due to the difficulties. We have not experienced these issues with any of the numerous other carriers we work with.

Upon notification of Genworth's new terms for their customers, LACERA reviewed the impacts this would have on our ability to support our members in a manner that would guarantee that their premiums would be paid without interruption and without negative impacts. The team reviewing the process was very focused on trying to find a way to support the process safely and was very aware of the potential loss of the tax credit for our members. However, after much deliberation, we determined that the risk and the impact of special processing for this new arrangement makes it unfeasible to support the change.

LACERA is not set up to pay members on a quarterly basis. In order to support these 27 members, we would need to manually process the changes outside of our normal procedures for this program or any other agency program for which we process payroll deductions. The time between receiving the member's billing notice and the cut off time for our monthly payroll process would be extremely short. If we do not receive the invoice before the 10th of the month, we cannot guarantee the payment would be made. Changing to a quarterly process would cause a significant fluctuation in a member's net benefit amount that could range anywhere from hundreds of dollars to over $2,000. Additionally, LACERA would no longer have liability protection as afforded by our agreement with the carrier and would have to seek liability releases from members for any problem resulting from Genworth's processing of their payment. Given the unreliable history we have had with Genworth, this is a significant issue.

LACERA will be contacting each of our members by phone and mail to let them know that Genworth has terminated their agreement with us and acknowledge we are aware they have received notification from Genworth about the changes to their payment agreements. We will advise the members we have reviewed Genworth's new conditions and determined that we cannot support a quarterly payment process. We also let them know that effective in February, they are responsible for paying Genworth directly.

We understand this will mean that members will no longer qualify for the $3,000 tax credit based on their LTC plans. We recognize this is an unfortunate situation, but we do not see how we can successfully support it. In the meantime, LACERA is working with the other carriers and will continue to support those members.

If you have any questions, please contact Santos or me.

Noted and Approved:

Santos H. Kreimann
Chief Executive Officer