# Los Angeles City Employees' Retirement System

## Part B Premium Reimbursement - Income Related Monthly Adjusted Amount (IRMAA) Study

This report has been prepared at the request of the Board of Administration to assist in administering the Fund. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Administration and may only be provided to other parties in its entirety, unless expressly authorized by Segal. The measurements shown in this actuarial valuation may not be applicable for other purposes.

Copyright © 2023 by The Segal Group, Inc. All rights reserved.

180 Howard Street, Suite 1100
San Francisco, CA 94105-6147
segalco.com
T 415.263.8200

VIA E-MAIL

May 26, 2023

Mr. Neil Guglielmo
General Manager
Los Angeles City Employees' Retirement System
977 North Broadway
Los Angeles, CA 90012-1728

**Re: Los Angeles City Employees' Retirement System (LACERS) - Impact of Increasing Retiree Part B Premium Reimbursements to Account for the Income Related Monthly Adjusted Amount (IRMAA).**

Dear Neil:

As requested by the LACERS Board of Administration, Segal has prepared an actuarial analysis of the financial impact of (1) increasing the Medicare Part B premium reimbursements provided to retirees with Medicare Parts A and B coverages to account for income related adjustments and (2) providing retirees with Medicare Part B only coverage base and income adjusted Part B premium reimbursements. The following analysis is based on membership information, assumptions and results developed for the June 30, 2022, actuarial valuation. Results will be provided for Parts 1 and 2 separately as well as the combined impact of adopting both Parts 1 and 2.

## Background

Unlike Medicare Part A, which is free for most enrollees, retirees are required to pay a monthly premium for Part B coverage. The base Part B premium for 2022 was $170.10 per month[1]. As shown in the following table, from www.cms.gov, the Part B premium is adjusted based on the retiree's income.

[1] The first year Part B reimbursement used in the June 30, 2022, OPEB valuation was $167.50, which reflects half a year of the 2022 premium ($170.10) and half a year of the 2023 premium ($164.90). Although the analysis in this memo was based on 2022 census data and 2022 retirement allowances, the liabilities presented reflect the decrease to the Part B premiums in 2023.

| Tax Payers who File Individual Tax Returns with Modified Adjusted Gross Income | Tax Payers who File Joint Tax Returns with Modified Adjusted Gross Income | Income Related Monthly Adjustment Amount (IRMAA) | Total Monthly Premium and IRMAA Premium Level |
|---|---|---|---|
| <= $91,000 | <= $182,000 | $0.00 | $170.10 |
| ($91,000, $114,000] | ($182,000, $228,000] | $68.00 | $238.10 - Level 1 |
| ($114,000, $142,000] | ($228,000, $284,000] | $170.10 | $340.20 - Level 2 |
| ($142,000, $170,000] | ($284,000, $340,000] | $272.20 | $442.30 - Level 3 |
| ($170,000, $500,000] | ($340,000, $750,000] | $374.20 | $544.30 - Level 4 |
| Over $500,000 | Over $750,000 | $408.20 | $578.30 - Level 5 |

## Part 1 – Retirees with Medicare Parts A & B

Currently, LACERS provides retirees who are enrolled in Medicare Parts A & B a Part B premium reimbursement equal to the base monthly premium, $170.10 per month in 2022. This proposal would increase the Part B premium reimbursement from the basic premium to the lesser of (1) their actual premium paid, or (2) the IRMAA level premium corresponding to their LACERS retirement allowance based on the individual filing table. For example, a retiree filing individually who has a $200,000 per year income comprised of a LACERS pension benefit of $140,000 per year and income from other sources of $60,000 per year would receive a reimbursement equal to the lesser of (1) their actual premium of $544.30 per month (based on total income) or (2) $340.20 per month (based on their LACERS retirement allowance and the individual filing table). For retirees filing individual tax returns, the IRMAA level premium based on their LACERS retirement allowance will be less than or equal to their actual Part B premium because their LACERS retirement allowance will be less than or equal to their total retirement income.

However, for married members, it is possible for their actual premium to be lower than the IRMAA level premium corresponding to their LACERS retirement allowance based on the individual filing table. Suppose the retiree in the example above had the same LACERS pension benefit of $140,000 per year but was married. Further assume that the total household income for the couple was $200,000 per year. In that case, the monthly reimbursement from LACERS would be the lesser of (1) the actual premium paid of $238.10 (based on total income and joint tax return income level) or (2) $340.20 per month (based on their LACERS retirement allowance and the individual filing table). Even though the description of the benefit enhancement references the individual filing table and only the LACERS retirement allowance, the “lesser of their actual premium paid” language results in the retiree’s filing status (and household income if married) being relevant to this analysis.

LACERS staff has requested Segal to provide five scenarios for consideration. Each scenario incorporates an additional maximum or cap related to the 5 IRMAA premium levels. For example, the first scenario would provide a Part B premium reimbursement that is the lesser of (1) the actual premium paid or (2) the IRMAA level premium corresponding to their LACERS retirement allowance based on the individual filing table, or (3) the IRMAA level 1 premium ($238.10 per month). The second scenario would replace the maximum in part (3) of the prior sentence with the IRMAA level 2 premium, and so on. Because the fifth scenario uses the highest IRMAA premium, it is essentially the uncapped or no-limit scenario.

The following table provides the impact of these scenarios on the Unfunded Actuarial Accrued Liability (UAAL), the Funded Ratio, and the Actuarially Determined Employer Contribution[2] (ADC) from the June 30, 2022, OPEB valuation report for the total Plan (i.e., Tier 1 and 3 combined.

### Table 1 – IRMAA Enhancements for Retirees eligible for Medicare Parts A and B

| Unfunded Actuarial Accrued Liability and Funded Status ($ in millions) | June 30, 2022 Valuation | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
|---|---|---|---|---|---|---|
| 1. Actuarial Accrued Liability | $ 3,580.7 | $ 3,607.8 | $ 3,625.9 | $ 3,632.5 | $ 3,634.9 | $ 3,634.9 |
| 2. Actuarial Value of Assets | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 |
| 3. Unfunded Actuarial Accrued Liability | $ 107.7 | $ 134.8 | $ 152.9 | $ 159.6 | $ 161.9 | $ 161.9 |
| ***4. Increase to UAAL*** | ***$ -*** | ***$ 27.1*** | ***$ 45.2*** | ***$ 51.8*** | ***$ 54.2*** | ***$ 54.2*** |
| 5. Funded Ratio | 96.99% | 96.26% | 95.78% | 95.61% | 95.55% | 95.55% |
| **Acturaially Determined Contribution ($ in millions)** | | | | | | |
| 6. Normal Cost from June 30, 2022 Valuation | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 |
| 7. Amortization of June 30, 2022 UAAL | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 |
| 8. Additional Normal Cost from plan change | - | 0.6 | 1.0 | 1.2 | 1.2 | 1.2 |
| 9. 15-Year Amortization of plan change | - | 2.3 | 3.8 | 4.4 | 4.6 | 4.6 |
| 10. Total ADC (BOY) | $ 88.4 | $ 91.3 | $ 93.3 | $ 94.0 | $ 94.2 | $ 94.2 |
| 11. Total ADC (BOY) as % of Payroll | 3.92% | 4.04% | 4.13% | 4.16% | 4.17% | 4.17% |
| 12. Total ADC (July 15) | $ 88.7 | $ 91.6 | $ 93.5 | $ 94.2 | $ 94.5 | $ 94.5 |
| 13. Total ADC (July 15) as % of Payroll | 3.93% | 4.05% | 4.14% | 4.17% | 4.18% | 4.18% |
| 14. Total ADC (end of pay period) | $ 91.5 | $ 94.5 | $ 96.5 | $ 97.2 | $ 97.5 | $ 97.5 |
| 15. Total ADC (end of pay period) as % of Payroll | 4.05% | 4.18% | 4.27% | 4.30% | 4.32% | 4.32% |
| ***16. Increase to ADC (July 15)*** | | ***$ 2.9*** | ***$ 4.8*** | ***$ 5.5*** | ***$ 5.8*** | ***$ 5.8*** |
| ***17. Increase to ADC (July 15) as % of Payroll*** | | ***0.12%*** | ***0.21%*** | ***0.24%*** | ***0.25%*** | ***0.25%*** |

[2] This is equal to the normal cost plus the UAAL contribution rate.

As shown in Table 1 above, the Unfunded Actuarial Accrued Liability increases by $27.1 million in Scenario 1 and up to $54.2 million in Scenario 5. A $54.2 million increase represents an increase of 1.5% to the overall actuarial accrued liability. Scenarios 4 and 5 are identical because no LACERS retirement allowance for current Parts A and B retirees exceeded $500,000. The ADC (assuming July 15 payment) when expressed as a percentage of payroll was 3.93% before any change and ranges from 4.05% in Scenario 1 to 4.18% in Scenario 5. Per LACERS' funding policy, the additional accrued liability resulting from the IRMAA enhancement (Plan Amendment) would be amortized over a 15-year period. Row 8 provides the impact on the plan's normal cost. The higher normal cost would be an ongoing cost that would continue after the 15-year period needed to fund the impact on the UAAL. Row 9 provides the UAAL amortization cost related to the IRMAA plan change. The amortization costs related to the enhancement are the bulk of the increase to the ADC and would end once the 15-year amortization period is over. In dollar terms, the July 15 ADC increases range from $2.9 million in Scenario 1 to $5.8 million in Scenario 5.

The following table provides the distribution of the current 9,688 Medicare A & B retirees (over 65 as of June 30, 2022), based on how their LACERS retirement allowance relates to the individual income brackets used to determine the IRMAA levels.

| 2022 LACERS Retirement Allowance | IRMAA Premium Level | Number of Current Medicare A & B Retirees | Percentage of Total |
|---|---|---|---|
| <= $91,000 | Base | 8,223 | 85% |
| ($91,000, $114,000] | $238.10 - Level 1 | 802 | 8% |
| ($114,000, $142,000] | $340.20 - Level 2 | 392 | 4% |
| ($142,000, $170,000] | $442.30 - Level 3 | 182 | 2% |
| ($170,000, $500,000] | $544.30 - Level 4 | 89 | 1% |
| Over $500,000 | $578.30 - Level 5 | 0 | 0 |
| | Total | 9,688 | 100% |

8,233 (85%) of the 9,688 current Medicare A & B retirees receive a LACERS retirement benefit that is less than or equal to $91,000. These retirees would not be impacted by the IRMAA enhancement. Of the 1,465 retirees (15%) who could potentially receive an IRMAA enhancement based on their LACERS retirement allowance, 1,038 (71%) are married or have a domestic partner. As noted earlier, the actual premium for a married retiree could be less than the IRMAA level premium corresponding to their LACERS retirement allowance based on the individual filing table. We relied on the LACERS pension data to determine which retirees are married (filing a joint tax return) but needed to make assumptions about household income to assess how household income could affect the results. After taking into consideration that LACERS employees do not contribute to Social Security, the population that is impacted are high earners, and that roughly 72% of the Part A & B retirees who have a LACERS retirement allowance that exceeds $91,000 per year are males; we estimated household income to be 1.8 times each retiree's LACERS retirement allowance. It's worth noting that an estimate of 2.0 for household income (as a ratio of LACERS retirement allowance) provides the largest liability and any parameter for household income that's greater than 2.0 times the LACERS retirement allowance produces the same results as using the 2.0 assumption. We believe using a factor of 2.0 would be overly conservative and that a factor of 1.8 is more reasonable and still includes some margin for conservatism. To help illustrate the sensitivity of this assumption, we note that an assumption of 1.5 for household income (as a ratio of LACERS retirement allowance) would have produced an additional UAAL of $36.1 million in Scenario 5 (versus $54.2 million) and a July 15 ADC of 4.10% instead of 4.18%.

## Part 2 – Retirees with Medicare Part B Only

Currently, eligible retirees with Medicare Part B only coverage receive health and dental subsidies but are not eligible for a Part B premium reimbursement. In the June 30, 2022, OPEB valuation, there were 1,375 retirees over the age of 65 with Part B plans or Part B waiver plans (583 Part B + 792 Part B waiver coverage) who were not receiving a Part B reimbursement. Part 2 of this analysis provides six scenarios. The first scenario determines the financial impact of providing the 1,375 Part B only retirees the base Part B premium. The additional scenarios are labeled Scenarios 1 through 5 because they reflect the impact of also reimbursing income related adjustments, in a manner similar to the five scenarios in Part 1.

## Table 2 - IRMAA Enhancements for Retirees eligible for Medicare Part B Only

| Unfunded Actuarial Accrued Liability and Funded Status ($ in millions) | June 30, 2022 Valuation | Base Part B Premium Only | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
|---|---|---|---|---|---|---|---|
| 1. Actuarial Accrued Liability | $ 3,580.7 | $ 3,612.3 | $ 3,615.0 | $ 3,616.6 | $ 3,617.2 | $ 3,617.3 | $ 3,617.3 |
| 2. Actuarial Value of Assets | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 |
| 3. Unfunded Actuarial Accrued Liability | $ 107.7 | $ 139.3 | $ 142.0 | $ 143.7 | $ 144.2 | $ 144.3 | $ 144.3 |
| ***4. Increase to UAAL*** | ***$ -*** | ***$ 31.6*** | ***$ 34.3*** | ***$ 35.9*** | ***$ 36.5*** | ***$ 36.6*** | ***$ 36.6*** |
| 5. Funded Ratio | 96.99% | 96.14% | 96.07% | 96.03% | 96.01% | 96.01% | 96.01% |
| **Acturaially Determined Contribution ($ in millions)** | | | | | | | |
| 6. Normal Cost from June 30, 2022 Valuation | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 |
| 7. Amortization of June 30, 2022 UAAL | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 |
| 8. Additional Normal Cost from plan change | - | - | - | - | - | - | - |
| 9. 15-Year Amortization of plan change | - | 2.7 | 2.9 | 3.0 | 3.1 | 3.1 | 3.1 |
| 10. Total ADC (BOY) | $ 88.4 | $ 91.1 | $ 91.3 | $ 91.5 | $ 91.5 | $ 91.5 | $ 91.5 |
| 11. Total ADC (BOY) as % of Payroll | 3.92% | 4.03% | 4.04% | 4.05% | 4.05% | 4.05% | 4.05% |
| 12. Total ADC (July 15) | $ 88.7 | $ 91.4 | $ 91.6 | $ 91.7 | $ 91.8 | $ 91.8 | $ 91.8 |
| 13. Total ADC (July 15) as % of Payroll | 3.93% | 4.04% | 4.05% | 4.06% | 4.06% | 4.06% | 4.06% |
| 14. Total ADC (end of pay period) | $ 91.5 | $ 94.2 | $ 94.5 | $ 94.6 | $ 94.7 | $ 94.7 | $ 94.7 |
| 15. Total ADC (end of pay period) as % of Payroll | 4.05% | 4.17% | 4.18% | 4.19% | 4.19% | 4.19% | 4.19% |
| ***16. Increase to ADC (July 15)*** | | ***$ 2.7*** | ***$ 2.9*** | ***$ 3.0*** | ***$ 3.1*** | ***$ 3.1*** | ***$ 3.1*** |
| ***17. Increase to ADC (July 15) as % of Payroll*** | | ***0.11%*** | ***0.12%*** | ***0.13%*** | ***0.13%*** | ***0.13%*** | ***0.13%*** |

As shown in Table 2 above, the Unfunded Actuarial Accrued Liability increases by $31.6 million in the initial scenario (Base Part B premium reimbursement provided to the Part B only retirees). The additional UAAL increases to $36.6 million Scenario 5. A $36.6 million increase represents an increase of 1.0% to the overall actuarial accrued liability. The July 15 ADC as a percentage of payroll was 3.93% before any change and ranges from 4.04% in the initial scenario up to 4.06% in Scenario 5. In dollar terms, the increase to the July 15 ADC ranges from $2.7 million to $3.1 million. No additional normal cost was modeled for Part 2 because all current active employees are assumed to be eligible for Medicare Parts A and B. Similarly, all inactive vested members and retirees who were younger than 65 are assumed to be eligible for Medicare Parts A and B at age 65. Table 2 incorporates the same 1.80 ratio for estimating household income for married individuals.  An assumption of 1.5 for household income (as a ratio of LACERS retirement allowance) would have produced an additional UAAL of $35.4 million in Scenario 5 (versus $36.6 million) and the same July 15 ADC of 4.06% for Scenario 5.

| 2022 LACERS Retirement Allowance | IRMAA Premium Level | Number of Current Medicare A & B Retirees | Percentage of Total |
|---:|---:|---:|---:|
| <= $91,000 | Base | 1,045 | 76% |
| ($91,000, $114,000] | $238.10 - Level 1 | 177 | 13% |
| ($114,000, $142,000] | $340.20 - Level 2 | 100 | 7% |
| ($142,000, $170,000] | $442.30 - Level 3 | 34 | 2% |
| ($170,000, $500,000] | $544.30 - Level 4 | 19 | 1% |
| Over $500,000 | $578.30 - Level 5 | 0 | 0 |
| | Total | 1,375 | 100% |

The table above shows that 1,045 (76%) of the 1,375 current Medicare Part B only retirees receive a LACERS retirement benefit that is less than or equal to $91,000. These retirees would not be impacted by the IRMAA enhancements. However, all 1,375 would benefit from receiving the base Part B premium reimbursement which they currently do not receive.

## Part 3 – Combined Impact of Part 1 and Part 2 Enhancements

### Table 3 – Base Part B Premium Enhancement for Retirees with Part B Only and IRMAA Enhancements for both Retirees with Parts A & B and Retirees with Part B Only

| Unfunded Actuarial Accrued Liability and Funded Status ($ in millions) | June 30, 2022 Valuation | Base Part B Premium Only | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
|---|---:|---:|---:|---:|---:|---:|---:|
| 1. Actuarial Accrued Liability | $ 3,580.7 | $ 3,612.3 | $ 3,642.1 | $ 3,661.8 | $ 3,669.0 | $ 3,671.5 | $ 3,671.5 |
| 2. Actuarial Value of Assets | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 | $ 3,473.0 |
| 3. Unfunded Actuarial Accrued Liability | $ 107.7 | $ 139.3 | $ 169.1 | $ 188.9 | $ 196.0 | $ 198.5 | $ 198.5 |
| ***4. Increase to UAAL*** | ***$ -*** | ***$ 31.6*** | ***$ 61.4*** | ***$ 81.1*** | ***$ 88.3*** | ***$ 90.8*** | ***$ 90.8*** |
| 5. Funded Ratio | 96.99% | 96.14% | 95.36% | 94.84% | 94.66% | 94.59% | 94.59% |
| **Acturaially Determined Contribution ($ in millions)** | | | | | | | |
| 6. Normal Cost from June 30, 2022 Valuation | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 | $ 81.0 |
| 7. Amortization of June 30, 2022 UAAL | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 |
| 8. Additional Normal Cost from plan change | - | - | 0.6 | 1.0 | 1.2 | 1.2 | 1.2 |
| 9. 15-Year Amortization of plan change | - | 2.7 | 5.2 | 6.9 | 7.5 | 7.7 | 7.7 |
| 10. Total ADC (BOY) | $ 88.4 | $ 91.1 | $ 94.2 | $ 96.3 | $ 97.1 | $ 97.3 | $ 97.3 |
| 11. Total ADC (BOY) as % of Payroll | 3.92% | 4.03% | 4.17% | 4.26% | 4.30% | 4.31% | 4.31% |
| 12. Total ADC (July 15) | $ 88.7 | $ 91.4 | $ 94.5 | $ 96.6 | $ 97.3 | $ 97.6 | $ 97.6 |
| 13. Total ADC (July 15) as % of Payroll | 3.93% | 4.04% | 4.18% | 4.28% | 4.31% | 4.32% | 4.32% |
| 14. Total ADC (end of pay period) | $ 91.5 | $ 94.2 | $ 97.5 | $ 99.6 | $ 100.4 | $ 100.7 | $ 100.7 |
| 15. Total ADC (end of pay period) as % of Payroll | 4.05% | 4.17% | 4.32% | 4.41% | 4.44% | 4.46% | 4.46% |
| ***16. Increase to ADC (July 15)*** | | ***$ 2.7*** | ***$ 5.8*** | ***$ 7.9*** | ***$ 8.6*** | ***$ 8.9*** | ***$ 8.9*** |
| ***17. Increase to ADC (July 15) as % of Payroll*** | | ***0.11%*** | ***0.25%*** | ***0.35%*** | ***0.38%*** | ***0.39%*** | ***0.39%*** |

As shown in Table 3, the Unfunded Actuarial Accrued Liability increases by $31.6 million in the initial scenario (Base Part B premium reimbursement provided to the Part B only retirees). Because this first scenario is unique to Part 2 of the analysis, the initial scenario in the combined table is identical to the initial scenario in Part 2. The additional UAAL increases to $90.8 million in Scenario 5. A $90.8 million increase represents an increase of 2.5% to the overall actuarial accrued liability. The July 15 ADC when expressed as a percentage of payroll was 3.93% before any change and ranges from 4.04% in the initial scenario up to 4.32% in Scenario 5. In dollar terms, the increase to the July 15 ADC ranges from $2.7 million to $8.9 million. Table 3 incorporates the 1.80 ratio for estimating household income for married individuals. An assumption of 1.5 for household income (as a ratio of LACERS retirement allowance) would have produced an additional UAAL of $71.5 million in Scenario 5 (versus $90.8) and a July 15 ADC of 4.23% instead of 4.32%.

**Data, Assumptions and Methods**

The analysis provided is based on membership information, assumptions and results developed for the June 30, 2022, OPEB actuarial valuation. Data for retirement allowance and marital status was gathered from the June 30, 2022, LACERS pension valuation data. For Part 1 of the analysis, we assumed the IRMAA enhancements for active employees, inactive vested members, and retirees who are under the age of 65 as of June 30, 2022, will have a similar distribution as the IRMAA levels for current Medicare A & B retirees over the age of 65 as of June 30, 2022 . In other words, the liability increase for the current Medicare A & B retirees was used to model the costs of the Part B reimbursements for future Medicare A & B retirees. Part B reimbursements are currently not provided to survivors or dependents, and we have assumed that is also the case for these proposed enhancements. We assumed the benefit enhancements will be effective July 1, 2023. A delay of an extra year would not have produced materially different results. The 1.8 factor used to estimate household income for married participants is discussed on page 4. Finally, we assumed the post-July 1 LACERS retirement allowances after cost-of-living-adjustment (COLA) would be used to set the Part B subsidies for the 12-month period beginning July 1 to the following June 30. In other words, we used a conservative assumption regarding the administration of the benefit and how the timing of the LACERS COLA will interact with the proposed IRMAA enhancements.

The undersigned are members of the American Academy of Actuaries and are collectively qualified to render the actuarial opinion contained herein. We look forward to discussing these results with you. Please let us know if you have any questions.

Sincerely,

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President & Actuary

Andy Yeung, ASA, EA, MAAA, FCA
Vice President & Actuary

Mehdi Riazi, FSA, EA, MAAA, FCA
Vice President & Consulting Actuary

AYY/jl/hy

5761455v3/05806.015