



March 30, 2015

Dr. Richard A. Vladovic, President  
LOS ANGELES UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION  
333 S. Beaudry Avenue, 24<sup>th</sup> Floor  
Los Angeles, CA 90017

Mr. Ramon C. Cortines  
LOS ANGELES UNIFIED SCHOOL DISTRICT  
333 South Beaudry Avenue, 24<sup>th</sup> Floor  
Los Angeles, CA 90017

Re: **Health Benefits Agreement Covering 2015 and 2016-2017 Calendar Years**  
**(LAUSD and Unions/Associations Representing District Employees)**

Gentlemen:

This letter sets forth the key provisions that the District-wide HBC proposes for a successor Health and Welfare Benefits Agreement covering the 2016 and 2017 calendar years. The HBC also proposes an additional Plan year (2018) that is contingent on certain agreed-upon criteria that would be determined by no later than August 1, 2017. We also summarize the key economic terms that apply to the current 2015 Plan year.

The current estimated contribution amounts will be adjusted for enrollment changes in each of the three categories of participants (active employees, pre-Medicare enrollees, and Medicare enrollees), and the stated percentage amounts will be applied to the prior year's (2014) per-participant contribution amounts \$ 10,592.77 for actives; \$15,910.18 for Pre-Medicare eligibles; and \$7,544.96 for Medicare eligibles) to determine the actual total annual contributions. Using those base amounts, the District's estimated contributions will be as follows:

For 2015, the District's estimated aggregate contribution to the Plan will be \$1.029 billion, which is an increase of \$51 million over the 2014 total contribution, a 5.2% increase. As required by the 2012-14 Health Benefits Agreement, the increase is funded by equal contributions by the District and the HBC Reserve Fund.

For 2016, the District's estimated aggregate contribution to the Plan will be \$1.095 billion, which is an increase of \$67 million (6.5%) over the total contribution for 2015.

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For 2017, the District's estimated aggregate contribution to the Plan will be \$1.1629 billion, which is an increase of \$67.9 million (6.1%) over the total contribution for 2016.

With reference to sections I (4.) and II (4.) as contained in the current Health Benefits Agreement between the parties, which sets forth the methodology to define the District total annual contribution, the parties agree to modify and revise those sections from the current annual November calculation date. To wit, the parties agree that the total net cost shall be based on the annual per capita cost of the active employees plus the actual cost of retirees compared to the previous year's cost per capita cost multiplied times the actual enrollment for active and retired participants. Increases or decreases in active or retired employee enrollment will not be the risk of either party, only the increase in per capita costs.

**HBC Reserve Account Contributions:** Our proposal would also require contributions to be drawn from the HBC reserve account to assist in funding the above contribution increases (including the 2015 contribution) up to a maximum total cumulative amount of \$147 million, to be distributed equitably over the three year period (2015-2017) commencing with the 2015 Plan year. The \$147 million dollar amount is based upon an estimated Reserve Fund as of March 1, 2015 of \$308.5 million dollars. Should this Agreement be extended to the 2018 Plan year, the total amount expended by the Reserve Fund shall be \$181 million. In any event, regarding the draw down from the Reserve Fund, the balance in the Reserve Fund shall be no lower than \$160 million at the end of this Agreement, which is December 31, 2017, or if extended to the 2018 Plan year, December 31, 2018. [Please see attached illustration, "Reserve Fund Expenditures."]

In addition, the HBC Unions have agreed to the implementation of the Employer Group Waiver Plan (EGWP) for the retired, Medicare Eligible participants in the Anthem EPO Plan. It is further agreed that the savings generated by this program may be utilized by the District to contribute to its total contribution amounts for the 2016 Plan year, for the 2017 Plan year, the savings generated by the EGWP shall be applied and transferred to the Reserve Fund. If the Agreement is extended by an additional year (2018) the total savings generated by the EGWP over the term of the Agreement shall be applied to and transferred to the Reserve Fund.

**Reducing GASB Liability of the District:** The District and the HBC agree to continue to make every effort with respect to the exploration of methods to reduce active employee or retiree costs and to bring about the potential to lower the liability reported under the Governmental Accounting Standards Board Statement 45 (GASB) with respect to the liability for retiree medical benefits as well as identify various incentives that encourages the HBC to look at and implement additional means of lowering these costs.

With respect to lowering the liability reported under the Government Accounting Standards Board (GASB) it is agreed that the HBC will on an immediate and ongoing basis undertake the necessary measures to reduce the current liability by a total of 20% to be attained no later than January 1, 2018. If, near the end of the 2017 Plan year (August 1, 2017) it is estimated that the increase in cost is 4.5% or less of the estimated increase of 6.1%, and if the Plan achieves the 20% reduction in the GASB liability referenced above this Agreement shall automatically be extended through the 2018 Plan year.

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It is understood and agreed that as a result of the implementation of the EGWP referenced above, the liability is estimated to be reduced by at least 10%. This reduction of at least 10% is applicable and shall be applied to the 20% commitment that shall be attained by January 1, 2018. It is currently estimated that the EGWP will reduce Plan costs by \$22 million each year commencing with the January 1, 2016 Plan year.

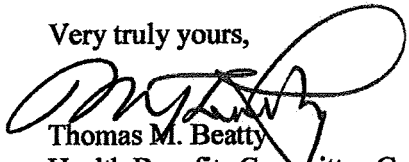
In the event the HBC fails to implement the necessary changes to reach the 20% reduction in the OPEB liability referenced above, or if the actual increase in costs for 2018 is estimated to be more than 4.5%, the Health Benefits Agreement may be reopened by the District. After consultation with all the HBC Unions and discussion at a regularly scheduled HBC meeting, the District may reopen by providing notice to each of the HBC Unions, in writing, by no later than August 1, 2017.

In addition, the District may reopen the Health Benefits Agreement for the 2018 Plan Year if the LCFF GAP Closed Percentage for the 2017-2018 California State Budget is less than 26.43%. For purposes of this MOU, LCFF GAP Closed Percentage is the percentage calculated by the California Department of Finance and referenced in the FCMAT LCFF Calculator. The current LCFF GAP Closed Percentages are as follows: 32.19% for 2015-2016; 23.71% for 2016-2017; 26.43% for 2017-2018. (Notice of reopener under this provision must also be provided by no later than August 1, 2017.)

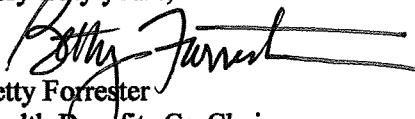
The substance of the 2012-14 Agreement shall be extended to cover the above-indicated years, and upon agreement the parties should promptly be turning to drafting language to implement the above-described changes.

Please sign below to indicate the tentative agreement of the parties to the above terms and conditions. This tentative agreement is subject to ratification by the HBC Unions/Associations, and adoption by the District Board of Education.

Very truly yours,

  
Thomas M. Beatty  
Health Benefits Committee Co-Chair

Very truly yours,

  
Betty Forrester  
Health Benefits Co-Chair

It is so agreed:

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For LAUSD

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Date

cc: HBC Unions/Associations  
Jesus E. Quinonez, Esquire