

PNNL Retiree Communications Forum

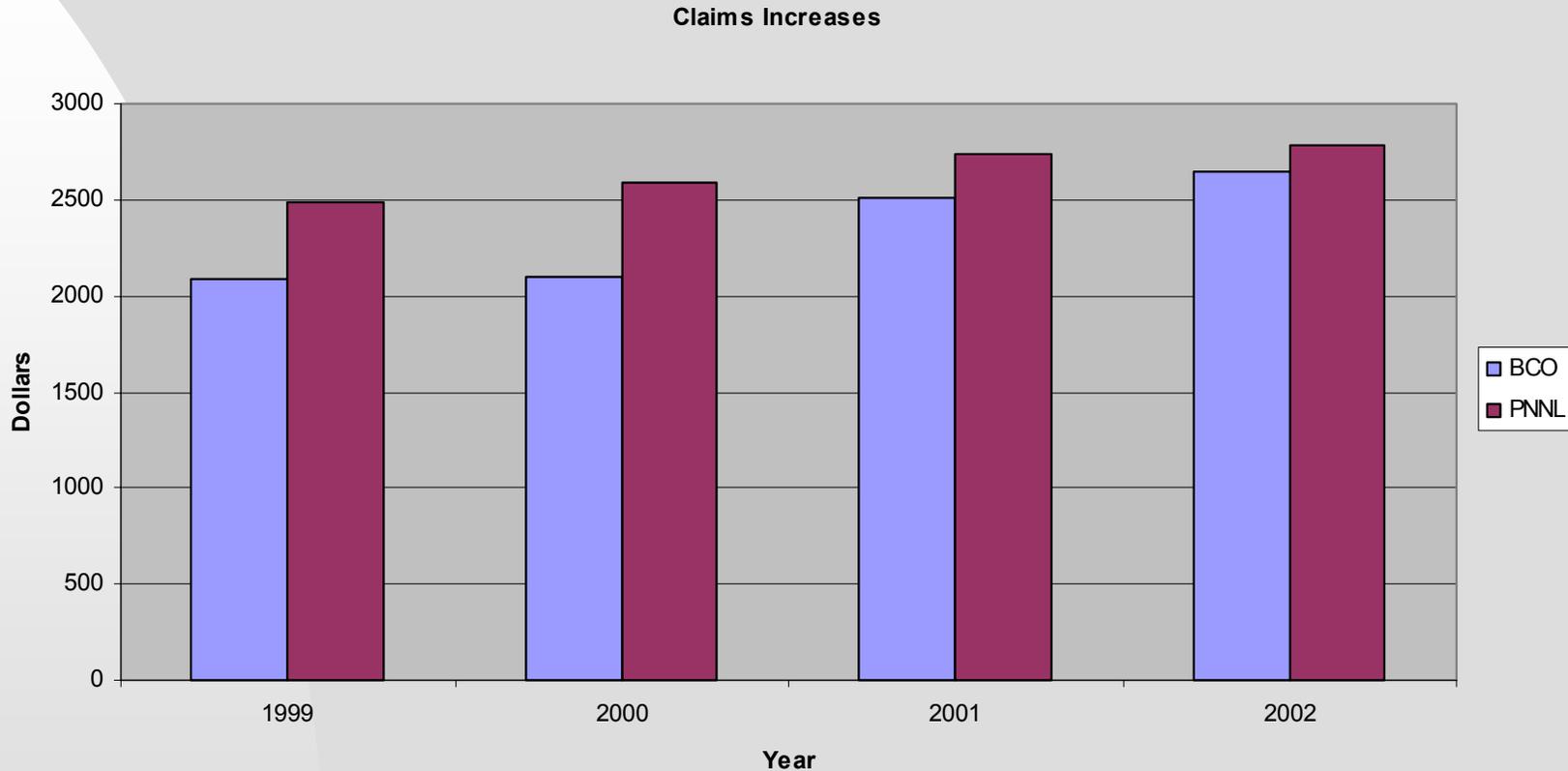
Malesa Litteral
Manager, Benefits Finance and
Corporate Plan Administrator

April 14, 2003
EMSL, PNNL

Plan Financial Background

- Retiree Group Medical Costs
- Trends
- Defined Subsidy with 5% Cap
- Premium Determination

Retiree Group Medical Costs



Retiree Group Medical Costs (cont.)

Percentage increases since 1999:

BMI Retirees = 18.5%

PNNL Post-65 = 30.7%

PNNL Pre-65 = Experience volatile
but recently flat

Trends

- Retiree plan costs rising dramatically – double digit increases in retiree medical inflation expected to continue
- Number of future Battelle retirees expected to double due to large number of eligible staff and longer life expectancies
- Retiree cost share increasing nationally
Percentage of large private sector employers maintaining retiree health plans raising:
 - Retiree premiums = 82%
 - Deductibles = 75%
 - Physician copays = 71%
 - Out-of-pocket limits = 66%
 - Hospital copays = 58%
- Retiree plan terminations

Defined Subsidy with 5% Cap

Defined Medical  Defined Dollar

1994: Accounting change requires reporting/disclosure of future liability for retiree medical = Total costs for benefits paid plus present value of projected future liabilities for current and future retirees

Defined Medical Benefit – Employer pays for specified medical services
Defined Dollar Benefit – Employer pays fixed dollar amount towards benefits.
Retirees pick up difference.

Defined Subsidy with 5% Cap (cont.)

- Battelle recognized business could not support the increased liabilities
- Established a defined subsidy for retiree medical benefits with limited maximum annual inflation of 5%
- 1998 – defined subsidy with maximum 5% annual inflation adopted for PNNL retirees per DOE's recognition of future liabilities. Pension COLA adopted to mitigate impact.

Premium Determination

- Premiums are based on estimated retiree medical claims:

Total Claims/Life – Battelle's Subsidy = Premium

- If medical claims exceeds estimates, additional costs are added to premiums for following year

(Total Claims/Life + Prior year overages) – Battelle's Subsidy = Premium

- Lower claims are reserved to help hedge future cost increases

(Total Claims/Life – Mitigating Amounts) – Battelle's Subsidy = Premium

Application of Subsidy and Effect of Increased Claims Costs

As an example, start with \$150 total claims cost per life, with \$100 Battelle subsidy and \$50 retiree premium. If claims costs increase 9% for the next year, retiree premiums will increase 17% to \$58.50.

Total claims cost = $\$150 + 9\% = \163.50

Battelle subsidy = $\$100 + 5\% = \105

Retiree contribution = $\$163.50 - 105 = \58.50

Impact of 5% Cap

- Over time, to the extent increases in claims costs exceed 5% increase in the subsidy, participants will share an increasingly larger share of the total plan costs.
- Variables in the equation are reduction in claims costs or increase in retiree premiums

Meeting with PNNL Retirees

John Ennis

Manager, Benefits Administration

April 14, 2003

Retiree Medical History

- ▶ Unsubsidized until about 1979
- ▶ Benefits Council recommended 70% subsidy
- ▶ January 1994 – In response to growing cost liability for Retiree Medical
 - BCO implemented 5% cap on Battelle subsidy
 - Service-based, prorated premium subsidy for staff under age 45 on December 31, 1993
- ▶ PNNL implemented above changes January 1999

Benefits Council

- ▶ Originally chartered in 1976 by Ron Paul
- ▶ Renewal of purpose and objectives in 1989 by Bob Smith
- ▶ Purpose, mission and constituency reconfirmed with PNNL in 1993

Benefits Council Key Objectives

- ▶ Review plans for adequacy
- ▶ Monitor trends
- ▶ Develop consistency of applications in procedures and practices
- ▶ Analyze and recommend new plans and modifications to existing plans
- ▶ Ensure consolidation and annual reporting of components
- ▶ Develop an evolving benefit philosophy
- ▶ Develop a long-range strategy
- ▶ Recommend benefits eligibility for categories of staff
- ▶ Create and task committees as appropriate

Benefits Council 2003 Membership

- ▶ Roger Ballard Retired Assistant Treasurer
- ▶ Tom Baranouskas PNNL CFO
- ▶ Lynn Davison Director, Information Management
- ▶ John Ennis Director, Benefits Administration
- ▶ Bob Lincoln Director, BCO Human Resources
- ▶ Paula Linnen Director, PNNL Human Resources
- ▶ Lesa Litteral Manager Benefits Finance and ERISA Plan Counsel
- ▶ Steve Valentine Vice President – Corporate Controller and Assistant Treasurer

Summary of Changes for 2003

- ▶ UnitedHealthcare (UHC) has been selected to replace Benesight as our new national health and dental plans' administrator
- ▶ Retail prescription drug benefits has added a new out-of-pocket maximum limit
- ▶ No longer need to file claims for retail prescriptions
- ▶ Retail prescription drug program has limited prescriptions to one-month supply

Summary of Changes for 2003 (continued)

- ▶ Coordination of benefits method has changed from a supplement-type method to a non-duplication method (the method used by most organizations who continue to offer retiree medical benefits)
- ▶ UHC website available
- ▶ New monthly premium rates
- ▶ Improved dental benefits
- ▶ Oral surgical procedures move from the medical plan to the dental plan

Special Note

Deadline for Benesight to RECEIVE 2002 medical and dental claims has changed from December 31, 2003 to June 30, 2003

Due to the transition of the claims administrator from Benesight to UnitedHealthcare, claims for the calendar year 2002 must be received by Benesight by June 30, 2003 or they will NOT be processed. You will NOT be reimbursed for claims received after June 30, 2003 by Benesight. In addition, UnitedHealthcare will NOT process claims for costs incurred in the year 2002.

Dental Benefit Changes

- ▶ The annual maximum benefit limit increased from \$1,000 to \$1,500
- ▶ The dental coinsurance amount increases (see table)
- ▶ The dental plan now covers certain oral surgical procedures previously covered by the medical plan
- ▶ Because of the cost of the plan improvement, the deductible has increased from \$25 to the national average of \$50 per person.

Type of Service	2002	2003
Class I – Preventative	100%	100%
Class II – Minor Restorative	75%	80%
Class III – Major Restorative	50%	60%
Class IV – Orthodontia	No Coverage	No Coverage

Prescription Drugs

- ▶ Our prescription drug carrier remains the same – Advance PCS
- ▶ The retail program for short-term medications (30-day supply); or
- ▶ The mail service program for maintenance medications (up to a 90-day supply)
- ▶ The annual out-of-pocket maximum for each covered individual is \$1,000 for **retail** prescription drugs only. This means that once you have paid \$1,000 in a calendar year toward retail prescription drugs, the plan will pay 100% of your retail prescription costs for the balance of that year.

Prescription Drugs

Prescription Drug Benefits With UHC/Advance PCS Program

Type of Drug	Retail Copayment		Mail Order Copayment (90-day Supply)
	Cost of Medication	What You Pay	What You Pay
Generic	\$10 or less More than \$10	The actual cost The greater of \$10 or 15% of the cost	\$30
Preferred Brand	\$20 or less More than \$20	The actual cost The greater of \$20 or 20% of the cost	\$50
Non-preferred Brand	\$35 or less More than \$35	The actual cost The greater of \$35 or 30% of the cost	\$80

Coordination of Benefits Method

Age 65 Retiree Plan

Non-Duplication Coordination Method Example Out-of-Pocket Maximum Not Satisfied

Primary Payment

Total Charge	\$1,500.00
Primary Payment (Medicare)	<u>- 1,200.00 (80%)</u>
Remaining After Medicare Payment	\$ 300.00

UHC Payment (Deductible Already Met)

Total Charges (eligible expenses)	\$1,500.00
Amount UHC Would Have Paid as Primary	<u>- 1,200.00 (80%)</u>
Remaining Amount	\$ 300.00
UHC Payment	\$ 0.00
Patient Responsibility	\$ 300.00

When the coinsurance is the same or lower than Medicare's coinsurance UHC will not make additional reimbursement. UHC will only make additional payment when UHC's benefit is greater than Medicare's or other primary insurance.

Age 65 Retiree Plan (continued)

Out-of-Pocket Maximum Satisfied

Primary Payment

Total Charge	\$1,500.00
Primary Payment (Medicare)	<u>- 1,200.00</u> (80%)
Remaining After Medicare Payment	\$ 300.00

UHC Payment (Deductible Already Met)

Total Charges (eligible expenses)	\$1,500.00
Amount UHC Would Have Paid as Primary	\$1,500.00 (100%)
Remaining After Medicare Payment	\$ 300.00
UHC Payment	\$ 300.00
Patient Responsibility	\$ 0.00

Future of Retiree Medical

- ▶ Plan design changes will follow trend/active plans
- ▶ Probably no dramatic plan design changes in foreseeable future
- ▶ Subsidy cap will run – excess of 5% will be Retiree cost
- ▶ Graduated premium subsidy (ratio actual service / 30) for staff under 45 on December 31, 1993 for BCO begins for retirements January 1, 2004 and after (January 1, 2009 for PNNL staff)
- ▶ Legislated or public relief = anyone's bet
- ▶ Extended period Retiree medical costs <5% ???
- ▶ What you can do – Plan for out-of-pocket health care costs becoming an increasing larger budget item

2000 Survey of Retirees About Medical

- ▶ Split decision as to desires for change via plan design or premiums

Hewitt 2002 Benefit Index for PNNL

15 Comparators

- ▶ 11 of 15 offer age 65 medical coverage
- ▶ 7 of 11 carve out COB method
- ▶ 4 of 11 supplemental COB method
- ▶ Total Value: Very high
- ▶ Employer Paid Value: Very low

Savings Plan 401(k) Changes

- ▶ Annual installment payments can now be paid out monthly, quarterly, semiannually, or annually
- ▶ Request for changes no longer limited to one, once your installment payments begin
- ▶ You can elect direct deposit of your installment payments to either your checking or savings account.

Savings Plan Restrictions

- ▶ Installment payments cannot extend over a period longer than your life expectancy or the joint life expectancy of you and your spouse
- ▶ If you are age 70 ½ or over, you cannot stop your installment payments

Savings Plan Availability

- ▶ A yearly withdrawal can be elected as long as you have not started annual installment payments

Contact Vanguard

▶ Phone: 800.523.1188

▶ Website: www.vanguard.com

Note: Battelle Plan Number is 092024