

# MINUTES – RETIREE FORUM

## AGENDA PNNL RETIREE COMMUNICATIONS FORUM April 14, 2003

10:00AM – 12:00PM  
EMSL – CR 1077

Management Attendees

**BCO** John Ennis, Manager Corporate Benefits  
Lesla Litteral, Manager & Corporate Plan Administrator

**PNNL** Tom Baranouskas, V.P. & CFO  
Paula Linnen, V.P. & Director, Human Resources  
Milan Westenskow, Manager, Compensation, Benefits & Operations Services  
Barbara Hoffer, Manager, Benefits

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### WELCOME

Tom Baranouskas & Paula Linnen

### PRESENTATION LEAD(s)

John Ennis, Lisa Litteral, Milan Westenskow

#### ➤ **Background**

- Historical Recap of Retiree Medical Coverage
- Dramatic Cost Escalation in Retiree Group Coverage
- Industry/National Trends
- 5% Escalation Cap - Rationale
- Benefit Council Purpose – 1977 Charter

#### ➤ **Contemporary Retiree Medical Issues**

- Medicare Interface and Coordination of Benefits
- Prescriptions

#### ➤ **The Future of Retiree Medical Coverage**

- Graduated Retiree Medical Subsidies for future generations of Retirees
- DOE Cost Control Strategy
- Retiree Benefits Health Fair – October 2004
- Open Enrollment Communications – 2004
- Advisory Board Concept

#### ➤ **Other Updates**

- Savings Plan Changes
- Q&A – Roundtable Discussion

### MINUTE SUMMARY – Key Points

**Retiree Health Care Background.** John Ennis, Corporate Benefits Administration Manager gave a detailed review of the Battelle retiree medical plan evolution, where it had originated and how it arrived at the current ‘cost share’ philosophy approved by executive management. The

plan was unsubsidized through 1979, at which time the Benefits Council recommended a 70% subsidy. This occurred through approximately 1994, at which time a 5% annual cost increase cap was imposed to help manage the escalating costs of retiree coverage and to allow the company to continue to offer retiree insurance.

PNNL implemented the cap in January, 1999 and continues to use the cap to manage the company's exposure. It was noted that many companies have recently eliminated retiree health care insurance due to uncontrollable and prohibitive costs, but that Battelle management has sought to use the escalation cap as a way to manage it's exposure and to continue to offer a plan that protects retirees health care needs.

Benefit Council (BC). John reviewed the origin of the Battelle Benefits Council, which dates back to Ron Paul in 1976. The purpose, charger and objectives of the Council were reiterated by Bob Smith in 1989, and has been updated as recently as 1993 and several times thereafter. It's basic objectives are to: review plan adequacy, monitor trends, develop consistent applications, recommend plan changes and modifications, meet and consolidate annual plan reporting requirements, develop and update a benefits strategy, and to create and use task committees as appropriate. The BC is intended as a forum to meet the above objectives and is not available by design for other purposes. Current voting Benefit Council members include:

- 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 Vice President & Director, PNNL Human Resources
- Lesa Litteral Manager Benefits Finance and ERISA Plan Counsel
- Steve Valentine Vice President – Corporate Controller and Assistant Treasurer

A summary of plan changes and rationale for 2003 was reviewed (Benesight to UHC changes) and the major plan changes, rate structures, dental and prescription plan changes, and specific retiree plan options were discussed. It was noted that the future for retiree health care offerings is challenging, to say the least, as the costs associated with sophisticated medical testing, diagnostics, insurance, litigation and other costs associated with medical services is enormous. A detailed review of our plan costs are set and translated into premium rates within each group plan was discussed. It was noted that Retiree Plans are not part of the group rate structure associated with Action Staff plans, and consequently absorb and must pay for themselves based on plan usage and experience – which can vary considerably from year to year.

A brief review of the Hewit Consulting group study done in 2002 was discussed as well, along with Savings Plan (401 K) enhancements/restrictions. It was noted that installment payments may not extend over a period longer than the participants life expectancy of survivor's expectancy. A general Q&A occurred.

**Retiree Financial Background.** Lesa Litteral, Corporate Manager for Benefits Finance and Plan Interpretation discussed the alarming cost trends that had necessitated the Active and Retiree plan changes for 2003 and beyond. A comparison for escalation was made between BMI and PNNL medical costs, and it was noted that the percentage increases since 1999 alone were approximately 19% for BMI Retirees and up to 30% for PNNL retirees as a group. It was mentioned that this is a volatile area, subject to change based on plan usage, and it is no surprise that usage tends to increase with age and increasing medical requirements.

Trends in retiree health care costs were reviewed, with double digit increases being noted. These are projected to continue. The number of Battelle retirees is expected to double. A 1994 accounting change occurred that also required company disclosure and reporting of future liability costs with retiree medical, which had an unfavorable impact on most compays balance sheets. The existing financial cap on annual plan increases was discussed at length (e.g. 5% year cap), along with an explanation of how premiums are determined based on retiree plan claims. If medical claims exceed costs, then premiums must be raised to pay for the cost increases. Plans must either reduce claim costs or increase retiree premiums. Those are the variables that come into play.

**DOE Cost Control Emphasis.** Milan Westenskow, PNNL Compensation and Benefits Manager explained that the DOE has an aggressive review underway, to reduce benefit costs and long term unfunded, liabilities that exist in the billions of dollar range. PNNL has a good story to tell overall, but the DOE has employed a national consulting firm to recommend significant new ways to manage/reduce costs, beginning in 2003. They are looking for fresh ideas to reduce these liabilities. PNNL will need to be responsive to these requests and will be under continued pressure to increase cost share to active and retiree plans. Reports and justifications to DOE for current plans, strategies and coverage rationale are being presented to local RL officials in the near future.

**Communication Improvements.** Paula Linnen, VP and Director for PNNL Human Resources, led a roundtable discussion and brainstorming regarding ideas to enhance retiree communications and improvement ideas. Suggestions included: improve current plan understandings (many don't understand what they have or how it works; printed information can be confusing and it is hard to get someone on the phone to answer questions); more advance communications is needed on major changes. There was not enough 'soak' time this year to properly reflect and understand what was in the information. Materials need to arrive sooner, and have a longer turn around period for return elections. Problems with the postal service and delays were noted by one attendee. Retirees would like an opportunity to comment on proposed changes when ever possible.

It was also noted that Battelle (BMI) also picked up the subsidy to the medical plan premium for several years when the DOE did not allow. This was not passed on to the retiree plan, but absorbed by Battelle which spoke highly for senior management's commitment to the plans and retirees in general. One retiree quoted some local insurance plan rates that looked good on the surface. Caution should be exercised before dropping or converting to 'low rated plans', as there are a lot of offerings that are 'here today and gone tomorrow'. Once you leave the Battelle Plans you cannot reenroll. Insurance carriers are notorious for offering low rates to entice participants, and then increase the rates substantially in subsequent years. Retirees are particularly vulnerable in this regard, given the high cost and difficulty at times to get coverage.

COLA's. There are no cost of living adjustments planned for any of our retiree benefits.

Prescription Coverage. There were significant enhancements for some retirees with the 2003 Out of Pocket Maximum (\$1000) for heavy users of prescriptions. This was a design change to try to protect those with severe, chronic prescription needs.