



Health Care Strategy Briefing

August 2009

Linda Duffy

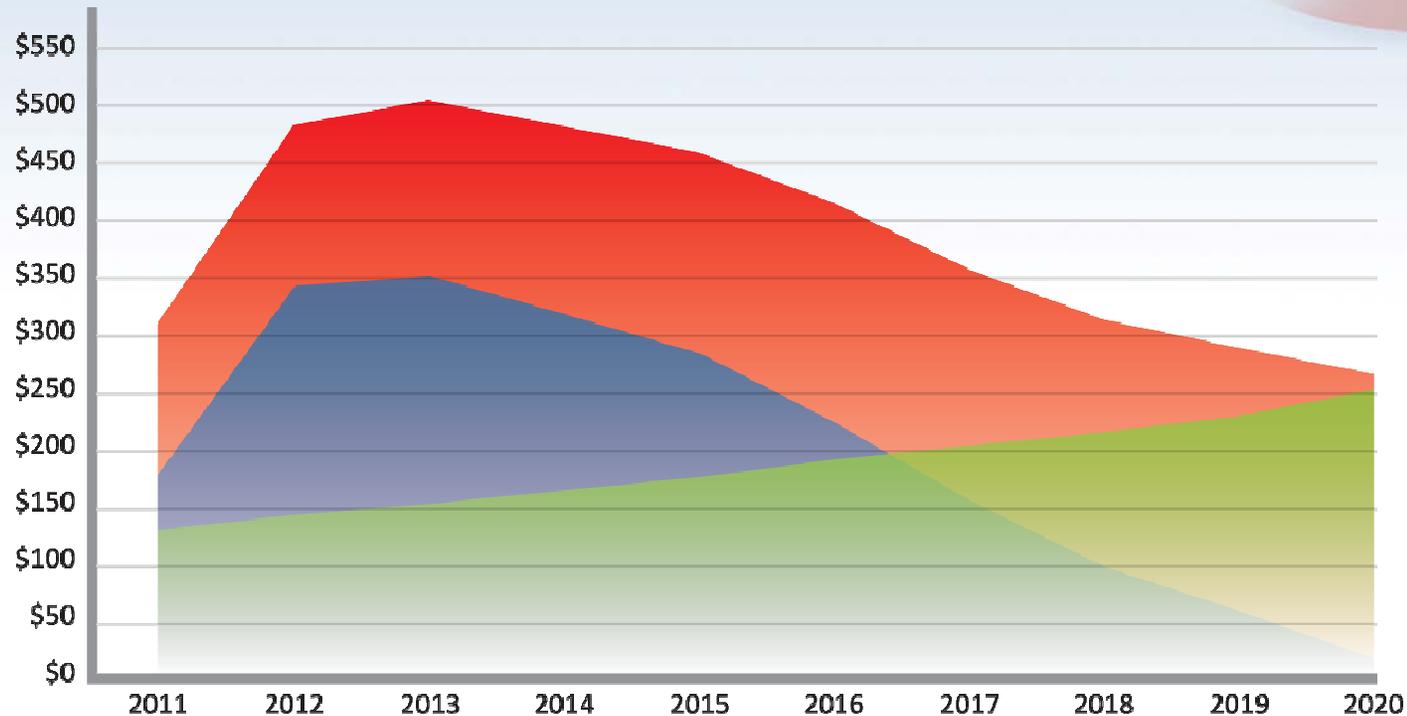
**Director, Health, Benefits and Employee Services
Sandia National Laboratories**

Pension and Health Care Status

- Future pension and health care costs present significant financial challenges for Sandia
 - \$2.0 billion in estimated pension contributions from 2011 to 2020 (based on pension assets and liabilities estimates as of 1/1/09)
 - Health care costs estimated to increase by 8% per year with annual costs increasing from \$133 million in 2011 to \$249 million by 2020
- Projected pension and health care costs are unsustainable given future budget forecasts

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Projected Health Care Costs and Pension Contributions



- Estimated health care costs - status quo
- Estimated required pension contributions - status quo
- Estimated total health care & pension costs - status quo

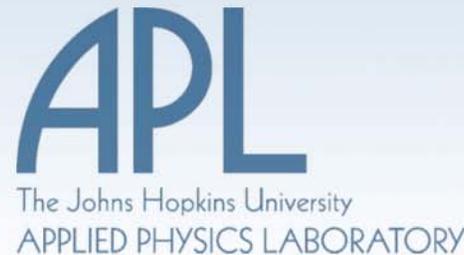
Note: Health care costs include contingency margins used in setting annual premiums (2% for actives, 3% for retirees)

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New Hewitt Comparator Group - Effective 12/08

- Applied Physics Laboratory (Johns Hopkins)
- Battelle PNNL*
- Chevron
- Dow Chemical
- General Electric*
- General Dynamics
- Hewlett Packard*
- International Business Machines*
- Jet Propulsion Laboratory
- Lawrence Livermore National Laboratory*
- Lockheed Martin*
- Los Alamos National Laboratory
- Massachusetts Institute of Technology
- Northrop Grumman*
- Raytheon*

* Prior comparator group



Pacific Northwest
NATIONAL LABORATORY



GENERAL DYNAMICS
Information Technology



Overview

Hewitt Index (Hired Prior to 1/1/09)

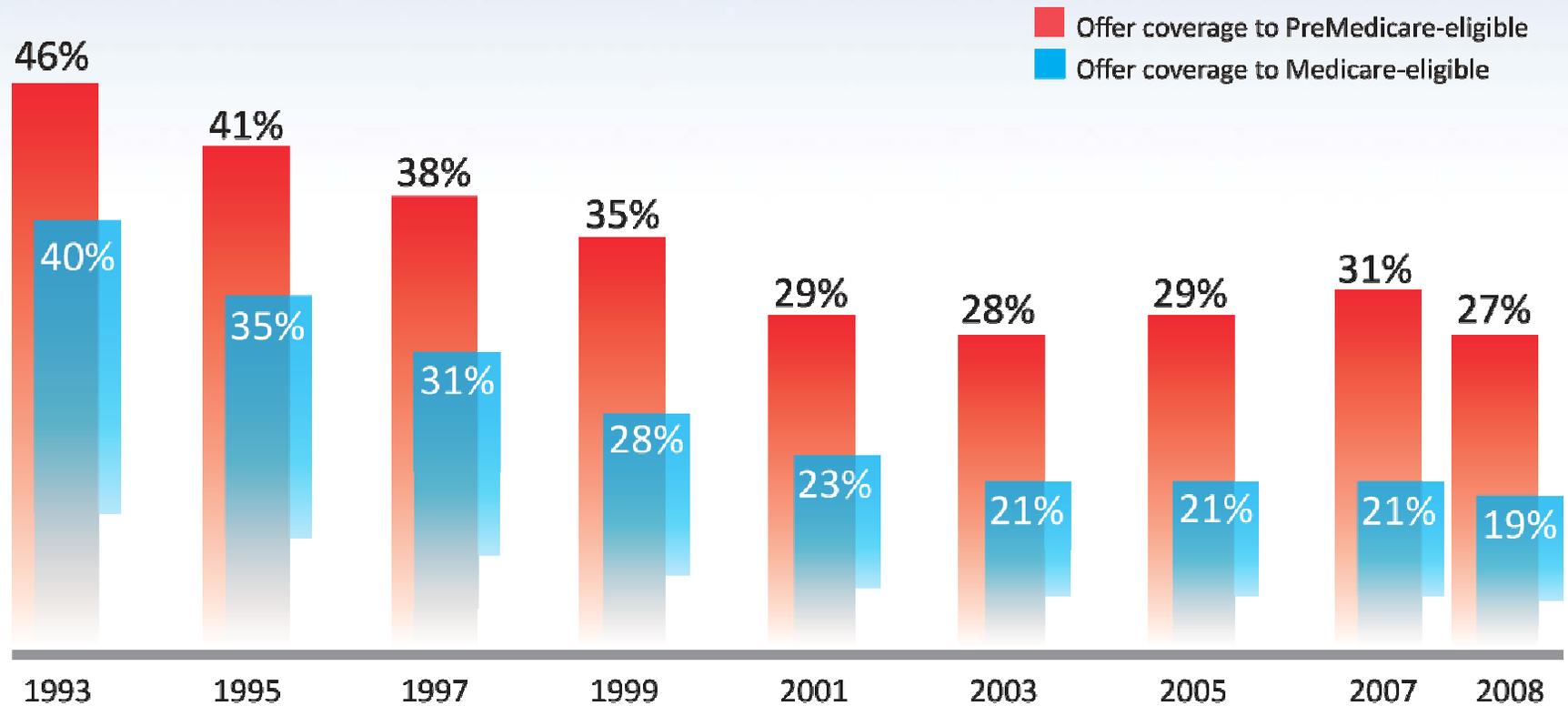
Type of Benefit	Revised 2006 Values	Values After 1/1/09 Benefit Changes - New/approved peer group	Values w/ Proposed Health Changes – New/approved peer group
Active Health	101.1	105.4	103.4
PreMedicare Health	230.2	314.9	136.4
Medicare Ret. Health	465.0	647.7	261.4
Overall	120.4	119.9	115.5

Market is changing in terms of types of plans of health plans and employer-sponsored funding, resulting in lower Hewitt Index comparisons

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Offerings of Retiree Medical Plans Have Fallen Significantly

Large Employers

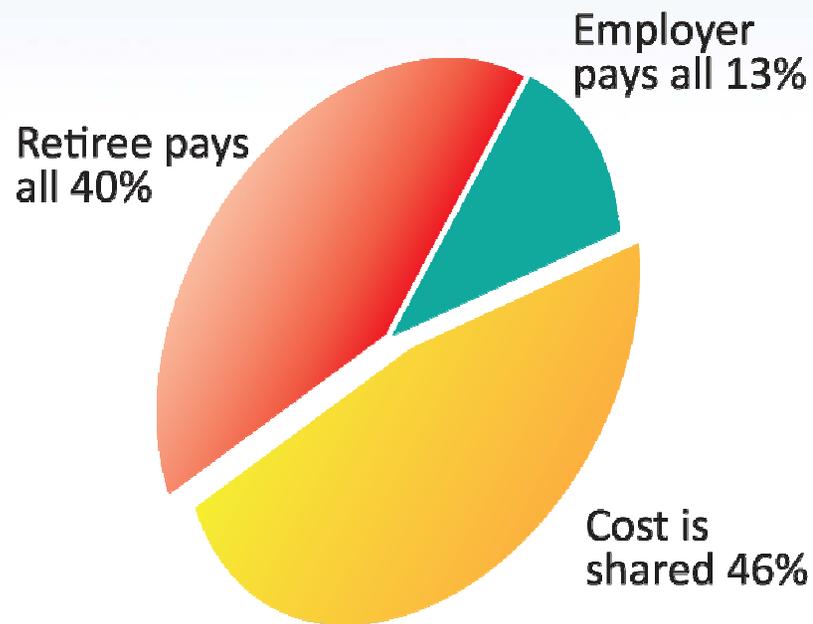


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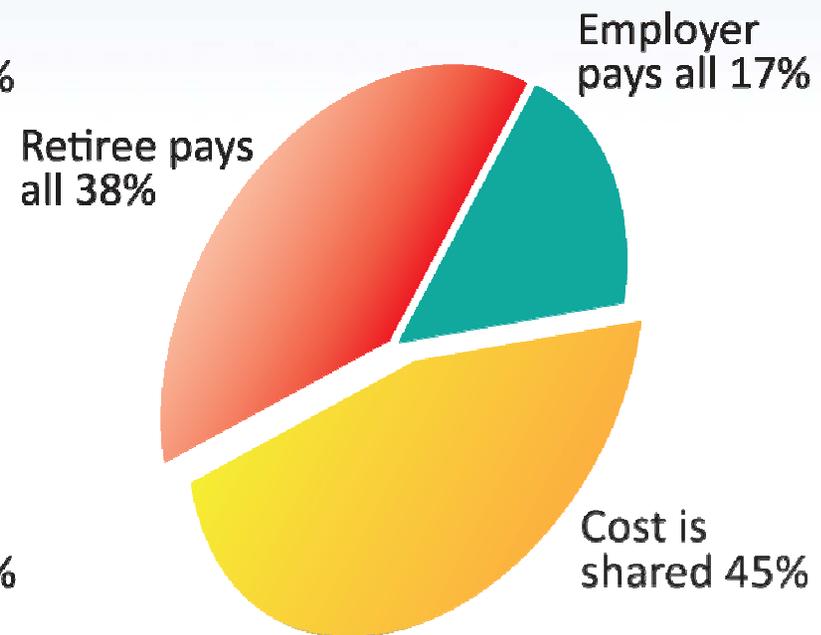
Contribution Strategies* for Retirees

Large Retiree Plan Sponsors

PreMedicare eligible retirees



Medicare-eligible retirees



*individual coverage

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June 2009 Announcement from Honeywell

- Honeywell will no longer subsidize retiree medical benefits for eligible employees who retire after September 1, 2009
- Why the change
 - Economic climate is getting worse
 - More cost actions are required
 - Continue to look for ways to reduce cost
 - Focus on preserving pension
 - Most large employers no longer offer retiree medical to employees

The Honeywell logo is displayed in a bold, red, sans-serif font. It is positioned on the right side of the slide, partially overlapping the background image of a cityscape at dusk. The background features a blue sky with a few stars and a red and white striped pattern at the bottom, suggesting an American flag.

Overview

Goals of Changes

- Offer high-quality benefits that are competitive with similar research organizations and a select group of large industrial companies (the Hewitt peer group)
- Manage future costs and liabilities
- Encourage health care consumerism and improve overall health through an integrated health and wellness program
- Minimize health care network disruption
- Effectively respond to our contractual commitments to the DOE
- Reduce administrative costs

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Active Employee and PreMedicare Retiree Health Care Strategy

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Consumer Driven Health Care Plan

- 2010
 - Introduce a Consumer Driven Health Plan (CDHP) as a health plan option for both active employees and PreMedicare retirees
 - retain current health-care plans as plan options in 2010
 - communicate and promote CDHP
- 2011
 - The Consumer Driven Health Plan (CDHP) becomes the sole health-care plan offering for both Active employees and PreMedicare retirees
 - Premium sharing subsidies remain unchanged
 - \$250 Health Reimbursement Account for both Active employees and PreMedicare retirees; \$750 total for a family

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Consumer Driven Health Plan Design

	United Premier Plan	New CDHP	Comments
Employee Premium Share	@ 20%	@ 20%	No change in employee premium share
Preventive Care	100%	100%	No change (Not subject to deductible)
Deductible Single/Couple/Family	\$0	\$750/\$1,500/\$2,250	Introduction to deductible
Coinsurance	15%	20%	5% increase in coinsurance
Out-of-Pocket Max Single/Couple/family (excluding deductible, Rx)	\$1,500/\$3,000	\$2,000/\$4,000/\$6,000	Increase to out-of-pocket max
Office Visits	\$20/\$35 copays	20%	Move from co-pay to coinsurance
Rx	20%/30%/40% w/ min/max copays	20%/30%/40% \$1500 out-of-pocket maximum per individual	CDHP limits individual's exposure to no more than \$1500 per year for Rx
HRA Contribution Single/Couple/Family	—	\$250/\$500/\$750 For those completing the Health Assessment	Does not exist in current plans; offered in the CDHP model
Flexible Spending Account (FSA)	\$5000	\$5000	Employee can continue to contribute to an FSA

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Employee Impact – Out-of-Pocket Costs for Family Low Utilizer

For Illustration Only		Premier UHC Plan	New CDHP
<i>Individual/Family Deductible (does not apply to rx drugs)</i>		\$0/\$0	\$750/\$2250
<i>Individual/Family Out of Pocket Maximum⁽¹⁾</i>		\$1500/\$3000	\$2000/\$6000
Services	Service Cost	Member Cost	
Employee Annual Physical	\$210	\$0	\$0
Spouse Annual Physical	\$210	\$0	\$0
One PCP Office visit each (total three)	\$240	\$60	\$240
Five Retail Fill for Generic Drug (\$35 each)	\$175	\$35	\$35
Total Service Costs		\$835	
Total Out of Pocket Costs Before HRA		\$95	\$275
Health Reimbursement Account Funding⁽²⁾		\$0	\$275
Total Out of Pocket Costs After HRA⁽³⁾		\$95	\$0
Annual Premium		\$3,168	\$2,856
Total EECosts (Out of pocket expenses + premiums)		\$3,263	\$2,856
Total SNL Costs		-\$2,428	-\$2,021

Notes:

(1) Out of Pocket Maximum for current UHC plan excludes rx drug and office visits; CDHP excludes deductible and rx drug

(2) Current UHC Plan has no HRA funding

(3) Employee has \$475 leftover to add to \$750 for 2012 for an account balance of \$1095

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Employee Impact – Out-of-Pocket Costs – Family High Utilizer

Illustration Only		Premier UHC Plan	New For CDHP
<i>Individual/Family Deductible (does not apply to rx drugs)</i>		\$0/\$0	\$750/\$2250
<i>Individual/Family Out of Pocket Maximum⁽¹⁾</i>		\$1500/\$3000	\$2000/\$6000
Services	Service Cost	Member Cost	
Well Child Visit	\$200	\$0	\$0
Well Baby Visit	\$200	\$0	\$0
Five Specialist Office Visits (\$250 each)	\$1,250	\$175	\$850
Spouse maternity care (Pre/post care and normal delivery)	\$18,000	\$1,325	\$1,900
Ill Newborn hospitalization	\$40,000	\$1,500	\$2,750
Twelve Speciality Fill for Employee Preferred Brand Drug ⁽²⁾	\$36,000	\$480	\$1,500
Nine Mail Order Fill for EE Preferred Brand Drug (\$300 each) ⁽²⁾	\$2,700	\$720	\$0
Total Service Costs		\$97,950	
Total Out of Pocket Costs Before HRA		\$4,200	\$7,000
Health Reimbursement Account Funding⁽³⁾		\$0	\$750
Total Out of Pocket Costs After HRA⁽⁴⁾		\$4,200	\$6,250
Annual Premium		\$3,168	\$2,856
Total EE Costs (Out of pocket expenses + premiums)		\$7,368	\$9,106
Total SNL Costs		\$90,582	\$88,844

Notes:

- (1) Out of Pocket Maximum for current UHC plan excludes rx drug and office visits; CDHP excludes deductible and rx drugs
- (2) Proposed CDHP has separate individual annual \$1500 out of pocket maximum
- (3) Current UHC Plan has no HRA funding
- (4) Employee has \$0 leftover but will receive another \$750 for 2012 for an account balance of \$750

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PreMedicare Retiree (<65) Strategy

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PreMedicare Retiree (<65)

	Current	New
Plans	<ul style="list-style-type: none"> • United Premier • CIGNA In-Network • Kaiser 	<ul style="list-style-type: none"> • Same as Actives plan (Consumer Driven with HRA contribution)
Sandia Subsidy – <i>Existing Retirees</i>	<ul style="list-style-type: none"> • Pre-1995: 100% • 1995 - 2002: 90% • 2003+ 55% - 90%* 	<ul style="list-style-type: none"> • No change to current year/service premium share structure
Sandia Subsidy – <i>New Retirees (as of 2011)</i>	<ul style="list-style-type: none"> • 55% - 90%* 	<ul style="list-style-type: none"> • Premium Subsidy will be capped based on years of service and is projected to remain fixed**

*Depends on retiree years of service

**Sandia Corporation reserves the right to adjust or eliminate the amount of subsidy Sandia provides for PreMedicare Retiree medical and dental coverage

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How Is a Premium Cap Set?

- Caps limit the total amount Sandia will provide to subsidize the premium cost of PreMedicare Retiree medical and dental coverage
- Caps for PreMedicare Retiree medical and dental coverage will be set by first determining 110% of the 2010 CDHP (medical) annual premium cost. Sandia will then apply a cost share percentage that is based on years of service (e.g., 55%-90%) to determine the cap on the Sandia subsidy.
- Caps would be implemented for retirements commencing 1/1/11
- Caps will not apply to current retirees

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Annual PreMedicare Retiree Premium Subsidy Limits (Caps)

These amounts reflect the estimated annual Sandia subsidy limits (caps) for PreMedicare Retirees medical and dental coverage for new retirees effective January 1, 2011. Any projected medical and dental premium costs in excess of these subsidy limits will be borne by retirees.

Years of Service	PreMedicare Retiree (Retiree Only)	PreMedicare Retiree (Retiree + Spouse)
30+ (90% Sandia share)	\$8,400	\$16,800
25-29 (85% Sandia share)	\$7,932	\$15,864
20-24 (75% Sandia share)	\$6,996	\$13,992
15-19 (65% Sandia share)	\$6,072	\$12,144
10-14 (55% Sandia share)	\$5,136	\$10,272

The subsidy limits (caps) depicted above are estimates only. Sandia Corporation reserves the right to adjust or eliminate the amount of subsidy Sandia provides for PreMedicare Retiree medical and dental coverage.

Annual Premium Caps Example – Future PreMedicare Retiree + Spouse

Sandia's premium costs remain constant, and annual increases are passed along to retirees.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total Projected Plan Costs	\$19,440	\$20,928	\$22,440	\$23,952	\$25,560
<u>Sandia Cost Share</u>	<u>-\$16,800</u>	<u>-\$16,800</u>	<u>-\$16,800</u>	<u>-\$16,800</u>	<u>-\$16,800</u>
= Retiree Cost Share	\$2,640	\$4,128	\$5,640	\$7,152	\$8,760
Current Retiree Cost	\$1,848	\$1,992	\$2,136	\$2,280	\$2,424
<i>Difference</i>	\$ 792	\$2,136	\$3,504	\$4,872	\$6,336

Assumes Retiree with 30+ years of service, plus Spouse

How it works:

- Each year, after premium costs are projected, cap is subtracted from total premium costs to arrive at retiree share
- Retiree then pays this cost as a monthly premium

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Medicare Retiree Health-Care Strategy

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Current Sandia Plan Approach

- All covered Sandia retirees are enrolled in either a
 - Group-sponsored Medicare Supplement plan coupled with a Part D Rx plan
 - Group-sponsored Medicare Advantage plans that include Part D Rx plan
- Each of these retirees is required to enroll in Medicare Parts A & B
- For the supplemental plan, Medicare pays any medical claim first; Sandia pays medical claim secondarily
- For the supplemental plan, Medicare provides financial subsidy to Sandia to pay for part of the plan

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New Sandia Plan Approach

- For current retirees, Sandia will offer a group-sponsored Medicare Advantage plan
- For future retirees, Sandia reimburses some or all for the purchase of individual plans – Premium Allowances
 - Medicare Part D
 - Medicare Supplemental
 - Medicare Advantage

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How Is a Premium Allowance Set?

- Premium Allowance limits the total amount Sandia will provide to subsidize the cost of Medicare Retiree medical and dental coverage.
- Premium Allowances for Medicare Retirees will be set at 25% of PreMedicare Retiree Caps. Sandia will then apply a cost share percentage that is based on years of service (e.g., 55% - 90%) to determine the stipend.
- Premium Allowances are projected to increase by half of the annual trend in health care cost increases.
- Premium Allowances would be implemented for retirements commencing 1/1/11.
- Premium Allowances would not apply to current retirees.

Sandia Corporation reserves the right to adjust or eliminate the amount of subsidy Sandia provides for Medicare Retiree medical and dental costs.

2011 Medicare Retiree Premium Allowances

These amounts reflect the estimated annual Sandia subsidy (Premium Allowances) for Medicare Retiree medical and dental for new retirees effective January 1, 2011. Premium Allowances are projected to increase each year by half of the annual trend in health-care cost increases. Any projected medical and dental costs in excess of these amounts will be borne by retirees.

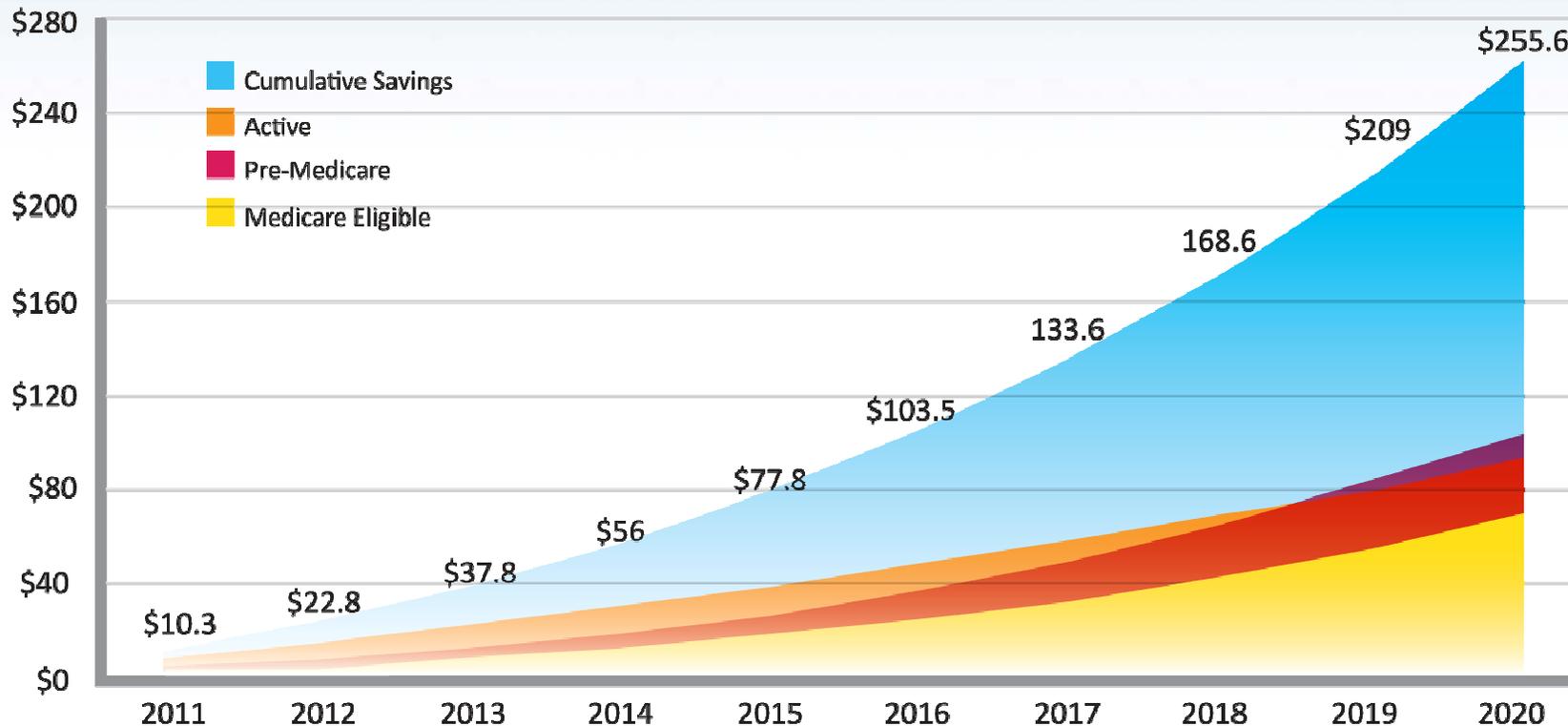
Years of Service	Medicare Retiree	Medicare Retiree + Spouse
30+ (90% Sandia share)	\$2,100	\$4,200
25-29 (85% Sandia share)	\$1,980	\$3,960
20-24 (75% Sandia share)	\$1,752	\$3,504
15-19 (65% Sandia share)	\$1,512	\$3,024
10-14 (55% Sandia share)	\$1,284	\$2,568

The Premium Allowance amounts depicted above are estimates only. Sandia Corporation reserves the right to adjust or eliminate the amount of subsidy Sandia provides for Medicare Retiree medical and dental coverage.

Retiree + Spouse illustration assumes both are Medicare eligible.

Cumulative Savings for Health Care

Cumulative Savings



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Overall Impact of Changes

Category	Impact
Cost Savings	<ul style="list-style-type: none">• \$255.5 million savings from 2011 - 2020• Plan design savings after 2011 would allow for further savings
DOE Order 350.1	<ul style="list-style-type: none">• Current total benefits value is 119.9• With these actions, value decreases to 115.5
FAS106 Liability	<ul style="list-style-type: none">• Current liability is \$1.2 billion• With these actions, it is \$.95 billion

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Implications

Communications

- Significant effort required
- Topics:
 - Communication on who, what, when, and why of changes
 - Education on HRAs, how to save for Retiree Medical, Medicare Advantage plans
 - Education on individual accountability and responsibility and continued promotion of tools/programs for health improvement activities

Workforce Planning

- Anticipate significant number of retirements in 2010
 - Normal number of retirements: 250 to 300 per year
 - Anticipate an increase in retirements in 2010

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