

## Special Bulletin – November 2004

### Increase in Employee Contributions for 2005 Health Care Coverage

Health care plan contribution rates for 2005 have increased significantly from 2004 rates, and we would like to give you more detail on the reasons behind the change.

#### **Why Your Health Care Costs Are Changing**

Beginning in 2002, an employee team representing all of the A & B companies began reviewing our total benefits package. What they found regarding our health care program was that unlike most companies in the United States who ask that their employees pay from 20% to 30% of the costs, A & B employees were paying about 8%. Due to the competitive nature of our businesses and the current economic climate in the U.S., our company strategy required that the portion of health care costs that employees paid come closer to the national averages.

#### **Why Your Costs Are Changing to Current Levels**

Each of the A & B companies agreed to reach an average employee contribution of 20% of the medical cost in 2006. Rather than jump from 8% to 20% in one step, increases were made so that employees were paying 12% of the total health care costs in 2004, with further increases planned for 2005 and 2006. A & B would continue to pay the majority of the costs for medical coverage, which adds up to a very large portion of our total benefits expenses.

A bulletin was distributed three weeks ago to announce that employees would be paying approximately 16% of the 2005 medical rates. Unfortunately, the wording was not clear, and many employees understood that they would simply be paying 16% more in 2005 than in 2004, rather than that they would be paying 16% of the total cost.

The increase to your contribution rates involves three parts:

- **The 2005 rates average out to employees paying 16% of the actual medical cost instead of 12% as in 2004.** For example, if A & B's average monthly cost for family medical coverage is \$1,000, you would be paying 16% of that amount, or \$160 per month this year. Last year, the target was for employees to pay 12%, or \$120. The \$40 difference between \$160 and \$120 is actually a 33% increase (not 16%).
- **The total costs for our medical program is higher in 2005 than 2004.** The \$1,000 cost in the example above did not stay the same from 2004 to 2005. With an 8% increase, the \$1,000 in the example above is actually \$1,080. This means that 16% of that higher amount would be \$172.80, compared to \$120 for 2004. The percentage increase of \$172.80 for 2005 over \$120 for 2004 now comes to 44% instead of the 33% it would have been without medical plan cost increases. HMO costs have risen more than PPO costs for 2005.
- **The plan you choose, your salary and geographic location and who you choose to cover further affect the increase.** While all of these factors act together to influence your individual rate, two general conclusions can be made. Those of you with higher salaries and those in HMOs generally have a greater percentage increase than the "average."

#### **Where We Go From Here**

The third phase of our three-year cost-sharing strategy will occur in 2006. Employees will then be paying 20% of the total medical rates, rather than the 16% as for 2005.

These adjustments are planned to bring our health care program in line with our competition and help continue our strong business performance. Since health care, and its costs, is constantly changing, further corrections may be required. Please keep in mind that A & B offers a very comprehensive total package of benefits, including retirement benefits, life insurance and disability income protection in addition to the health care coverage. This total package of financial and health care programs offered to you are an important part of your total compensation – use them wisely for current protection as well as future financial security.