

City of Newport News

Virginia 23607

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Office Of The City Manager

November 7, 2011

Dear Retiree:

Over the past several weeks, City staff has been in the process of negotiating health insurance premiums for calendar year 2012 with Anthem Blue Cross Blue Shield. Based on all information made available to date, the impact to retirees will be significant.

As you may be aware, the City is self-insured. Therefore, the premiums that plan participants are charged must cover all claim costs that are incurred. In other words, there is a direct correlation between the total cost of claims and required premium increases charged to the City and our retirees.

Effective December 1, 2011, healthcare premiums for all retirees will increase. The amount of your specific increase will be driven by several factors including your age and number of years of credited service with the City. To provide an example of the anticipated impact, a pre-65 year-old retiree with 25 years of credited service and family coverage will see a monthly premium increase of \$307.14. A pre-65 year-old retiree with the same years of service but with single coverage will experience an increase of \$112.32 per month. Retirees that fall under the Post-65 Medicare Carve-out Plan will experience lesser increases. We are still awaiting rates for the Medicare Supplemental Plans. The November edition of *Between the Lines* will provide specific details on changes to retiree healthcare premiums. Please contact the Benefits Division of the Department of Finance at 926-3929 with questions or for further clarification.

Last year, we received some relief in the form of Early Retiree Reinsurance Program (ERRP) funds made available to localities as a result of federal healthcare legislation. The City chose to use these funds to provide a one-time credit of \$500 to retirees to offset the increase in healthcare costs. We have again applied for ERRP funds. Should our effort prove successful, I am committed to providing retirees another credit as we did last year.

I recognize that this increase in healthcare cost will create a hardship for many retirees. From the perspective of the City, continuing another year with the current programs of service and patient co-pays is the best of all available options at this time and limits the cost exposure to a retiree who encounters a major health issue. Alternatives that include potential increases to the out-of-pocket cost of medicines,

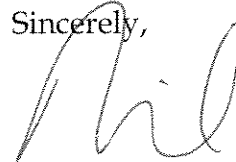
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emergency room visits, and hospitalization may offer viable cost-saving opportunities but require further detailed analysis prior to any decision.

It is important to point out that the City provides a very generous retiree health benefit, with an annual cost to the City of approximately \$9 million (a dollar benefit of nearly \$13,000 annually for a retiree with family coverage). With the cost of healthcare expected to continue to escalate, it is imperative that we place greater focus on the role that each of us plays in the containment of cost increases. Healthcare is a valuable benefit, and retirees play an essential role in our efforts to reduce overall cost. The Finance Department will be providing material to educate retirees on cost-saving measures, including use of generic medications and the costliness of emergency room visits in lieu of doctors' appointments. I encourage you to review this information when made available and contact the Benefits Division of the Department of Finance with any questions that you may have.

As a nation, we are engaged in an ongoing dialogue about healthcare. I believe it is prudent for us now to look comprehensively at options to provide both affordable and effective healthcare programs. These options may include plans better tailored to the healthcare needs of individual retirees instead of a "one size fits all" approach. Over the course of the next several months, City staff will be meeting and reviewing alternatives. I will keep you abreast of new information as it arises.

Sincerely,

A handwritten signature in black ink, appearing to read "Neil", written over a light blue horizontal line.

Neil A. Morgan
City Manager

NAM:rsw