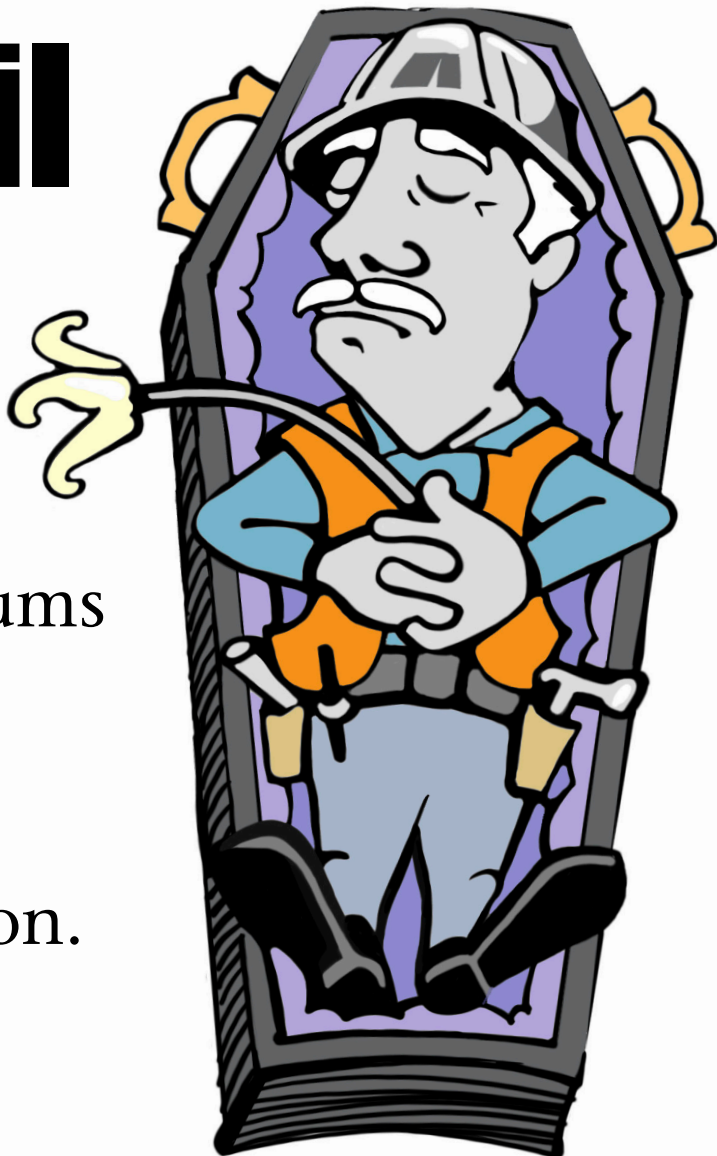


# Work until you die?

You may have to, if  
retiree medical premiums  
keep going up.

IBEW and PG&E are  
trying to find a solution.  
Negotiations have  
begun.



"Come to think of it, how will I be  
able to afford retirement?"

Any agreement will be put to a vote. The final decision  
will be up to you. Learn the facts. It's your future.

Regular updates at:

[www.ibew1245.com](http://www.ibew1245.com)

IBEW Local 1245 ■ 30 Orange Tree Circle ■ Vacaville, CA 95687 ■ 707-452-2700

# Fact #1:

## Retirees pay a lot for medical premiums.

Looking forward to the “Golden Years” of retirement? Before you set the date, you should look around and see how things are working out for current PG&E retirees.

Medical costs are making it impossible for retirees to live their dreams. In fact, many retirees are having trouble just making ends meet.

The reason? Medical costs are eating up their pension check. Let’s do the math.

Here is the average monthly pension for IBEW retirees at PG&E:

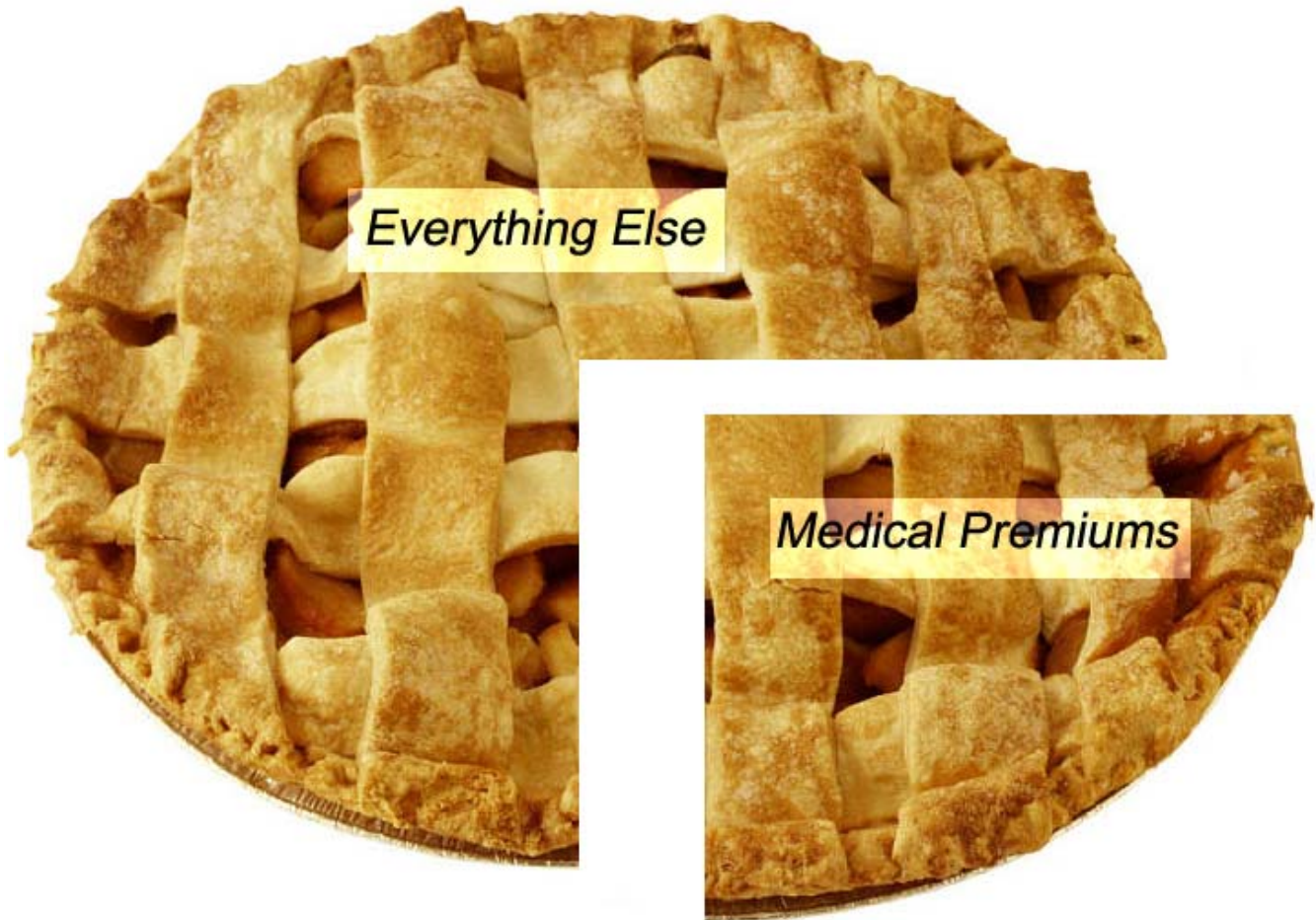
- Retired before 1994: \$ 1319
- Retired 1994-2000: 1533
- Retired after 2000: 2439

And here are the monthly payments that retirees are making for medical premiums in 2009 — and what percentage of the total premium this amount represents:

<b>Kaiser</b>	<b><u>Amount</u></b>	<b><u>% of premium</u></b>
Retiree<65	\$ 203.80	44%
Retiree<65 + Spouse<65	426.95	44%
Retiree>65	200.23	70%
Retiree>65 + Spouse>65	400.46	70%
<b>NAP/CAP</b>		
Retiree<65	\$ 316.60	55%
Retiree<65 + Spouse<65	663.83	55%
Retiree>65	229.92	70%
Retiree>65 + Spouse>65	459.84	73%

When a retiree has to pay such a large chunk of their medical premium, what effect does this have on the retiree's pension check?

**On average, a retiree with a “plus-spouse” policy pays 25% of their pension for medical premiums.**



## Fact #2:

# The situation will get worse in the future.

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Since the year 2000, there has been a cap on what PG&E has to pay toward retiree medical premiums. Here are the caps:

	Employee	+ Spouse
Under age 65:	\$ 262.91	553.14
65 and older:	87.07	174.14

What does this cap mean for retirees? It means that retirees now pay 100% of all increases in their medical premiums.

The union negotiated two Retirement Premium Offset Accounts (RPOAs) some years ago to partially offset the rapid growth in medical premiums. The first RPOA, in 2003, provided retirees and active employees with up to \$7500 to apply toward 50% of their premiums. The second RPOA, in 2007, provided retirees up to \$3300 to apply toward 25% of their premiums.

The RPOAs were a valuable cushion against rising medical costs. But the RPOAs were a temporary solution. Today, 46% of retirees have used up all of their RPOAs and must now shoulder the full burden of premium increases.

When retirees exhaust their RPOAs, the situation becomes grim. Here is a sample scenario. Let's say you are a retiree over 65 and your premium is \$600 per month.

- The company co-pay is \$87, leaving \$513 to be paid.
- RPOA picks up half (\$256) and you pick up half (\$256).
- When your RPOA runs out, you pay \$513 per month.

Premium	\$ 600.
<u>Company pays</u>	<u>- 87.</u>
You pay	\$ 513.

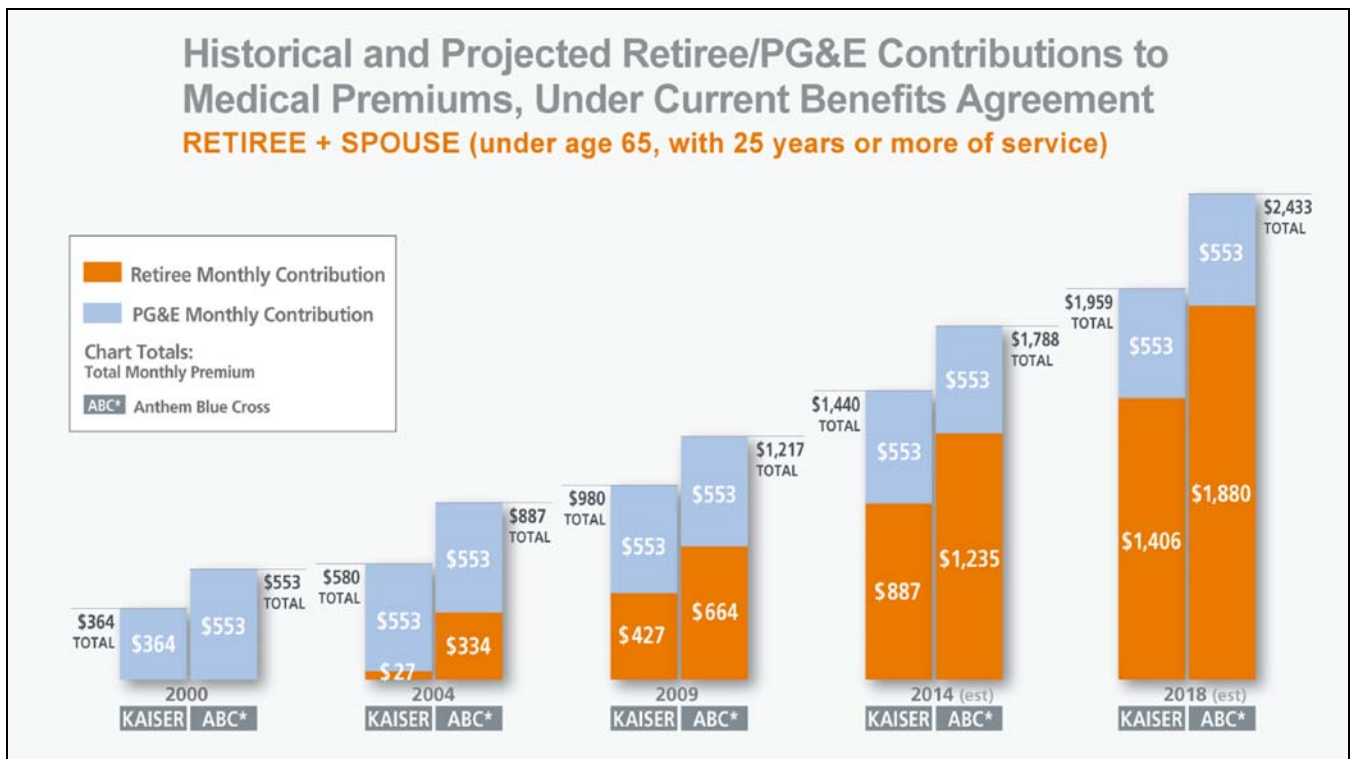
But the bad news is just beginning. . .

**The situation will get worse in the future, continued ...**

Inflation is going to make things even harder in the future.

According to national research commissioned by the Kaiser Foundation, inflation in America increased by 17% from 2001 to 2007. During that same period, wages increased 19%. Premiums for family medical coverage increased 78%.

Medical costs have been on a steady climb for a generation. A steep climb. The current economic slowdown is not likely to change that basic historical pattern. The chart below shows how the cap on company contributions will drive medical costs into the sky for PG&E retirees.



With PG&E's contribution capped at \$553, a retiree with spouse (under age 65) will pay \$1,880 per month for Anthem Blue Cross in 2018. That's just nine years from now . . . at a time when many thousands of PG&E employees will have recently retired or will be considering retirement.

***With medical premiums so high, will we all have to work until we die?***



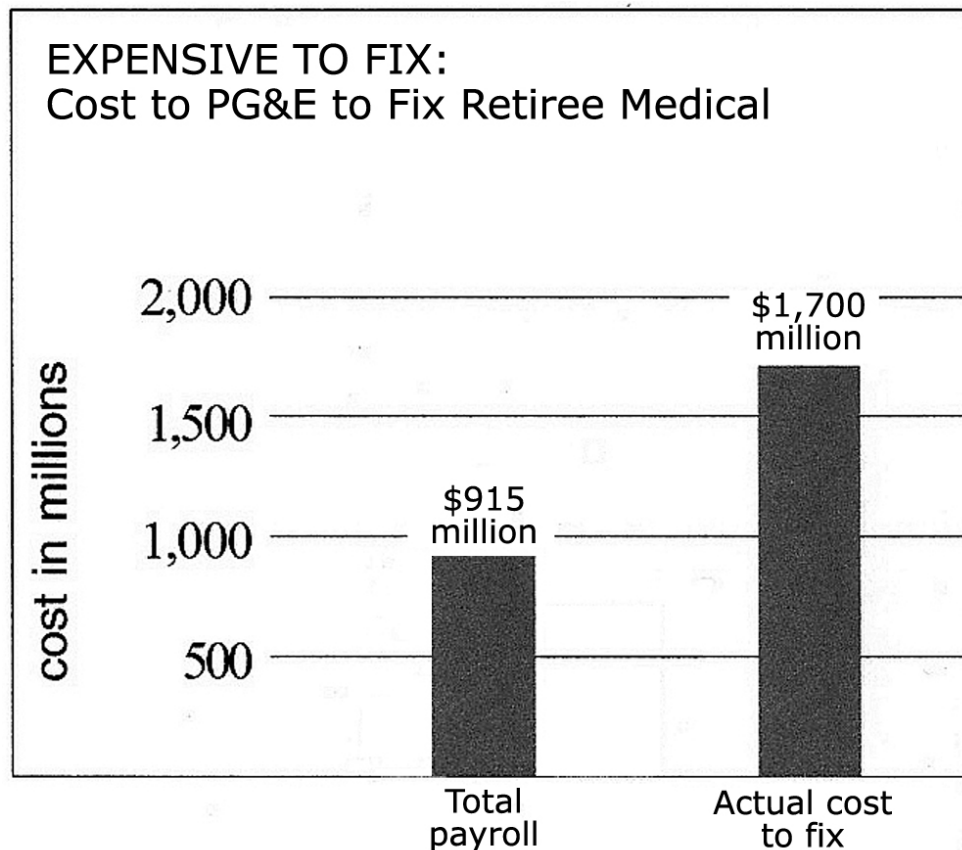
## **Fact #3:**

# **The problem is very expensive to fix.**

The rules governing medical plans require PG&E to fund future costs, not just next year's costs. In other words, PG&E has to start funding post-retirement medical benefits for each employee as soon as they are hired. The level of funding is based on assumptions about the cost of those benefits 30-35 years in the future.

If the cap is lifted, the extra liability for funding post-retirement medical would end up on PG&E's balance sheet. The immediate cost of covering that liability would be \$1.7 billion.

That amount is about twice the size of PG&E's entire payroll, as the chart below illustrates:



## Fact #4:

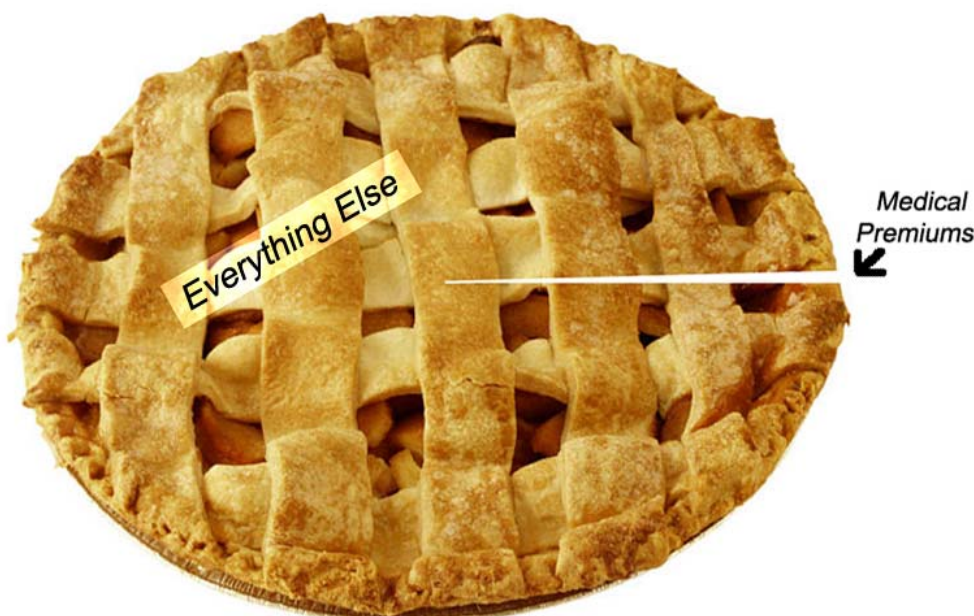
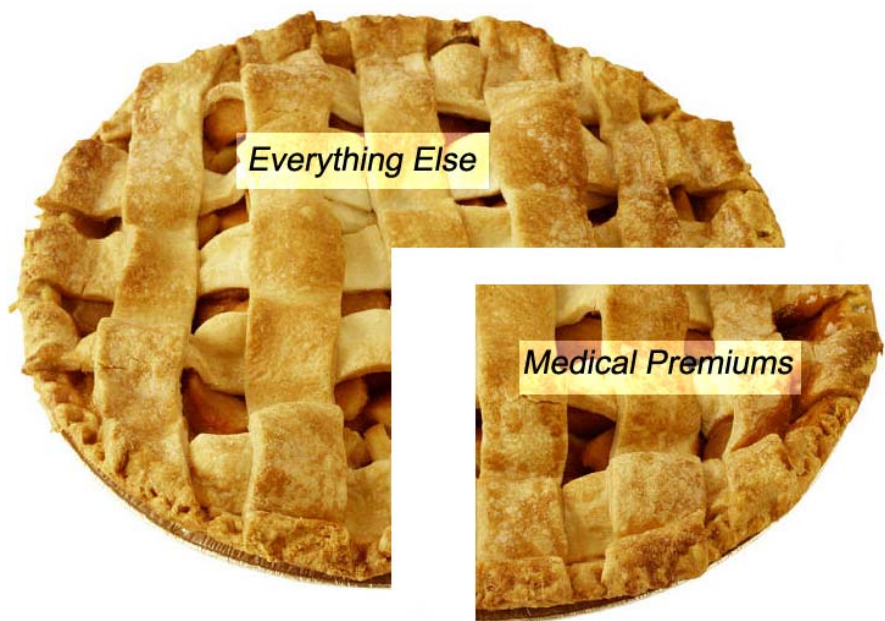
# Active employees have excellent medical.

The average monthly wage for IBEW workers at PG&E is: \$ 6,240.

The highest monthly contribution to medical premiums is: \$ 63.

So how does that compare to what IBEW retirees spend on medical premiums?

Retirees spend 25%  
of their pension  
on medical premiums

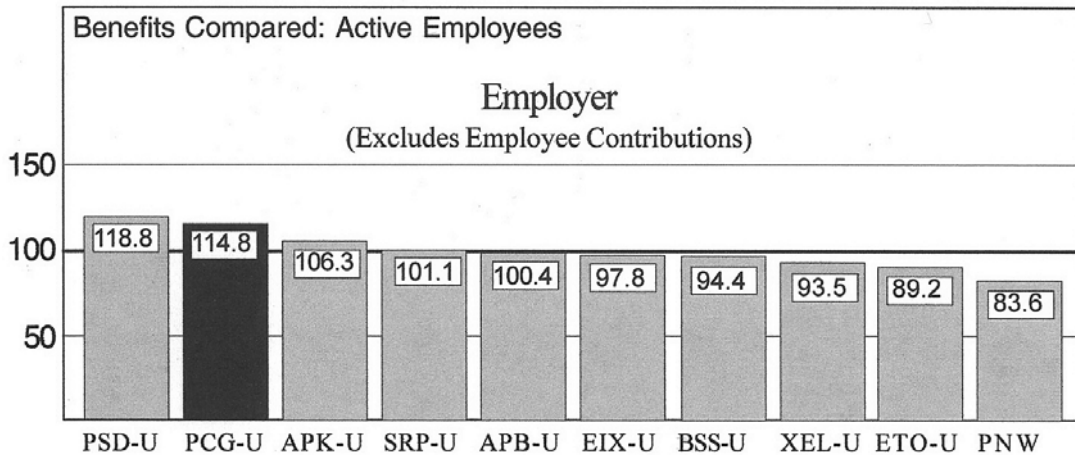


Active employees  
spend 1%  
of their wage  
on medical  
premiums

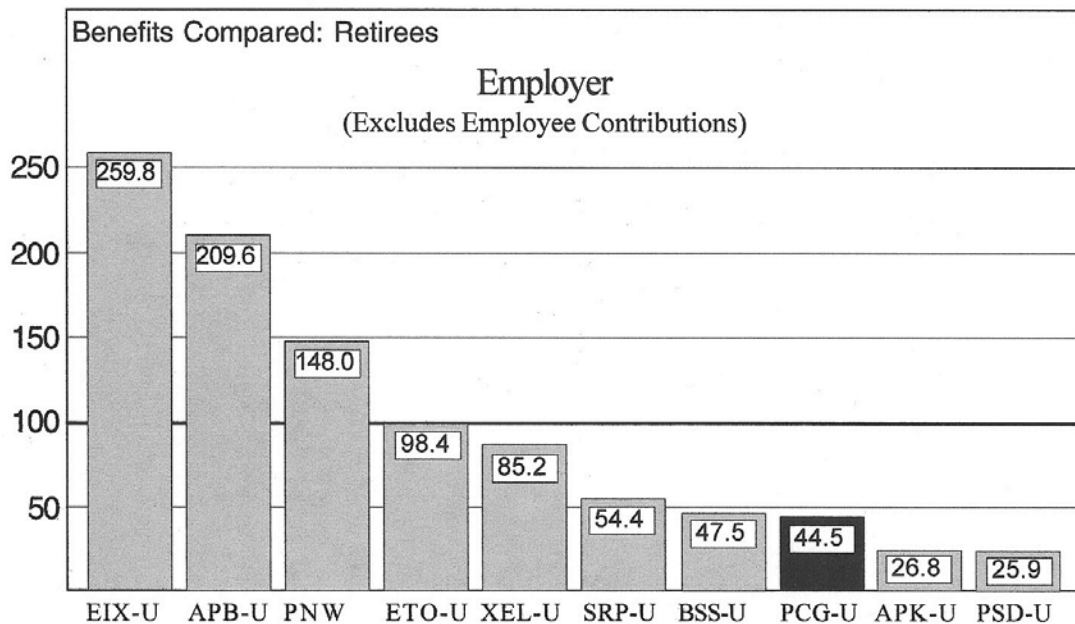
**Active employees have excellent medical, continued ...**

Does this mean that retiree medical benefits are out-of-whack compared to active employee medical benefits? There's no absolute rule, of course. But one way to gain perspective is to look at how PG&E benefits stack up against similar companies.

The chart below compares medical benefits for active employees at various West Coast utilities. PG&E, shown in black, is second from top.



Looking at benefits for PG&E retirees, it is a very different picture. The chart below compares medical benefits for retired employees at those same West Coast utilities. PG&E, shown in black, is third from the bottom.



(Note on symbols in these charts: Because the information on these charts is proprietary, the names of the utilities have been disguised. The “-U” in the symbol means the figures refer to the unionized workforce at that utility.)

## Fact #5:

# A multi-prong solution will be required.

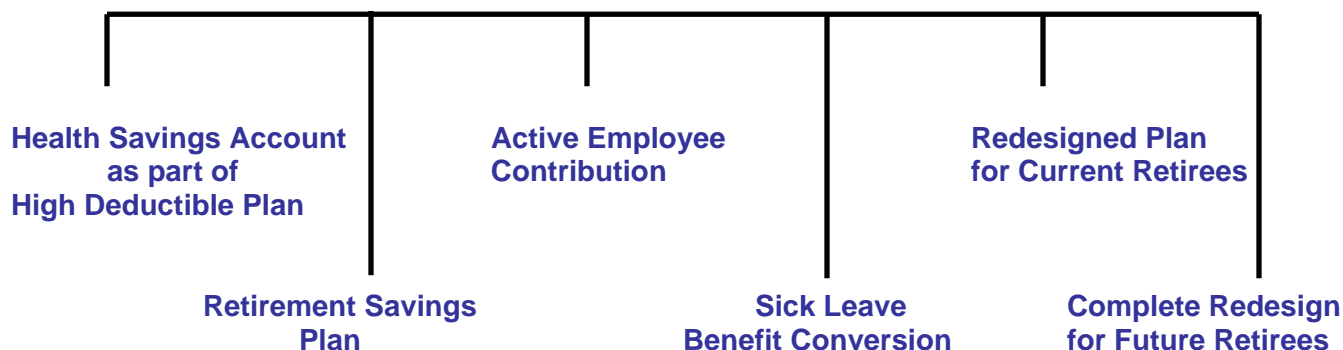
Retiree medical is a complex problem. The company and the union have discussed several strategies for reducing medical costs for both current and future retirees. Any viable solution will probably require many elements.

Negotiators for PG&E and IBEW have met at length with Towers-Perrin, a national consulting firm specializing in compensation issues. The purpose of these meetings has been to lay the groundwork for negotiations by gathering key facts, and learning how other large employers are dealing with the issue of health insurance.

Many people hope that national health care reform might fix some of our problems. But if we wait for Congress to come up with a solution we could be waiting forever. The problem of retiree medical benefits needs a solution now. The current bargaining between PG&E and IBEW is our best shot for making improvements for current and future retirees.

PG&E and IBEW will be looking at several options. The purpose of these negotiations is to see if we can create a solution by combining several of these options. The options shown below are for educational purposes only. Actual proposals will not go onto the bargaining table until negotiations formally begin, currently scheduled for March 23.

### A Multi-Prong Approach



## **Prong 1: Health Savings Account as part of a High-Deductible Plan**

One possible option is for PG&E to adopt a high deductible medical plan. The deductible would be higher than employees are currently used to. Just as an example for discussion, we'll say \$1500.

The obvious downside of such a plan is that you have to incur a lot of expense before your benefits kick in. But when a High-Deductible Plan is combined with a Health Savings Account, the upside starts becoming apparent.

Each year the employer places money into a Health Savings Account (HSA) for each employee. (The amount would be an important subject of bargaining in the upcoming negotiations. We will use \$750, as an example only.)

With an HSA, the employee chooses how to use the money. One choice would be to use money from your HSA to pay toward your deductible. This approach would bring down your immediate medical costs.

But you would have a second choice. You could pay the deductible out of your own funds, and preserve that \$750 in your Health Savings Account. This isn't "notional" money (money that goes away if you don't use it). It's real money that is banked for you, in your name. The advantages of such an account include:

- Employees can make contributions to their HSA. The HSA is "triply protected" from federal taxes: contributions are "pre-tax" dollars, the interest is tax-free, and the money is tax-free when it comes out of the account.
- Your HSA is portable. It stays with you even if you change employers.
- The money can be used for deductibles and any other health expense except premiums. And it can be used for premiums when you are Medicare-eligible.
- It is self-directed. Each employee chooses how the money banked in their HSA is invested.

Younger employees with a lot of earning power still ahead of them might choose to work extra overtime to cover the deductible. This would allow them to bank the HSA money for the future. \$750 a year for 25 or 30 years, plus interest, adds up to a significant nest egg for medical expenses later in life.

Another advantage of such a plan is that preventative care is 100% paid. It doesn't cost you or your HSA a dime.

## **Prong 2: Improve PG&E's Retirement Savings Plan**

Improvements to PG&E's Retirement Savings Plan is another possible piece of the solution.

Currently, PG&E contributes 75 cents in “matching money” for every \$1 a non-bargaining unit employee pays into his/her 401k plan. The match for IBEW members is just 50 cents on the dollar. And IBEW members must wait three years to qualify for the maximum match of 6%.

PG&E ranks low among West Coast utilities in its contribution to 401k plans. Increasing its contribution would make more money available to employees in retirement, which could be used to help defray medical expenses.

## **Prong 3: Active Employees Make Contribution**

The total cost to PG&E to provide medical coverage of bargaining unit employees is \$196 million annually, and growing. Currently the company picks up 96.25% of this cost. Active IBEW employees contribute 3.75%.

Negotiations mean give and take. Each side has interests it wants to defend.

Union negotiators must be able to show our members that PG&E is stepping up to the plate and making a substantial contribution toward improving retiree medical benefits.

Company negotiators, likewise, have people they must answer to—customers, directors, regulators. The company must show it is making an effort to control costs.

Each 1 percent increase in active employee co-payments toward their medical premiums would save the company about \$2 million. An increase in active employee contributions—even a very modest one—makes it more likely the company will respond positively to our very large concerns about retiree medical.

## **Prong 4: Sick Leave Benefit Conversion**

Typically, PG&E employees retire with sick leave remaining on the books.

It is a common practice in the public sector to convert that sick leave into a benefit that helps retirees with medical costs. For example:

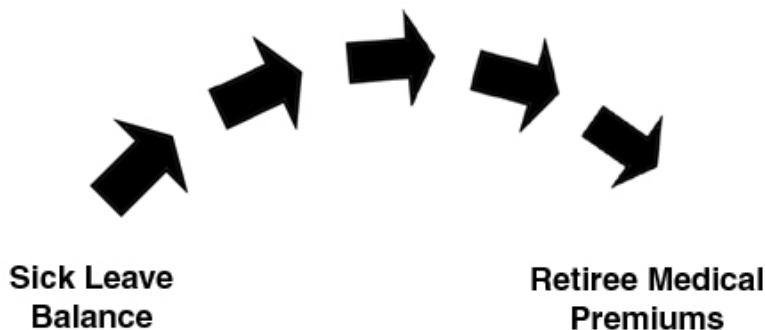
IBEW Local 1245 members at the City of Lodi who retire with 10 years of service receive 50% of the dollar value of their sick leave to use for medical insurance premiums. For each additional year of service, 2-1/2% is added to that 50%.

In the past, PG&E has not been interested in discussing sick leave conversion. But two other utilities—SoCal Gas and Southern California Edison—agreed to sick leave conversion plans in their most recent negotiations with their unions.

PG&E now acknowledges that this issue needs to be part of the discussion.

Sick leave benefit conversion could assist retirees with medical expenses in two ways:

1. Sick leave could be used to extend service at retirement, potentially increasing the size of an employee's pension and thus making more money available for paying medical expenses.
2. Sick leave hours could be converted into "notional" money that could be directly applied to medical insurance premiums, as in the City of Lodi example.



## **Prong 5: Redesigned Medical Plan for Current Retirees**

The problems with retiree medical began when the company's contribution was capped. Retirees now pay 100% of any increase in their medical insurance premium. This is not sustainable—not for current retirees, not for future retirees.

Any solution will have to move some of the financial burden off the shoulders of retirees. One possibility is to adjust the company cap upward. Another possibility is to adjust the formula so that retirees pay a fixed percentage of the premium, requiring PG&E to share the burden of future premium increases.

## **Prong 6: Redesigned Retiree Medical Plan for Future Retirees**

Retiree Medical isn't just a problem for retirees. Active employees, if they stick around long enough, are all going to be retirees. And if you don't want to work until you die, you have a big stake in getting this problem solved now.

A leading candidate for solving the Retiree Medical problem going forward is the Retirement Medical Savings Account (RMSA). The RMSA is a way for PG&E to start paying now for what you will need in the future when you retire. The RMSA is "notional" money — it is obligated to you, but is not literally in an account with your name on it. Here's how it works (specific figures used only as an example):

The company would pay into an RMSA \$5,000 per year for each employee beginning at age 45, and another \$5,000 per year for the employee's spouse. At age 55, the amount paid into the employee's RMSA would increase to \$6,250 annually; the spouse's amount would remain at \$5,000 annually.

Interest would be credited to these accounts at a rate of 5% annually.

Upon retirement, the account balances could be used to pay premiums for PG&E-sponsored retiree medical coverage. The maximum annual account drawdown would be 50% of the plan cost prior to age 65 and 33% at age 65 and later.

PG&E would fund an opening balance for employees age 45 and older. That opening balance would be equal to what would have been in the account if the RMSA had always been in place.

## Fact #6: For this to work, PG&E has to pay more.

We don't want our medical premium co-payments to go up unless we get something substantial in return. This means that any overall package must include an overall net gain for us—active employees and retired employees considered as a unit.



Some changes under consideration may not cost anything. Those are the kind we like best.

Some changes will require active employees to give up something, probably in the form of a higher co-payment on their medical premium. Obviously we will want to keep any increases as low as we possibly can.

Our goal in bargaining will be to help PG&E identify savings where possible. It is to everyone's benefit to keep the company financially sound. But the bottom line is this: PG&E will have to pitch in with some significant dollars to help fix medical benefits for current and future retirees.



Because nobody wants to have to work until they die.

## **Fact #7:**

### **You get to vote before anything changes.**

Any changes negotiated this spring with PG&E must be ratified by the IBEW membership before they can take effect. That means there is no change unless you agree to it by a majority vote.

It also means that your vote has real consequences. The problem of retiree medical will not go away on its own. The cost of medical coverage is doing real harm to our retired brothers and sisters today.

And those costs threaten the ability of active employees to realize their own dreams of a comfortable retirement.

We owe it to our retirees and to ourselves to study these issues closely, to make informed judgements, and to vote when we get the chance.



**It's your union. It's your future.  
It's your decision.**

**Beware  
of dog.**



Stay up-to-date on benefits bargaining at:

**[www.ibew1245.com](http://www.ibew1245.com)**

Or, on the PG&E Intranet go to <http://pgeatwork/>  
and select "My Stuff", then select "IBEW"