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News

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Deflation Puts Pension COLA Into Reverse 1.7% But ARA Suggests a Better Alternative

The announced 1.7% decrease in pension payments for 2010 came as a shock and surprise to many retirees. This is the first time in the history of the Plan's Cost of Living Adjustment (COLA) that there has been a drop in the official Bureau of Labor Statistics number, and many retirees had forgotten that the COLA can make payment go either up or down.

ARA's first reaction was, "Can they do that?" The answer is yes. That's the way the contract is written, and it is what Aetna told retirees it would do. In making the announcement of the new COLA provision in 1968, Chairman Olcott D. Smith's letter read, "The amount your benefits will be adjusted – up or down -- in any year is determined by the percentage change in the U.S. Government's Consumer Price Index (CPI) for the preceding year – subject to a limit of 3% in the amount of any annual adjustment. Adjustments are made on January 1, based on the change in the CPI for the 12 months ending with the previous September and will begin January 1, 1969." The announcement went on to say that pensions would never drop below what they were at the time of retirement.

Aetna has reminded workers of this provision over the years. For example, in the 1985 edition of "Your Second Paycheck," here's what it said:

> "The cost-of-living adjustment …provides for an annual adjustment in your benefits to reflect increases or decreases in the cost of living. Those adjustments start after pension payments begin."
>
> "The amount of your adjustment -- up or down -- in any year depends on the percentage change in the U.S. Government Consumer Price Index (CPI) for the preceding year. The limit of any adjustment is 3% of your current pension. The changes are made on January 1, based on the change in the CPI for the 12 months ending the previous September 30."
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> "All CPI increases (up to 3% per year limit and to the nearest .1%) will increase your pension. But even if the CPI should decrease over the years, your pension will never drop below its value at the time of your retirement."

While there is no doubt that Aetna is operating properly within the Plan, many retirees see the current situation as an anomaly that deserves some relief. In 2008, retirees got a 3.0% increase, but the inflation number was 5.4% so retirees lost 2.4% in buying power. Add in the 1.7% actual decrease for 2010, and retirees take a considerable hit in a two year period.

There are also built-in defects in the government's Consumer Price Index (CPI-W) that is used by Social Security and the Aetna Pension Plan. It purportedly measures a "market basket of goods and services," but it probably does not accurately reflect the actual state of things for most retirees. Things like taxes, insurance and medical expenses have certainly not seen reductions. Seniors spend a larger share of their incomes on medical expenses than do younger workers and, with medical inflation high, many seniors are losing financial ground very fast.

With these factors in mind, the ARA board went to work to analyze the situation. It found that the Aetna Pension Plan could continue payments at the 2009 level and still realize a windfall gain for the Plan of 2.75%. That is the inflation factor assumed in the Plan funding.

Based on our research, ARA Chairman and President Bob Gilligan has addressed a letter to Aetna Chairman Ron Williams asking him to reconsider applying the reduction and instead to continue payments at the 2009 level. The letter is attached.

This would be a bold step for Aetna to take, but ARA feels that it is justified. At a time when many politicians and media outlets routinely paint the industry in the most negative light possible, this would be proof of human concern.

We believe ARA members appreciate having the COLA. Since 1995, the COLA in the Aetna Pension Plan has increased payments 35%. Many retirees would be hurting without those increases. Even with its imperfections, it is an important part of retiree security. Retirement benefits were an important element of why we stayed at Aetna and worked hard for the company. We understand why the company wished to cap the COLA to protect itself against an extended period of runaway inflation. However, over the years, Aetna has had the advantage of paying benefits in ever softer dollars, while retirees have seen the purchasing power of pension dollars decrease. In 2010, we will lose actual dollars.

In evaluating our request, we realize that Aetna must look at a variety of factors. However, we are convinced that this request could be honored without any serious loss to the company and that the action, if taken, would cast them in a most favorable light. We will keep you posted.

Hartford Hospital negotiations present enrollment problems

What was supposed to be an easy enrollment period for 2010 suddenly got very complicated for many Connecticut retirees when Aetna notified them of a breakdown in rate negotiations with a major provider group. Hartford Healthcare Corporation (HHC) represents Hartford Hospital and 700 affiliated physicians, Windham Hospital and MidState Medical Center.

Negotiations began in July, but the two sides have not been able to come to an agreement and time is fast running out. If no new contract is signed before the end of the year, these providers will be "out of network" and will not accept most Aetna plans. Because of the large number of Aetna retirees still living in the area and being served by some of these providers, this is a major concern.

The situation is further complicated because we are nearing the end of the 2010 benefits enrollment period. ***Members must make 2010 selections no later than November 13***. That means selections for 2010 coverage must be made before many Hartford-area retirees know for sure if their providers will be available to them next year.

It is still possible that HHC and Aetna will come to an agreement before the end of the year. However, this cannot be assumed, so Aetna is recommending that members make their choices based on the assumption that the HHC providers will not be in network in 2010. Of course, each insured still should assess his or her own situation and make decisions on that basis.

Product Review and Key Points

On November 4, Aetna hosted a meeting with ARA representatives to discuss the situation and to answer questions about specific products and situations so we can pass this information along to our membership.

- **Original Medicare with Aetna Indemnity Supplement** This should not be affected by the contract negotiations. Those in this plan can continue their participation without any concern about using the HHC providers
- **Aetna Medicare Open Plan** Those under the Advantage Plan will be negatively affected if HHC providers are not under contract. Some doctors may accept the plan but it is difficult now, if not impossible, to tell which ones. Therefore, Aetna advises retirees to assume that HHC will not be under contract and that providers will no longer accept Aetna Medicare Open coverage. Those who want to remain with their current HHC providers may elect Original Medicare and the Aetna Indemnity Supplement during the enrollment period with an expected effective date of January 1, 2010. The change will allow you to continue current provider relationships. The premiums for the two products are virtually identical as are the out-of-pocket caps of $3,000 per individual. There are modest differences in benefits, which should be reviewed, but nothing substantial.

- **All Pre-Medicare Plans** If no contract is signed, all pre-Medicare Plans will be affected. All HHC providers will be "out of network," and will not accept payment under these plans.
- **Call Concierge** Call Aetna One Health Concierge at 1 (800) 558-0860 and ask if your current providers will be in or out of network if the agreement with HHC is not signed.
- **Careful Examination** Compare the plan you are now in with other available plans to determine deductible levels, out-of-pocket minimums, co-insurance levels, etc. Look at services both in and out of network.
- **Compare rates** After a careful examination of all factors, look at the premium rates/contributions associated with each.
- **Open Access Select Choice 90 Plan** This plan does not provide any payment for out-of-network services. Any services received from providers not in the network are out of the pocket of the insured with no reimbursement from Aetna.
- **If the situation changes** If you are currently in the Open Access Select Choice 90 Plan and select a different plan for 2010, you can return to your original coverage if Aetna and HHC sign a contract before the end of the year. If this occurs, you will have to notify Aetna immediately of your decision
- **Other Pre-Medicare Plans** If you use an HHC provider after the current contract expires at the end of the year, you will be charged directly by the provider as though you were not insured. While you can submit these charges for payment to Aetna, it likely will cost you a great deal more out of pocket. Under these circumstances, it would appear that changing healthcare providers might become a necessity.

If an agreement is reached with HHC before the end of the year, those Medicare eligible retirees who switched to Original Medicare with Indemnity supplement during the enrollment period may switch back to the Aetna Medicare Open Plan if they wish, but this must be done by December 31, 2009.

Medicare Eligible retirees who stay with the Aetna Medicare Open Plan, and later experience refusal by providers to accept it, may change to the Aetna Medicare and Indemnity Supplement, but they must understand that changes of this type are prospective and only happen every 30 days.

Aetna openness and cooperation are much appreciated

ARA appreciates the concern that the Aetna Benefits people show for the retirees, their willingness to show flexibility, and their willingness to bring ARA into the process at an early date.

Notice regarding Aetna phone contacts

The phone number on Page 12 of the retiree booklet is for information on providers who will not accept the Aetna Medicare Open Plan. If you already understand the situation and want to make a coverage change, you must call (800) 283-6247.

Aetna asks your support in Hartford Hospital negotiations by writing to your doctors

Aetna has asked ARA's help in contacting our members and urging those affected to contact their healthcare providers about this matter. Certainly it would be best for all if Aetna and HHC can reach a settlement that is fair and equitable to both parties and to the public they serve. The price of not doing so will be considerable displacement as patients are forced to abandon long-standing providers in whom they have confidence, and try to find suitable replacements.

The attached material is self explanatory. Aetna has provided a suggested letter, but some members may wish to personalize it or even write a more personal version of their own. In either event, ARA believes that it will be helpful if members contact providers and express their concerns.

November 2009

To: Aetna Retirees

Subject: Hartford HealthCare – How You Can Help

In October, we informed you of the status of contract negotiations with Hartford HealthCare. If we cannot reach an agreement with Hartford HealthCare by the end of the year, they will terminate their contract with us. This termination would include our current agreement with the Hartford Hospital Physician Hospital Organization (PHO), a group of approximately 700 area physicians who have admitting privileges at Hartford Hospital.

We know that many of you have developed important relationships with many of these physicians. We also know how much you value a trusted health care professional who has helped you and your family for many years. In addition to helping to manage your health on a personal level, these physicians have also recently met a number of our clinical quality guidelines. That means we both have a vested interest in keeping them in the Aetna network. This is why Aetna is reaching out directly to the physicians in the Hartford Hospital PHO to try to keep them in the Aetna network.

What You Can Do

Many of you have asked how you can help in our negotiations with Hartford HealthCare. While we are reaching out to these physicians on our own, we realize that hearing the same message from their patients – all of you – can influence their consideration of remaining within Aetna's network.

If you are willing, attached is a template letter that you can share with your physician(s). In addition, please feel free to share your own personal thoughts with your physician around your desire to keep them as a network-contracted Aetna health care provider.

We appreciate your interest in the outcome of this situation. We are committed to providing all of you with the most robust provider network possible. If you have questions about your plan or your own physician, please call 1-800-558-0860 (Aetna One Health Concierge) or for Aetna Medicare Open Plan (PFFS) members, you can call the number on your ID card 1-888-972-3862.

Sincerely,

Elease Wright, Aetna Human Resources, and Mike Hudson, Northeast Regional Sales

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Dear Health Care Professional:

As your patient for many years, I have developed a strong doctor-patient relationship. I truly value the high-level of medical service and professionalism that you consistently deliver.

As an Aetna retiree and current health plan member, I also have a positive relationship with Aetna. They continue to work with their retirees on a number of important issues.

I know that Aetna and Hartford HealthCare are in the midst of a difficult contract negotiation. I also am aware that if they are unable to reach agreement, the contract will terminate and the physicians in the Hartford Hospital's Physician Hospital Organization (PHO) would no longer be in Aetna's network. The end result for me would be higher out-of-pocket costs to see the health care provider that I trust, since you would be considered an out-of-network provider by Aetna. Or worse, I would not be able to receive care from you if you were to decide to not to provide service under the Aetna Medicare Open Plan.

Aetna has informed its retirees that it is reaching out to the physicians within the Hartford Hospital PHO to try to keep all of you within Aetna's network. I understand that you have to make the decision that is best for you personally and professionally, but I wanted to share my preference for you to remain in Aetna's network.

I am fortunate to have developed a trusting relationship with you as my health care provider. I hope that you decide to remain in Aetna's network and to accept the Aetna Retiree Aetna Medicare Open Plan, so that I can maintain these existing relationships on both sides.

Thank you for taking the time to consider the thoughts and concerns of Aetna retirees like myself.

Sincerely,

Aetna Retiree/Patient

CONTACT ARA!

We welcome your comments, questions, ideas and letters to the editor. See mail and website addresses on page 1.

Dave Smith, Editor

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Helping Aetna Keep its Promises

November 7, 2009

Ronald A. Williams
Chairman and CEO
Aetna, Inc.
151 Farmington Avenue
Hartford, CT 06156

Dear Mr. Williams,

I am writing to you in connection with the announced 1.7% reduction in the pensions of Aetna retirees for 2010. The Aetna Retirees Association is receiving many inquiries about this, asking if we can persuade Aetna to reconsider what will undoubtedly be a hardship for many.

There is no question as to what the Plan actually says or how it has been administered. Strict observance of the Plan provisions calls for the reduction. Also, there is no question of the value that the COLA has been and will continue to be over time. Nevertheless, we are asking that you consider the situation from both the point of equity and value to Aetna.

Although the Bureau of Labor Statistics numbers indicate a deflation rate of 1.7%, few retirees experience any real reduction in the cost of living because of both the construction of that data and the relatively large role medical costs play in their budgets.

At least 17 times since the COLA adjustment was introduced in 1968, the CPI-W has exceeded the 3% cap to the benefit of Aetna. In those years, retirees lost purchasing power. Last year, for example, our increase was limited to 3%, even though the cost of living increased by 5.4%.

We view the current situation as something of an anomaly; a high inflation year followed by deflation. The loss of 2.4% and 1.7% in consecutive years will be a real hardship for many retirees. It is especially hard to take at a time when our health insurance premiums continue to rise well above the inflation rate.

We ask that Aetna retain individual 2010 pension payments unchanged from their 2009 levels. It can be accomplished without a reduction in the Plan's funded ratio, in the following manner. If payments are reduced, the plan would realize what might be called a windfall by virtue of payments declining 1.7% versus the 2.75% increase assumed in the valuation used for the funded ratio. That represents a gain of 4.45% of payments. If payments are not reduced, the plan would still realize a windfall, but reduced to 2.75%. Thus, there would still be an incremental improvement in the funded ratio. In dollars, we estimate that not reducing payments would reduce the windfall savings from about $11 million to some $7 million in 2010 with a reduced ripple effect in subsequent years.

However the costs are viewed, Aetna would obtain a tremendous amount of favorable publicity. At a time when insurance companies are being demonized as greedy and uncaring, you can demonstrate the untruth of the charges. For Aetna to keep benefits at the 2009 level would no doubt be

seen as supportive of attempts to bolster the economy, since pension reductions will inevitably result in lower expenditures by those who see their pension checks shrink. Congress has recognized this situation and is considering a one-time payment to offset real losses to retirees.

In summary, we believe that Aetna could retain payment levels unchanged with minimal effect on the Plan. The company would reap significant rewards in the area of public opinion in return, to say nothing of increased loyalty and gratitude on the part of affected retirees.

Thank you for considering our proposal.

Sincerely,

Robert F. Gilligan

Robert F. Gilligan
Chairman & President
Aetna Retirees Association, Inc.
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