



Aetna Retirees Association, Inc
PO Box 280165
East Hartford, CT 06128
www.aetnaretirees.com

News

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OBAMA CARE

The Rollout Begins With Changes for All

Welcome it or dread it, favor it or oppose it, the new Health Reform Law is here. In the coming months and years, the government, every business and every citizen will have to grapple with the changes it produces. Even a 2000 page law cannot begin to fully explain every change. At best, the bill itself is a massive roadmap into uncharted territory.

As the government rolls it out and creates the supporting bureaucracies – some believe that the bill creates 159 new federal agencies, offices or programs – the eventual product will take shape. Regulations will be written, forms created, rulings made and probably challenged in court. It will be a demanding process.

An excellent example of this surfaced recently when one ARA board member was told that the money paid by Aetna for his health insurance would appear as an item on his 2010 1099, and would be taxable to him in this tax year. This did not sound right, and sent us scurrying off to get the facts.

Here's what we found out. The amount Aetna pays for our health insurance will appear on your year-end 1099 for 2010. However, it is there for "information" purposes and will not be taxable for tax year 2010. In fact, it will be there every year in the future, but applicable taxes will not cut in until 2016. This is the tax on so-called Cadillac plans. Then it will be taxable if your total health insurance premiums are more than \$10,200 per year for you, or more than \$27,500 per year for you and your family. The provision levies a 40% non-deductible excise tax on healthcare benefits in excess of these thresholds.

In a rare stroke of foresight, Congress indexed these thresholds to inflation at an annual rate of the CPI plus 1%. Oh, yes, don't worry about your members of Congress. They exempted themselves from the provisions of the bill. More foresight, but not so rare in this case!

WHAT ABOUT THE ADVANTAGE PLAN?

Most ARA members are concerned about the future of the Advantage Plan. A mailing from the Centers for Medicare and Medicaid Services received by many members included a section with the headline, "**Improvements in Medicare Advantage.**"

The headline sounds encouraging, but the text that followed was not. Here's what it said:

- Today, Medicare pays Medicare Advantage insurance companies over \$1,000 more per person on average than Original Medicare. Those additional payments are paid for in part by increased premiums by all Medicare beneficiaries – including the 77% of seniors not enrolled in Medicare Advantage Plans.
- The new law levels the playing field by gradually eliminating Medicare Advantage overpayments to insurance companies.
- If you are in a Medicare Advantage plan, you will still receive guaranteed Medicare benefits.
- Beginning in 2014, the new law protects Medicare Advantage members by taking strong steps to ensure that at least 85% of every dollar these plans receive is spent on health care, rather than administrative costs and insurance company profits.

For starters, it is difficult to understand how taking money out of a plan improves it. Nor is it clear whether or not government allowances to companies take into account the reduced administrative load on Medicare that these plans produce. What is clear is that if Medicare payments to Aetna and other insurers are reduced,

they must accept lower profit margins, reduce benefits or increase premiums to insureds.

Aetna has, on repeated occasions, stated that it believes Aetna Advantage will remain a viable product. However, in making such a statement, company officials choose their words carefully. That is understandable. While Aetna has remained positive in its statements on the new Health Reform Law, company officials seem to fully understand that many questions remain unanswered and insurance companies must retain flexibility.

COST REDUCTION

In the Spring, 2010 issue of Aetna Retiree Connection, Aetna Chairman Ron Williams commented on the need to reduce costs. He said, "Aetna has maintained that the success of health care reform will hinge on addressing health care costs, and has pledged to continue working toward reforms that would achieve affordability. Aetna will continue to be just as engaged as the lengthy implementation of health care reform moves forward and toward its next phase – improved affordability and quality of care."

While speaking positively of some of the changes made by the new law, Mr. Williams pointed out its shortcomings in addressing cost reduction. He said, "The challenge unmet by this bill, however, is to effectively deal with the critical issue of affordability, which has become a burden for so many, particularly individuals and small business owners."

The article went on to enumerate things Aetna is doing to address cost reduction. It lists the real drivers of rising health premiums as hospital price increases, cost shifting from Medicare and Medicaid, state

and federal taxes and increased demand for services caused by unhealthy lifestyles. Aetna has produced a primer on the subject entitled, "The Facts About Rising Health Care Costs." You can find the document on the web at:
www.aetna.com/news/2010/CostDrivers.pdf.

CHALLENGES FOR AETNA

The Retiree Connection article went on to discuss steps being taken by the company to prepare for the impact of the new law. For example, in April, Aetna announced that it would allow the children of insureds up to the age of 26 to remain covered under their parents' plan. This is a provision of the new law which Aetna is implementing in advance of the date required in the new law.

While speaking optimistically about Aetna's ability to succeed in the post-health care marketplace, it also acknowledged the complexity of the process. "As with any new law, however, there are many areas left open to interpretation and many others that require clarification in general, both for 2010 provisions and those that occur beyond this year."

To gain a complete understanding of Aetna's public positions on this and other issues, we suggest that you go to www.aetna.com and to read Aetna's Retiree Connection publication.

CHALLENGES FOR ARA

Our job is simple enough: keep up with change but don't be tempted to try to get ahead of it. With changes so vast, any attempt to predict the future is almost guaranteed to produce more confusion than clarity. Anyone trying to predict the future will end up with about the same accuracy level as a fortune teller.

That is not to say that we cannot do anything. The board is actively monitoring material from a wide range of different sources. One of the best we have come up with recently is "FOCUS ON HEALTH REFORM -- Summary of New Health Reform Law" produced by the Henry J. Kaiser Family Foundation. A link to this excellent synopsis is now on the ARA web site. Go to our web site – www.aetnaretirees.com. On the home page, scroll down to *Related websites and other resources*. Click on the seventh item – Kaiser Foundation HealthCare Summary. If you do not have access to the internet, we will be happy to provide you with a printed copy on request.

As always, we want to hear from you on this – your questions and your ideas. However, please keep in mind that most questions will have to await the answers. In time, we will know more and will share it with you when we are reasonably sure that we have the right answers.

We are now in the process of scheduling a meeting with the Aetna benefits staff to get our annual advanced look at the 2011 offerings. This process has been beneficial in past years, and we are sure that it will be productive this year. We appreciate the cooperation we receive from hard-working Aetna employees, and are pleased that we can provide an experienced team to review their plans and provide perspectives valuable to the company.

Elsewhere in this issue is a report on ARA's involvement in the Aetna annual stockholders meeting. I trust you will find the dialog between Chairman Ron Williams and ARA's representative to be both encouraging and interesting.

GOVERNMENT WEB SITE TOUTS NEW HEALTH CARE LAW

Want the official word on the new health care/health insurance law? Fire up your computer and visit *www.HealthCare.gov* It's the official U.S Government web site to tell you about the "Affordable Care Act," official name of what is commonly called Obamacare.

We visited the site and found it light and bright, and fairly easy to use. It starts out by claiming that the new law will:

- Make Insurance Companies more accountable
- Lower health care costs
- Provide more health care choices
- Enhance the quality of health care

In a section called "Understanding the New Law," the site provides information on the extension of the Medicare Trust for at least 12 years, coverage for preexisting conditions, and reduction of the disparities between rich and poor.

A helpful feature is titled "Timeline – What's changing and when." This provides a chronological list of major changes and when they are scheduled to take effect. The rollout will be over a five year time period.

While we found the site useful, it should probably be read with an educated, if not skeptical, eye. There is more than a little "sales job" to it, and many critics of the law contend that some claims made for it are unattainable.

It is also regrettable that some of the demonizing of the health insurance industry is in the text. For example, the

reference to holding insurance companies more accountable goes unexplained. Accountable for what and to whom? Certainly some insurance companies, drug companies and medical providers have engaged in practices that have caused problems, but continued finger pointing seems to have more to do with political posturing than problem solving.

ARA GETS POSITIVE ANSWERS AT AETNA SHAREHOLDERS MEETING

ARA representative John Lang and Aetna Chairman Ron Williams struck positive and conciliatory tones as ARA once again had a highly-visible presence at Aetna's annual shareholders meeting. Lang came right to the point with his questions, and Williams responded with encouraging answers.

In recognizing Lang, Chairman Williams expressed his appreciation for the interest of the retirees and for the foundation they provide the company which stands proudly on the shoulders of these retirees as it carries on the ethic and traditions so highly valued by the retirees.

Lang opened with a preamble to his questions, indicating his and ARA's understanding of the difficulties that the new Health Care Reform Law imposes on the company. With all of these areas of uncertainty in mind, he asked, are any changes anticipated in the plans offered retirees not yet eligible for Medicare, including unusual premium increases or reductions in coverage, particularly prescription drugs? Lang also asked if Aetna intended to continue its role as a Medicare Advantage provider, provide this service to its retirees eligible for Medicare,

and maintain the out-of-pocket paid expense cap?

Williams responded that it was the company's position to maintain balance and fairness in addressing retiree benefit issues. "It is obviously early to evaluate the impact of the myriad mix of new regulations. There are no current plans for abnormal benefit changes," Williams said, and promised to involve ARA in benefits discussions.

Chairman Williams said that the company intends to continue its Medicare Advantage program. The company feels that it is geographically viable, and further study of the regulations will determine how participation will unfold under such regulations. Communications with ARA will be open and Aetna management is well aware of the challenges faced by retirees, and maintains an ongoing, supportive attitude toward providing these valued retirees continued protection.

Lang next addressed the unfunded pension liability issue. Aetna has gone from a funded status of \$913 million at year end 2007 to an unfunded \$951 million at the end of 2009. That is a swing of \$1.8 billion dollars. The unfunded liabilities are well within statutory guidelines, representing about 20% of plan assets. Aetna has a long tradition of being fully funded or over funded. Given the plunge in both the stock market and real estate values, Aetna is in surprisingly good shape, especially when compared to many other companies. A voluntary (not legally required) contribution of \$45 million is scheduled for 2010.

Lang asked if Aetna management is comfortable with the current positions reported, and if management has, as an

objective, a plan to restore plan assets to a level providing positive funding status?

Chairman Williams responded that the strategy was to keep the plan adequately funded. That includes a desire to return to a positive ratio. He pointed out that the excess funding of the plan provided the cushion that prevented a liability deficit of greater magnitude such as many other companies with defined benefit plans had to confront. The ratio of assets to liabilities continues to be strong, well within statutory requirements and sound business practices.

Kind words directed to ARA were not limited to those of Chairman Williams. John Lang reports more praise from several senior officers and directors after the meeting was adjourned.

The meeting was held May 21 in the Atlanta Marriott Marquis Hotel. Other business transacted included the election of directors, the appointment of KPMG LLP as public accounting firm advising Aetna and its subsidiaries for the coming year, approval of the Aetna, Inc. stock incentive plan adding 13 million shares for incentive compensation to employees and 500 thousand shares for non-employee directors, the approval of the 2010 non-employee directors compensation plan, and the continuation of performance criteria under the 2001 annual incentive plan.

Two shareholder proposals were advanced, one calling for cumulative voting and the second for a non-executive chairman of the company. Both proposals were opposed by the board and defeated. ARA did not submit a shareholder proposal for 2010.

ARA extends its thanks to John Lang for his able representation of the organization at this important meeting.

MATCHING GIFT PROGRAM

While it isn't nearly as important to us as our pensions and health benefits, the Aetna Foundation's Matching Gift Program is, none-the-less, a valuable part of our retiree benefit package. It allows us to double the value of what we contribute to many of our favorite charities.

To learn more about the program, go to www.aetna-foundation.org. You may enter a request for a gift match by going

to www.easymatch.com/Aetna. When logging in, retirees must use their social security numbers rather than their old Aetna numbers. A password has been preset using the postal zip code they have on file for you. After you log in, you may select an alternative password if you wish.

If you need assistance, or if you do not have access to the internet, you may call the call center at (888) 261-8653.

The Aetna Foundation is an excellent example of corporate citizenship at its best. We are fortunate to be able to participate.

CONTACT ARA!

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

Dave Smith, Editor