

To: Alcatel-Lucent Local Presidents

From: Martha Flagge, CWA Representative, C&T

Re: Results of 2010 Retiree Healthcare Negotiations for Plan Year 2011

The Joint Retiree Healthcare Committee (JRHC) has completed annual negotiations in regard to the Formerly Represented Retiree Healthcare Plan for 2011. Each year, as negotiated in 2004, the JRHC reviews Retiree healthcare costs reported by the Company to have exceeded the negotiated Retiree Healthcare Caps that year. The Company is required to deposit a minimum of \$25 million dollars in a Taft-Hartley Trust Fund overseen by Trustees from the Company, the IBEW and CWA, to help reduce the costs to be borne by the Retirees. The Committee is required to "True Up" the balance of the excess cost by making changes to the Medical and/or Prescription Plan Designs, as well as Provider-recommended programs designed to help save future costs for the Plans and for the Retirees. The JRHC must also consider possible increases to Retiree contributions.

This year, the Committee was faced with a daunting \$39.6 million dollar deficit. In order to keep increases in Retiree cost share to a minimum, almost \$30 million dollars will be paid from the Taft-Hartley Trust Fund. A great deal of time was spent researching Provider-recommended programs to minimize increases in the cost of the Plans and/or Retiree contributions in 2011, as well as to help hold down the deficit in future years. To that end, the JRHC has recommended the following changes to the Prescription Drug Plan:

- **Member Pays the Difference** – This program is designed to incent Participants to select Generic equivalents when available. If the Participant chooses to stay on the Multi-Source brand product, the Participant is responsible for the difference between the gross costs of the Multi-Source brand and the Generic, in addition to the Generic co-pay. The Plan will only cover the net cost of the Generic. However, if the participant's physician indicates, in writing, that the higher cost drug is medically necessary, the participant will be allowed to continue taking the drug paying the Brand co-pay. **The savings for this change is projected to be \$1.6 million dollars.**
- **Coverage Authorization Programs** – These programs, currently in place will be expanded as soon as possible in 2010. The programs verify that Members' diagnoses and/or quantities dispensed are consistent with coverage requirements. **By adding nine drug classes to the programs in 2011, a savings potential of \$436,800 dollars is possible.**

- **Generic and Preferred Step Therapy** – Two drug classes, Cardiovascular (i.e., Atacand/Atacand HCT, Avapro/Avalide, Benicar/Benicar HCT, Teveten/Teveten HCT), and Non-Sedating Histamines (i.e., Allegra D 24, Clarinex, Clarinex D, Xyzal) will be added as soon as possible in 2010. The program encourages the use of one drug prior to a secondary drug. This program simply ensures that participants try lower cost generics or lower cost brands before the higher cost brands that may have been prescribed. If the participant's physician indicates that the higher cost drug is medically necessary, the participant will be allowed to continue taking the drug. **The savings potential with the additions to the Program is \$1.29 million dollars.**
- **Prescription Drug Plan Deductible** – A deductible of \$50 per covered individual, for prescriptions filled at Retail Pharmacies only, will be required in 2011. The deductible will not apply to the Out-of-Pocket Maximum and there is no family cap. **The savings for this Plan change is projected to be \$2.4 million dollars.**
- **Exclusion of Drugs with Over the Counter (OTC) Equivalent** – Drugs that have an over the counter equivalent will no longer be covered by the Prescription Drug Plan. **The savings for this Plan change is projected to be \$126,000.**

The 2011 Medical Plan will include the following changes:

- **Deductibles for POS Plan Based on Percent of Pension** – A deductible, based on the percent of the Retirees' pension will be added for the POS Plan in 2011. The percentages will be 1% In-Network/6% Out-of – Network with an annual minimum of \$600 per person. **The savings for this Plan change is projected to be \$2.4 million dollars.**
- **Retiree contributions (premiums)** – As negotiated in 2004, Retiree contributions increase by a minimum of .05% each year unless the JRHC makes alternative recommendations. Due to the extremely high deficit with which the JRHC was faced this year, the Committee was not able to hold contributions steady or to reduce them as we have done in prior years. Therefore, it was necessary to increase Pre-65 Retiree contributions for 2011. The contractual increase will result in a \$2.2 million dollar savings in 2011. The cost savings associated with the additional .05% increase will be \$2.1 million dollars.

Contributions are calculated on the amount of a Retiree's monthly pension and do not apply to those who retired before March 1, 1990. Current and future contribution percentages are shown below:

	CURRENT		1/1/2011	
	<u>Pre-65</u>	<u>Post-65</u>	<u>Pre-65</u>	<u>Post-65</u>
Single	8.50%	5.50%	9.50%	6%
Family	17%	11%	19%	12%

Based on a monthly pension amount of \$1,200.00, the increased contributions equate to the following per month increase:

	<u>Pre-65</u>	<u>Post-65</u>
Single	\$12.00	\$6.00
Family	\$24.00	\$12.00

The total savings due to the increase in Retiree contributions will be \$4.3 million dollars.

I'd like to thank you in advance for all of your support over the past few years. These negotiations are very difficult and the Unions work very hard to find ways to save the Plan money with minimal impact to the Retirees. Should you have any questions, please don't hesitate to e-mail me at mflagge@cwa-union.org.

In Unity,

Martha Flagge