

Re: Healthcare Enrollment

Dear Wolfram,

I wish to thank you and Hans for your time on Wednesday.

Beginning with the plan costs, many retirees might think the premiums they pay reflect the majority of the costs involved in such a program; they would be mistaken. In most cases, the company picks up a good portion of the costs, as seen on the spreadsheet previously sent to you.

The plan we have in place with CIGNA is self insured. You will find more details about this later in this letter, but bottom line, even though we hire CIGNA to administer our medical plans and Medco to administer our prescription drug plan, we pay most of the claims! When our claims are high in any one of the plans we offer, then our costs go up. Our 2007 claims far exceeded expectations making significant premium increases necessary. Bottom line, we had a horrific year being significantly over our projected budget. As of the summer, we had over 30 individuals with claims over \$75,000. In comparison, the previous year at that time, we had two individuals. Currently, the projected total cost of our healthcare plans for 2007 are about 25% higher than what was projected last year at this time! This is for the rest of 2007.

As mentioned previously, we pay the healthcare bills not the insurance company.

When it comes to financing healthcare plans, there are many options available. The two most common options are the fully insured plan and the self-insured plan. We offer the self-insured option.

This means that Lufthansa pays the claims—not CIGNA, Systemed, or Delta Dental. These companies only administer the plans for us. We pay CIGNA approximately \$30 a month to access their network and for them to administer the claims for us. Because they do not take any financial risk for paying claims, their administrative fees are less than they would be if they were responsible for all claims costs.

Needless to say, as we pay CIGNA only to administer the claims and not to take the risk of insuring the claims, we did not go out to bid again this year. There is not much you can do with the low fee that CIGNA is already receiving.

With a fully insured plan, the insurance company is in business to make a profit and assumes all the risk. Because the number and cost of claims is always an estimate, the insurance company always projects much higher to ensure that there is no loss to them. When claims are less than expected, the insurance company keeps this as profit. When the claims are more than projected, this is reflected in the next year's contract renewal—or the insurance company may refuse to continue to insure a company. Many individuals have had this experience if you made a claim on your auto or house insurance.

What happens with a self-insured plan when claims are less than projected? These monies help offset the estimated claims for next year. If we have a good year, like we did in 2005, then the projected increase for 2006 is much less. If we have a poor year, like we are having in 2007, then the company makes up the difference in 2007; but when calculating the costs for 2008, the company needs to take into account that some of this high claims experience will continue. This results in higher increases to you . . . and to the company.

Is the self-insured plan the best way to go? For the time being, the answer is a definite yes. We have greater flexibility in plan design—and are able to cut out the *middle man* in some of the costs. This enables us to keep the costs lower than through a fully insured plan, and it helps meet your needs and those of your family at the same time. It is a fine balancing act, but one which has proven to pay off in the long run.

Many retirees may be thinking, I know of a plan with the same benefit for which I can pay less. This may be possible, but usually these plans have higher deductibles and may ask health questions before insuring the individual. If this occurs, then the healthy ones receive the lower insurance rates, and the not-so-healthy receive higher insurance rates. Auto insurance operates in a similar fashion. Good drivers pay less than poor drivers.

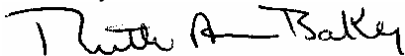
If retirees are going to be looking for other avenues for coverage, and they should be doing this every year, then they should take our benefit sheet (the chart) included in the package we sent them. This will help them in their comparison shopping. Remember, our plans do not have a cap on drug coverage. Some insurance plans have a \$500 cap on drugs. Compare carefully.

As you and I discussed, we are willing to work together if it means that another plan is a better selection for them. We realize the timing was less than ideal, and my sincere apologies for this. I take full responsibility. However, for the month of January, should a retiree find another plan which suits their needs better AND they do not have any claims (medical or prescription drug), then they may cancel the health insurance retroactively to 1 January. That means, they have until the end of January to make a decision as to whether they will stay in our plan or go to another plan. Retirees will need to, however, submit their healthcare form by the end of December, so that, should they need coverage as of 1 January, they will be in the plan they wish to have. No form needs to be returned, should they wish to keep their current plans.

At this time, we are assuming that retirees will remain in their current plans. Therefore, pension deductions have already been set up to take the appropriate amount as of January. Once again, should the retiree find another plan during the month of January AND no claims are incurred, then they may waive our coverage and select their new plan. We will then reimburse the retiree for the January payment.

I will be in the office on Wednesday. Please feel free to give my number to those retirees who have questions. 516-296-9209 cell 516-476-2512

Sincerely,



Ruth Ann Baker  
Human Resources and Benefits Manager, US

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