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Ben. Ag.**PGandE****FOR INTRA-COMPANY USES**

From Region or Department                    **COMPENSATION AND BENEFITS**

To Region or Department

FILE NO.    **761**

RE. LETTER OF

SUBJECT    **Benefit Eligibility of Dependents**

August 6, 1987

**G.O./REGIONAL HUMAN RESOURCES MANAGERS**

MESSRS. ED CONWAY  
               SCOTT IRBY  
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MMES. BARBARA ELSBERG  
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           CYNTHIA HARRISON

Recently we have been experiencing an increasing number of ineligible dependents enrolled in medical plans among the PGandE population. The following is PGandE's policy regarding benefit eligibility of dependents:

An eligible dependent is defined as a legally married spouse, an unmarried child to age 19, or to age 24 if enrolled in an accredited school and who meets the Internal Revenue Code's meaning of a dependent. Children include step children, legally adopted children, foster children and any child who is the subject of a legal guardianship, provided the employee is the court appointed legal guardian. PGandE will provide coverage for the child during the period of time legal guardianship is being approved up to a six month period. If legal guardianship is not obtained, coverage will be cancelled.

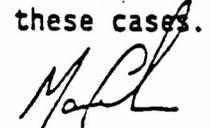
Therefore, ineligible dependents include divorced spouses, legally separated spouses, grandchildren and all children who are not the legal responsibility of the employee. No one may be a dependent if eligible as an employee and no one may be a dependent of more than one eligible employee.

It is fraudulent for employees to provide coverage on ineligible dependents. Currently, when we determine that an employee with ineligible dependents is on the plan, we charge the employee back premiums for the period of time the dependent was on the plan and ineligible, regardless of whether actual claims were incurred.

We expect during the 1988 Open Enrollment that any employee with ineligible dependents will drop their dependents from the plan. PGandE will not pursue any back premiums if an employee voluntarily drops their ineligible dependents at that time. We will be emphasizing the need to drop ineligible dependents in Compensation and Benefits Emphasis scheduled for publication in September. We will also include in the open enrollment package information on eligible dependents and the company's position regarding fraudulent claims on ineligible dependents.

If the employee does not voluntarily drop ineligible dependents during open enrollment, the Company will pursue any ineligible dependents and at a minimum will charge for premiums retroactively to the date the dependent became ineligible up to and including termination.

Over the last ten years, medical care costs for the company have quadrupled. Current costs for 1987 will be over \$85 million and we expect an increase of 10% - 15% in 1988. Eliminating ineligible dependents is one important way of reducing this expanding liability. In the next few months and in 1988 we will be seeking your assistance in aggressively pursuing these cases.



MARC H. CAHN

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