PG&E – IBEW – ESC
Joint Benefits Education Committee Report
2011

The members of the Joint Benefits Education Committee as identified below jointly prepared this report.

Company	IBEW	ESC
Steve Rayburn – Lead	Tom Dalzell – Lead	Karen Sawislak – Lead
Maria Henderson – Lead	Dorothy Fortier – Lead	Joel Foster
Andy Williams – Lead	Donna Ambeau	John Mader
Val Lewis	Anna Bayless-Martinez	Josh Sperry
Kathy Price	Lloyd Cargo	
Robin Wythe	Bryan Carroll	
	Cecelia De La Torre	
	Jack Hill	
	Ron Moon	
	Mark Newman	
	Gracie Nunez	
	Mike Scafani	
	Ray Shepherd	

Objective: A Joint Benefits Education Committee was established to review information on the current costs, regulatory and legislative requirements, trends and other issues for various employee benefits in preparation for 2011 General Negotiations. Education occurred through various mutually agreeable methods including third-party presentations. Educational topics included health care, dental, vision, pension, retirement savings and life insurance.

Committee meetings were held on:

- January 31
- February 16
- March 17
- April 27
- May 9
- May19
- May 27
- June 17

Towers Watson, a global human resources consulting firm specializing in retirement and health and welfare program design and funding, was contracted by PG&E to update the Committee on trends in health care plan design and benchmark data. PG&E also contracted with HCMS Group, a company that specializes in using custom data analytics to help businesses understand their specific health benefit costs, to support the Committee. AonHewitt, also a global human resources consulting and administrative services firm providing expertise in retirement and other benefit plans, was contracted by PG&E to update the Committee on pension challenges and trends and the results of a recent retirement platform study.

Summarized in the following section is information that Towers Watson, HCMS and AonHewitt and several benefits vendors provided to the Committee. For additional information, please see the actual presentations, which are posted on the HR intranet site under http://www/HR/UnionInformation/ContractsAndNegotiations.shtml and the IBEW web site at http://www.ibew1245.com.

1. Building a Future Health Vision (Attachment 1)

Studies were reviewed reflecting the level of care people in the U.S. are getting in today's health care system. Towers Watson explained that despite the fact that Americans spend more on health care than other countries, the current health care system falls short of expectations.

Examples include:

- Receiving more care does not equate to better care. According to a landmark study, the states that spent the most money received lower quality of care.
- Across multiple health conditions, only 55% of recommended care is prescribed to patients once diagnosed properly. Even more disconcerting, when lack of diagnosis and non-compliance with treatment is factored into the equation, only about 9% of individual with chronic conditions actually get recommended care.

Opportunities for improving health care delivery and specific strategies that could be considered were shared:

- Focus benefit programs of the future on value.
- Address the key challenges that are ahead.
- Reframe the dialogue.
- Build a future health care vision together:

2. Health Care Change Considerations (Attachment 2)

Towers Watson presented an overview of the March, 2010 Health Care Legislation: Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA). Major federal health care reform changes will occur in 2014 and 2018. If the growth rate of the medical plans is not dampened, both PG&E and its employees will share in the cost of large excise taxes beginning in 2014. Excise taxes are calculated to be $195 million for 2018 through 2022.

In addition, Towers Watson explained that although PG&E continues to spend more and more each year on health care, employees are not getting healthier, they are not becoming more productive and PG&E is not seeing a valuable return on investment for its health care expenditure.

- High Cost – The total cost of health care coverage is $288 million today. This translates into a cost of about $22,000 for each family covered. If medical plan costs increase at the historical rate of 8%, the cost of family coverage will be $37,000 in 2018. This large cost increase will be shared with employees through higher premium contributions.
- High Utilizing Population – Five percent of PG&E employees cost $60 million per year in medical, prescription, disability and absenteeism. These employees typically have complex chronic medical conditions and are "lost in the system" and in desperate need of coordination of care.

Towers Watson stated that without fundamental changes to reduce cost, PG&E risks inadequate funding through the GRC, unaffordable coverage and lower productivity from employees not being at work. Employees also risk unaffordable coverage and having a lower quality of life due to poor health.

Towers Watson explained three alternative paths with different impacts can be taken to reduce cost:

- Reduce plan value – shift costs aggressively to employees through higher deductibles and copayments with little effort to improve quality of health care or health status.

- Enhanced accountability – have more moderate increases in employee costs than path 1 and have more focus on improved health.
- Transformation to a culture of health - change plan design to support both better quality of care and better health outcomes and increase wellness support to prevent disease.

Towers Watson outlined a sample of culture of health benefits strategy. Components of this strategy are covered in Attachment 2.

3. Health Savings Account Plans (High Deductible Plans)

Towers Watson and PG&E provided an overview of Health Savings Accounts (HSAs). HSAs are bank accounts that are defined by federal law that allow both companies and employees to set aside pretax funds to pay for current and future qualified medical expenses. HSAs are required by the IRS to be coupled with high deductible medical plans. In 2009, the Company and Unions negotiated a new HSA Medical Plan with a Company funded HSA option for employees. Towers Watson research show that account based medical plans including HSA plans and another type of medical plan, a Health Reimbursement Account medical plan, encourage better use of health and positively impact costs.

Dr. Hank Gardner, M.D., of HCMS Group discussed the impact of medical plan design on quality and cost of care (Attachment 3). Dr. Gardner is managing partner of HCMS Group, a health care data analytic company, and has 40+ years experience in the healthcare delivery and health information business. Dr. Gardner stated that traditional health plan models such as HMO and PPO/POS do not independently fix the problem of quality and costs of health care.

Dr. Gardner provided a comparison of Health Savings Account medical plans and Health Reimbursement Account (HRA) plans. HRA medical plans are similar to HSA medical plans but do not have IRS restrictions on plan design. HRA medical plans can have a better focus on chronic care and quality care than HSA medical plans. Like HSAs, with HRAs, companies can also establish accounts that can be used to pay current medical plan expenses or pay for future medical plan expense, although HRA accounts are notional.

If quality health care is to be obtained, providers and consumers must be meaningfully engaged. Dr. Gardner felt that if all parties worked together to build a new health care model using an HRA platform and all parties supported changes to achieving a culture of health including premium incentives for non-tobacco users and wellness participation, costs could be curbed without significant cost shifting.

Representatives from Kaiser Permanente provided information on an HSA Plan (Attachment 4) that can be provided through Kaiser.

4. KnovaSolutions (Attachment 5)

A representative from KnovaSolutions, a service offered by the HCMS Group, presented information on what it is that they do and their findings at PG&E.

- KnovaSolutions is a personalized health service that provides information, education and decision support to help people own and manage their health and their decisions to use medical services.
- KnovaSolutions is designed for high need individuals and their families and is provided by nurse and pharmacist clinicians who build a trusted long-term clinical relationship with Knova Members.

Key PG&E Findings:

- There is a high cost, high need group at PG&E (the high utilizing population highlighted by Towers Watson of about 1,094 employees) whose benefit costs were $61 million in the last year, or about $55,700/personEmployees in this group average 13 unique prescriptions, 12 providers, 16 diagnoses and 33 tests in a single year.
- In addition to their health care costs, this group also averages 73 days of lost time during the year compared to 44 days for the rest of the population and they are three times more likely to have lost time or Worker's Compensation claims.

A voluntary pilot program with outreach to 250 PG&E employees began on April 25. This service is to help employees better understand and manage their medical care, treatments and medications. This service is confidential and no health data is shared with PG&E. Any personal health information provided to the Knova staff is protected by HIPAA privacy standards.

Details on how the program works can be found in Attachment 6.

5. Life Insurance (Attachment 7)

Representatives from MetLife Insurance provided an overview of PG&E's current life insurance plan for bargaining unit employees and two alternative coverage plans.

Currently, PG&E's plan provides an employer-paid, flat $10,000 benefit called Basic Life. Employees may purchase supplemental life insurance at $0.37 per $1,000 of coverage. The cost of insurance is the same for all employees regardless of age.

- Option 1: $50,000
- Option 2: 1.5x base annual earnings
- Option 3: 2x base annual earnings

MetLife projects that the estimated rate effective 2013 for life insurance under the current plan will be $0.416 per $1,000 of coverage.

MetLife can offer the option of two age rated plans which would lower rates for some employees and increase rates for others as follows. These alternative age-rated plans would include new features such as:

- Supplemental Life Insurance coverage up to 6x base annual earnings to a maximum of $1million.
- Spouse and child life insurance options.
- Basic Accidental Death and Dismemberment benefit of $10,000 at no additional cost.
- Supplemental Accidental Death and Dismemberment coverage up to 6x base annual earnings to a maximum of $1 million.
- Will Preparation Enhancements.

If quality health care is to be obtained, providers and consumers must be meaningfully engaged.

7. Retirement Income

Retirement Plan

The basic pension benefit formula is shown below. The percentage of pay used in the formula was improved in 2004 and the former pension band structure was replaced effective 2009.

Final Basic Weekly Pay Converted to Monthly Equivalent Pay*	X	1.5% X Credited Svc Up to 25 Year	PLUS	1.6% X Credited Svc Over 25 Years	=	Monthly Pension Benefit (age 65)
*Basic Weekly Pay as of 30 days before retirement/termination date, rounded up to nearest $10, multiplied by 52 weeks, divided by 12 months.						

Some statistics regarding the PG&E Retirement Plan are as follows:

- As of January 2010, the Plan had almost 47,000 participants – active employees, retirees and surviving beneficiaries – a 14 percent increase since 1990.
- The number of retirees receiving pension payments has almost doubled over the last 20 years (from approximately 11,000 in 1990 to over 20,000 as of 2010).
- The average monthly benefit for retirees paid in 1980 was $875 compared to over $3,400 per month in 2010.
- After a decade of zero pension contributions funded through customer rates (1996-2005), the Company pension funding requests for recovery through customer rates have been increasing since 2006. The 2011 pension trust contribution recovered in rates is $245 million.

Retirement Savings Plan

The current Company match schedule is shown below. This Company match was improved effective January 1, 2011.

Length of Service	Matching Employer Contribution
1 to 3 years of service	60% of the employee's pre-tax and/or after-tax contributions up to 3% of base pay
3 years or more	60% of the employee's pre-tax and/or after-tax contributions up to 6% of base pay

- Employee participation rate in the RSP is higher than the average of both Fidelity's corporate plan and utility company universes.
- The average employee deferral rate is approximately 12% of pay, higher than corporate and utility plan benchmarks. However, new hire participation rates are significantly lower than the overall RSP average deferral rate.
- The average RSP account balance is almost three times the Fidelity corporate plan universe average.
- RSP participants have earned attractive absolute returns over the five year period ending December 31, 2010.
- 17 percent of employees invest all of their RSP assets in Company stock. Higher percentages of participants age 50 and older invest exclusively in Company stock.

The Company explained that there is a risk in future recovery of high pension contributions.

- Total benefits were valued at 13.3% above market average in the 2011 GRC Total Compensation Study.
- The Company's 2011 GRC request for total benefit plan costs was $987 million compared to $769 million in 2007, $427 million in 2003 and $353 million in 1999.
- The Retirement Plan faces significant downside risk of huge contributions. Forecasts show even higher annual pension trust contributions could be required by 2015 – with 1 in 4

chances of an annual contribution of $750 million, and 1 in 20 chances of an annual contribution of close to $1 billion. By comparison, the total GRC request for all pension and benefits totaled $987 million for 2011.
- CPUC has denied pension recovery before.
- DRA recently has recommended recovery of $53 million vs. SCE's requested $168 million, amounting to a 68% disallowance.
- DRA argues that SCE needs to explore other options for its employees' retirement needs including "eliminating the pension program for new employees and switching those new employees entirely to a 401(k) plan, splitting pension expense between ratepayers and shareholders, and having employees fund a portion of their own pensions, as many State and other employees do."

The Company also noted the following:

- In the private sector, utilities are one of a very few industries where defined benefit plans remain common.
- Among utility companies, two-thirds have cash balance or defined contribution programs for newly hired union employees.

8. Retirement Plan Redesign Project

AonHewitt, an outside consultant working with PG&E, made a presentation on the retirement landscape, retirement study, benchmarking and a preliminary retirement plan design for consideration.

Glossary of Terms from the presentation:

- Defined Benefit – Traditional Pension: Employee receives a fixed amount pension based on final pay, years of service and multiplier.
- Defined Benefit – Cash Balance: Employee receives annual pension credits equal to a percentage of pay, plus annual interest credits to a notional employee account. The account balance can be paid as an annuity, rolled over to an IRA or paid in a lump sum at termination or retirement.
- Defined Contribution: Employee receives a stated Company contribution – for example a Company match - to an employee account. The employee controls investment of all account holdings. A 401k plan is a type of defined contribution plan.

In describing the current climate for defined benefit pension plans, AonHewitt noted that many employers are moving from traditional pension plans to cash balance or defined contribution plans. Traditional pension plans comprised 86% of plans in 1999, moved to 77% in 2004 and was at 56% in 2010. Although, corporations have largely moved away from defined benefit pension plans, they remain common in the utility industry. AonHewitt cited Southern California Edison, San Diego G&E and NV Energy as all having cash balance plans.

AonHewitt stated that underfunding in public sector defined benefit pension plans is making headlines.
- Taxpayers are experiencing "pension envy" and demanding changes.
- State and local pension underfunding has become a priority to newly elected leaders.
- Some evidence that state and local government entities are beginning to alter plan designs for new hires.

AonHewitt also stated that the past decade has been very bad for pension plans.

- Asset returns were poor in 2008 – second downturn in the past 10 years.

- Interest rates have declined resulting in higher liability values.
- New funding and accounting rules.
- Longevity risk.

Retirement Platform Study Objectives:

- Attract workforce of the future, while retaining current workforce.
- Keep retirement benefits simple and easy to understand.
- Develop sustainable program for the future.
- Reduce balance sheet liability and funded status sensitivity to interest rates.
- Reduce volatility of pension contributions.

AonHewitt described a possible retirement platform including a cash balance pension plus 401(k).

- Pay Credits – percentage of base pay based on points (Age + Service):

Points	Pay Credits
< 40	4%
40-49	5%
50-59	6%
60-69	7%
70+	8+

- Interest based on 30-year Treasuries
- No change in 401(k) match

Examples were provided for selected classifications demonstrating the projected percentage of final pay replaced by retirement income at ages 62 and 65 assuming 30 years of service (25 for Electric Crew Forman). The retirement income includes projected cash balance pension amount, 401(k) savings (employee and employer), and Social Security.

	Percent of Final Pay Replaced	
Classification	Age 62	Age 65
Electric Crew Foreman	109%	136%
Engineering Estimator	94%	116%
Gas Service Representative	95%	119%
Customer Service Representative	96%	121%

Finally, AonHewitt noted several transition alternatives for going to a cash balance program including:
- Apply to new hires only,
- Apply to new hires plus offer a one-time choice to current employees,
- Apply to all employees and grandfather current pension formula for specific employee groups or offer one-time choice to specific employee groups.

For additional information, please see the actual presentations, which are posted on the HR intranet site under http://www/HR/UnionInformation/ContractsAndNegotiations.shtml and the IBEW web site at http://www.ibew1245.com.

For the Company: For the IBEW: For the ESC:

Steve Rayburn	Tom Dalzell	Karen Sawislak
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Date:

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Attachments