

ABenefits Xtra

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- Send questions to abx.benefits@abxair.com

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Health Savings Accounts

As part of the Medicare reform law bringing prescription drug coverage to seniors, Congress also established a new benefit for non-seniors and working families called Health Savings Accounts (HSA). ABX is considering offering HSAs as one of the health insurance options for 2005. HSAs use a consumer approach to healthcare that puts you, the consumer, in control of your healthcare expenses.

What are Health Savings Accounts?

HSAs are similar to IRAs that allow both employees and employers to contribute towards medical savings accounts on a pre-tax basis. The money is invested in an interest-bearing account. Employees and families use the account balance to pay for qualified medical expenses such as co-payments and deductibles. Unlike a Flexible Spending Account, any unused account balance at the end of the year carries over to the next year.

The HSA account is coupled with a "high deductible" plan that covers catastrophic medical claims. A high deductible plan must have a deductible of at least \$1,000. By offering a high deductible plan premiums are expected to be lower for both the Company and employees.

When you sign up for an HSA, you receive a debit card which you use to pay doctors, pharmacy or hospital co-payments and deductibles.

Once money is contributed into the account, it belongs to you. If you leave your employer, you take the account balance with you. You can also use the account to build savings to help fund retiree medical insurance.

What are the Advantages of HSAs?

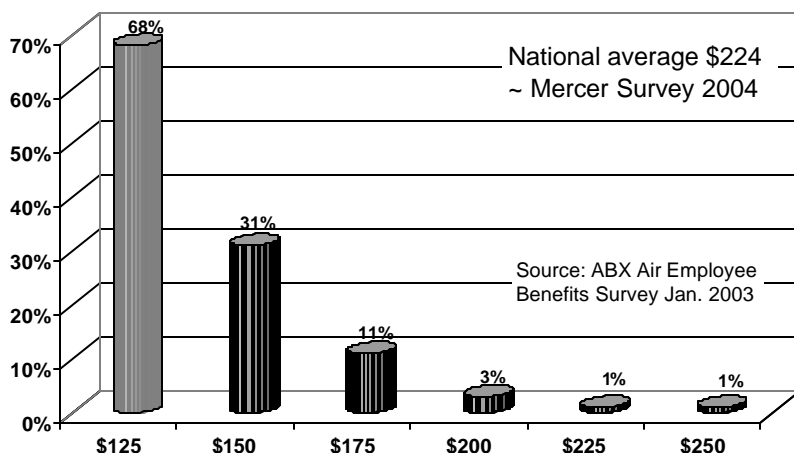
- **Consumerism:** Puts you in charge of your health care.
- **Tax advantages:** Contributions and interest are tax-free. Payments from the plan are tax-free when made for qualified medical expenses.
- **Funds Accumulate:** Funds build from year-to-year for future medical expenses. No "use it or lose it" rule.
- **Portability:** Funds are portable from one employer to the next and can be used to pay for health insurance premiums between jobs or at retirement.
- **Ownership:** Funds are owned and controlled by employees—the money earns interest.
- **Lower Premiums:** By electing a health plan with a higher deductible the premiums are lower.

Want to Learn More?

If you would like to learn more general information about HSAs, visit www.treas.gov/offices/public-affairs/hsa. If ABX decides to offer HSAs to employees, more detailed information will be provided during open enrollment.

Snapshot

What level of monthly employee contribution for family coverage seems fair to you?



Healthcare Costs Continue to Rise

As recently reported in the news media, healthcare costs continue to grow at double-digit rates. According to a recent study reported by the Associated Press, healthcare costs jumped 11.2 percent in 2004, five times faster than the rate of inflation. At ABX we are no exception to these national trends. Our 2005 healthcare costs are expected to rise 11 percent.

The ABX Benefits Department is currently reviewing options of how best to share these cost increases between the Company and employees. Changes being considered include adjustments to co-payments, deductibles, and a three-tier prescription drug program as well as introducing an optional Health Savings Account. At ABX, we recognize employees need affordable healthcare coverage. We also ask that our employees understand that they will need to pay more in 2005 for their healthcare coverage. Once the changes have been finalized and approved, we will announce the changes.

Healthcare Center News

The healthcare center is targeted to open for employees



on Oct. 25 after the staff completes its training period. Whole Health Management, the company operating the center, is now hiring staff. For more information about the clinic, visit the healthcare center homepage at www.abxair.com/public.benefits/news/healthcare_center_news.htm

Universal Life

Rates up to 28% lower in 2005

Good news for employees needing extra life insurance! Our group universal life insurance program will have lower rates in 2005. Depending on your age and smoking status, rates will be as much as 28% lower than today. Employees also will be able to select higher coverage levels than today, up to six times salary (up to \$1 million).

Special Enrollment

This fall, during open enrollment, employees will have a one-time option to purchase coverage up to two times your salary (not to exceed \$250,000) without completing the evidence of good health questionnaire. The only requirement is employees must be active at work and not on a leave of absence. This is a one-time event and will not be repeated next year. After this one-time event, you can still purchase coverage subject to full evidence of good health.

Enrollment information will be sent to all eligible employees' home address in October and early November. Don't miss this opportunity. Be sure to review this important information when you receive it.

Open Enrollment 2004

Your opportunity to make changes to your health care benefits elections for 2005 is scheduled to run Nov. 1-24. Changes outside open enrollment can be made only for family/work status changes including: marriage/divorce; birth/adoption of a child; Change in your employment status; overage child or no longer a student; and/or Loss of coverage through spouses employer.

Information packets about your benefit options will be distributed to all benefits-eligible employees in late October or early November. E-mail questions about Open Enrollment to abx.benefits@abxair.com.

Straight talk about Pension Funding

Pension funding has been in the news a lot lately, particularly in the airline industry. A number of pension plans are reported to be in financial trouble and a handful of employers have terminated their pension plans. Have you wondered how the ABX pension plan is doing?

Pensions 101

The Company sponsors a "defined benefit" pension plan, called the Retirement Income Plan. This plan provides participants with a benefit at retirement that is determined by your final average earnings and years of service.

Generally, employers fund pension plans annually. An independent actuary calculates the amount of money to invest each year into the pension trust fund. The actuary considers the amounts needed to pay current and future benefits for retirees and employees based on employee demographics, expected investment rates of return, and interest rates.

Unlike your 401(k) where you take the investment risk, with a defined benefit pension plan the Company is responsible for investment risk. And unlike your 401(k), defined benefit pension plans are insured by a government agency called the Pension Benefit Guaranty Corporation (PBGC).

The Perfect Storm

The last few years have been exceedingly difficult for sponsors of defined benefit pension plans. A combination of negative stock market returns and very low interest rates have driven the funding requirements to record high amounts. In addition, certain industries such as airlines have been hit especially hard as a result of the Sept. 11, 2001, terrorist attacks and high fuel costs leaving airlines short on cash, just when more cash was needed to fund the pension plans.

This combination of negative events has been called the "perfect storm" by some pension commentators. Another factor for some companies was their willingness to grant very rich pension benefits during the good times that they really could not afford over the long haul. Management, employees, and their unions believed erroneously that a robust business

cycle would continue indefinitely and that they did not need to worry about a rainy day.

ABX's philosophy (and Airborne's before) has always been to take a conservative approach with our pensions. This has not always been popular with employees, as some employees would like to add expensive options such as subsidized earlier retirement benefits. ABX has resisted adding benefits we cannot afford.

Where does ABX stand?

When measuring the funding level of a pension plan, one method actuaries use is called the "Current Liability" ratio. This method asks, are there enough assets in the plan to pay benefits owed to all current retirees and all benefits earned by active employees to date, including benefits payable in the future? The current liability funding ratios for the Retirement Income Plan have been:

2004	101.00%
2003	90.70%
2002	98.60%
2001	93.10%
2000	102.50%

As you can see, the perfect storm impacted our plan. As a general rule, plan sponsors must give notice to employees when funding levels drop below 80% and additional funding requirements are triggered. Since becoming independent, ABX has taken steps to shore up the pension fund by contributing over \$28 million to the plan. We will continue to take the necessary steps to keep our plan viable. Employees rightfully expect that their pension benefits will be there at retirement. At ABX we take this obligation seriously and employees deserve nothing less.

PBGC

The Pension Benefit Guaranty Corporation (PBGC) is a federal government agency that insures defined benefit pension plan much like the FDIC insures your bank account. The insurance is mandatory and employers pay premiums. The maximum benefit insured by the PBGC is \$44,386 a year for someone retiring at age 65 in 2004. The maximum amount is adjusted each year for inflation. Retirements before 65 have lower insurance levels. For more information about the PBGC, visit their website at www.pbgc.gov.