The slide features a dark blue background with a large, faint seal of the University of California in the center. On the left side, there is a vertical strip with a light beige background and a small image of a classical building interior. The main text is in yellow and white.

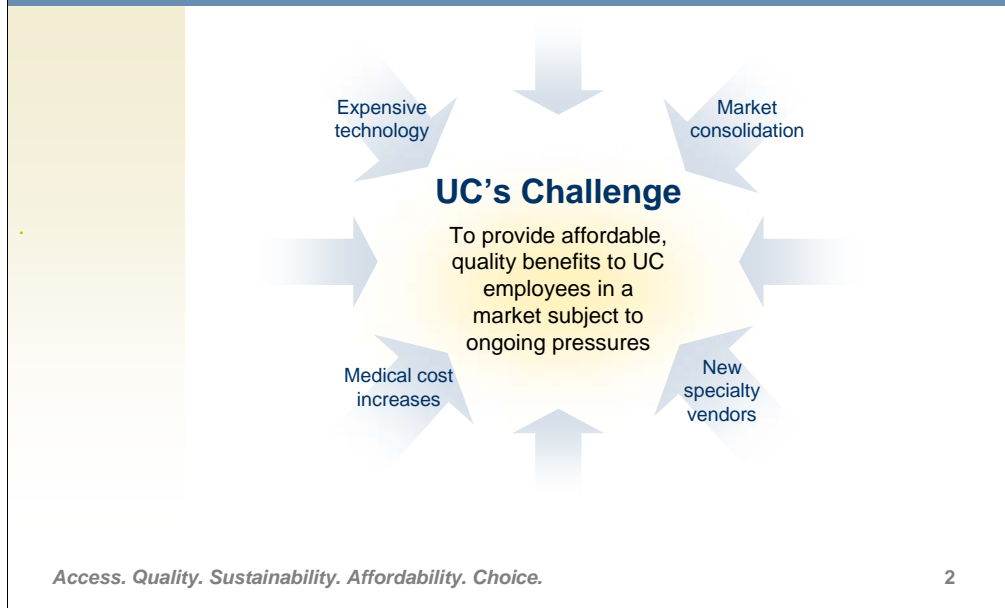
UC's Medical Plan Selection Process for 2008:

Working to maintain affordable, high quality employee benefits in a challenging market environment

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As 2008 approaches, UC is once again in the process of planning next year's health benefits for employees. In February 2007, the University put its medical plan business out to bid. The following is an overview of the process, which will be finalized in early fall. This presentation is intended to give you a better idea of why the University initiated the medical plan selection process, UC's current plan model, and a projection of the plan model for 2008.

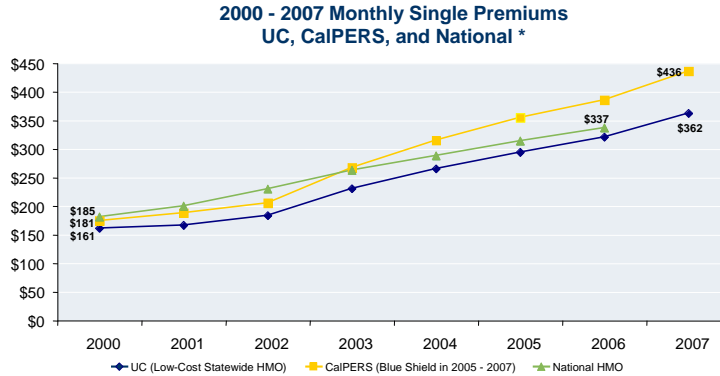
The medical care marketplace is changing:
Past solutions are no longer effective



The medical care marketplace is changing in a variety of ways, which contributes to challenges that employers are facing. UC must explore new technologies, new plan design options, and other new ideas in order to continue to provide high quality competitive medical benefits to UC faculty, staff and retirees.

Medical costs continue to rise in California and throughout the country

Increasing medical care costs at UC and CalPERS, compared to US.



* The UC gross premiums shown are for the low-cost, statewide HMO (Health Net or PacifiCare) each year. The CalPERS gross premiums shown are for Blue Shield in 2005 - 2007, with the HMO Single premiums in 2000 - 2004 estimated using the HMO percent increase provided by CalPERS. The National premium is the single HMO monthly average as reported by the KaiserHRET Survey of Employer-Sponsored Health Benefits for employers of any size. The 2007 national premium is not yet available. Premiums shown have been rounded to the nearest dollar.

This chart shows the rising total cost (generally shared between employer and employee) of monthly premiums for a single employee.

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Managing costs is a major challenge for employers everywhere. Medical costs nationwide continue to go up at rates far higher than inflation.

This chart shows how dramatically costs have risen in just the last several years. You can see how UC's cost line is very similar to the lines for CalPERS and the U.S. national average.

Medical costs are a very significant part of UC's budget: In 2008, UC's health plans will cost more than **\$1 billion**.

UC's current medical plans: Some overlap between plans; uneven health benefits

*Current plans
have similar
benefits and
costs*

Current Medical Plan Options

Group HMOs

Network HMO 1

Network HMO 2

POS

PPO

HRA-PPO*

Indemnity

PROS

- An array of plans to choose from

CONS

- Some overlap in benefit plans; complex administration needs
- Difficult to manage specialty providers (such as behavioral health) within multiple plans
- Increased administrative costs for UC and employees

*Currently available at UCSB and UCSF

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The university's plans are costly for both UC and employees. If UC does nothing to address this, they will get even more expensive. Even *with* potential changes as a result of the medical plan bid process, it's likely that costs will continue to rise.

UC's 2008 medical bid process: Identifying new solutions

UC put its medical plans out to bid in order to explore new options for sustaining quality benefits at competitive prices

UC asked for bids from medical benefit providers that help:

- Maintain the five critical goals for UC medical benefits:
 - **Access, quality, sustainability, affordability, choice**
- Manage medical benefit costs in ways that seek to preserve employee pay increases
- Support UC recruitment and retention needs and goals
- Provide wellness benefits to help employees and their families lead healthy lifestyles
- Provide UC employees with improved options for addressing their medical benefit needs as they change over time

UC's priority: to explore ways to reduce the impact of cost increases on employees

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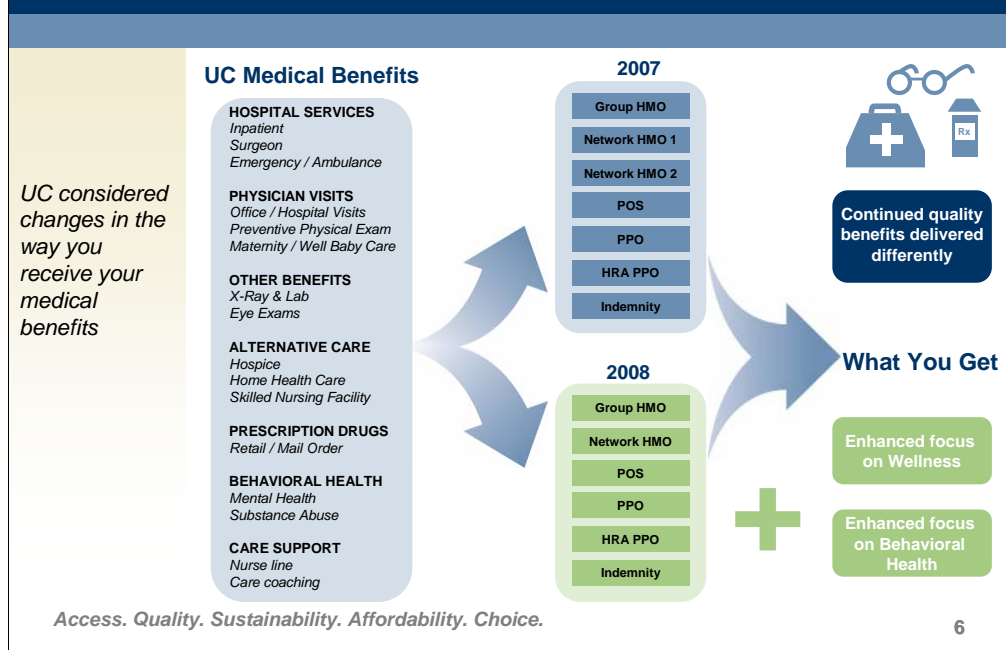
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UC is continually exploring innovative ways to maintain quality medical benefits in the face of ongoing market challenges. UC's approach is guided by its five core principles regarding medical benefits: accessibility, quality, sustainability, affordability, and choice.

As a first step, in February 2007 the university requested bids from medical plan providers (like HMOs and insurance companies) to provide their best pricing and new ideas for delivering quality medical benefits to UC employees.

In Spring of 2007, the plan providers presented UC with their proposals, and the University began the process of evaluating those proposals and selecting finalists. Throughout the process, UC consulted with various University stakeholders, including Regents, faculty, staff, retirees, and unions.

What 2008 will mean for employees: Continued high quality benefits, delivered differently



At the end of July 2007, UC identified the winning bidders, and began to piece together the new plan model for 2008.

So what does this mean for you?

The university will continue to provide retiree medical benefits.

UC's medical benefits are and will continue to be comprehensive, covering all the important elements of good medical care, like hospitals and surgery, doctor's office visits and preventive care for adults and children, hospice, home health care, and skilled nursing facilities, X-rays and labs, eye exams, prescriptions, mental health care, and care support.

In 2008, the university will make some changes and add some new offerings to our medical plans.

This will help sustain UC's ability to offer affordable medical benefits and preserve the quality medical benefits UC employees currently enjoy.

Bid results: Similar plan options + new benefits for 2008

2007	2008	Change	How this addresses UC's challenges
Kaiser HMO	Kaiser HMO	No change	<ul style="list-style-type: none"> Plan model continues to help meet UC's goals of access, quality, sustainability, affordability and choice HMO consolidation to Health Net helps offset medical cost increases for employees New type of plan adds another choice for UC employees StayWell and United Behavioral Health benefits promote wellness and good mental health
UHC-PacifiCare HMO	Health Net HMO (replaces UHC-PacifiCare)	UHC-PacifiCare no longer offered	
Health Net HMO			
WHA Regional HMO	WHA Regional HMO	No change	
Blue Cross POS	Blue Cross POS	No change	
Blue Cross PPO	Blue Cross PPO		
BCC Indemnity (Core)	BCC Indemnity (Core)		
Definity HRA PPO*	CIGNA (HRA PPO)**	New option	
<small>*Currently available at UCSB and UCSF</small>	StayWell Wellness Benefit	New UC-provided benefit	
	United Behavioral Health (UBH) Benefits	More standardized and enhanced benefits	

**Available to all active employees in 2008

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The medical plan bid process has resulted in a few changes coming in 2008. Some employees may have to change medical plan providers, or find new primary care physicians. However, the vast majority of UC employees will pay the same co-pays (for things like office visits and prescription drugs) in 2008 as they do in 2007 and will not have to change plans or primary care doctors. **All** university employees will benefit from some new options.

Here is what is changing in 2008, plan by plan:

- The Kaiser plan will not change, except for the addition of enhanced behavioral health benefits.
- Health Net will replace UHC-PacifiCare as UC's network HMO. UHC-PacifiCare will no longer be offered. Health Net benefits are virtually the same and so is the list of primary care doctors, though a few people may have to change primary care doctors. Health Net will also include new, improved mental and substance abuse benefits through United Behavioral Health.
- The WHA regional HMO (available near UC Davis) will not change, except for the addition of new and improved mental and substance abuse benefits through United Behavioral Health.
- The Blue Cross POS, PPO and Core Plan (Indemnity) plans will still be offered with the same benefits and co-pays (for things like office visits and prescription drugs), but the Core Plan will include behavioral health benefits for the first time.
- The CIGNA plan, featuring a health reimbursement account (HRA) plus a PPO, will be offered system wide as a new choice.
- UC will offer new wellness benefits through StayWell in 2008. This benefit will be paid 100% by UC and will be available to most employees and their covered family members for free.
- And finally, UC will offer enhanced and standardized mental health and substance abuse benefits through United Behavioral Health in 2008.

What's new for 2008

- HMO consolidation: Health Net sole network HMO provider. UHC-PacifiCare no longer offered in 2008
- New StayWell (wellness) benefits for most employees—*paid for by UC*
- New mental health and substance abuse benefits for most employees through United Behavioral Health.
- New medical plan option: CIGNA (HRA PPO)

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HMO consolidation: Heathnet will be the university's sole network HMO provider. UHC-PacifiCare will no longer be offered in 2008.

UHC-PacifiCare and Health Net's benefits are virtually identical.

Employees in UHC-PacifiCare in 2007 will have to consider a new plan. If they do not make a choice during Open Enrollment, they will automatically be transferred to Health Net in 2008. Some might have to change primary care doctors.

New wellness benefits for most UC employees through StayWell, paid for by the university

UC will cover the cost of new wellness benefits.

Includes programs for smoking cessation and weight control, health coaching, health risk questionnaire, and other great tools for your health and wellness.

New mental health and substance abuse benefits through United Behavioral Health:

Will enhance benefits for the vast majority of UC employees.

New medical plan option: CIGNA (HRA PPO)

Features a "health reimbursement account" (HRA) funded by UC that you can use to pay health claims, **plus** a PPO plan.

Similar plan offered as a pilot at UCSB and UCSF for the past few years.

Cost-savings will offset increases to employee premiums

Preliminary 2008 Cost Outlook

- Changes expected to result in **lower cost increases** for UC and employees in 2008
- Increases for 2008 are still expected due to medical cost inflation, at UC and employers nationwide
- Continued Premium Cost-Sharing:
 - UC will continue to pay most of the cost
 - Lower-paid employees will pay less for their benefits
 - Premium pay bands will be adjusted for inflation
- Final rates available in early fall

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The budget for 2008 and contract premium rates for medical plans are still being determined at this time, so the information presented here is preliminary. But the good news is that the changes UC is making will help reduce the rate of cost increases for university employees, while still providing very robust medical benefits in 2008. If UC had done nothing, employees and UC would see much greater cost increases in 2008.

UC will continue to help employees by paying the majority of the cost of medical care and by continuing its salary-based premiums, so that employees who make less money pay less for their benefits. The premium pay bands will also be adjusted for inflation. In addition, dependents will continue to be covered.

Final rates will be announced in early fall, before Open Enrollment.

What's ahead

Activity	Timing
Your 2008 plans and costs	Early fall 2007
Open enrollment	November 1-27, 2007
Medical plan changes effective	January 1, 2008

- Many details are still being fleshed out, including employee costs; UC will provide regular informational updates as details become clear.
- Medical benefits for union-represented employees will continue to be subject to collective bargaining discussions.

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Here's what's ahead in 2007:

- You'll receive detailed information on benefits and costs in early fall.
- Open enrollment will take place from November 1 - 27: this is when you'll review your medical plan options and determine the one that fits your needs best.
- Finally, the medical plan changes will take effect on January 1, 2008

UC will provide regular informational updates throughout the process. We encourage you to thoroughly review upcoming information and Open Enrollment materials. Please visit atyourservice.ucop.edu for the most current information.