To Management and East Associate Team Members:

The rising cost of healthcare is a critical issue facing all Americans, as well as public and private sector employers. In 2014, the Company spent over $1.4B on healthcare for our active and retired East associates. The so-called “Cadillac tax” that was included in the Affordable Care Act to tax high cost health plans has made it even more important that we manage healthcare costs. In 2018, during the proposed term of our next contract, some of the East associate and retiree healthcare plans are projected to trigger this 40% tax, which could be tens of millions of dollars. One of our main objectives in the current labor negotiations is to negotiate changes to better manage escalating healthcare costs while still ensuring the availability of high quality healthcare options to our employees and retirees.

We have included the following key elements in the Company’s healthcare proposals:

Medicare Advantage: The Company is offering a Medicare Advantage program for Medicare eligible covered retirees and dependents. Currently, Medicare eligible retirees and dependents enroll in the government delivered Medicare Parts A and B plans, and then, Verizon provides additional coverage on top of Medicare coverage. The Medicare Advantage program will consolidate these separate coverages and replace them with a single streamlined national PPO that provides medical benefits that are substantially the same as those proposed under the HCN/MCN Option and Health Care PPO Option for active employees. Medical services by any provider accepting Medicare would be covered by this comprehensive care program. National enrollment in these plans has grown substantially, which is not surprising given the program’s many benefits:

- Evidence of improved health outcomes (lower mortality rates, shorter hospital stays, fewer readmissions, and fewer disease-specific complications) likely due to enhanced preventive care and better coordinated care between providers
- Availability of support services (e.g., home health visits, etc.)
- Comprehensive wellness benefits, including fitness memberships and health advocacy services
- Reduced costs

We believe there is tremendous potential with Medicare Advantage to both control costs AND positively impact health outcomes.

<u>Prescription Drugs:</u> The Company is looking to control prescription drug costs in ways that do not meaningfully affect choice or negatively impact health outcomes. In 2014, prescription drug claims increased 17% in Mid-Atlantic and 19% in New York/New England, making this another area where we believe the increasing costs can be more efficiently managed. Prescription drugs are included in the medical costs that are potentially subject to the Cadillac tax if they exceed certain thresholds.

The Rx "Formulary": We must update the way prescription drugs are delivered by changing to a managed formulary, as most other prescription plans provide. This means giving the Pharmacy Benefit Manager (in Verizon's case, Express Scripts) the authority to determine the drug choices that will be covered to treat a condition. By doing so, the Company can take advantage of lower pricing that is only available with a formulary. Today's East associate plan has a completely unmanaged formulary that is out of sync with industry norms, as the vast majority of plans have some type of managed formulary in place. It is also out of sync with the managed formulary that already applies to over 8,000 Verizon associates in the West, as well as all U.S. based management employees. The Company is <u>not</u> proposing that drugs needed to treat certain conditions no longer be made available. Rather, the proposal aims only to give the Pharmacy Benefit Manager the ability to decide which drugs to offer where multiple choices are available that can treat the same condition. Express Scripts' 2015 National Preferred Formulary covers 98.2% of FDA approved prescription drugs. The small percentage of drugs that are excluded all have at least one therapeutic alternative that is covered. If a doctor determines that no covered therapeutic alternative is appropriate for an individual patient's condition, there is an appeal process with the Pharmacy Benefit Manager to potentially cover one of the excluded drugs.

Compound Drugs: Compound drugs are a growing cost problem, as compound pharmacies combine one or more drugs in a manner that is exponentially more costly. The resulting compound is not FDA approved. When the last contract expired, the annual cost of providing these drugs to East associates and retirees was less than $1M. For 2015, this cost is projected to be over $50M. Compound drugs have numerous disadvantages:

- History of quality and safety issues
- Not FDA-approved
- Limited regulatory oversight
- Astronomical costs
- No documented evidence of clinical effectiveness

Given these issues, the Company is proposing that the Pharmacy Benefit Manager decide which compound drugs to cover. This is the compound drug coverage that already applies to over 8,000 Verizon associates in the West, all U.S. based management employees, and the vast majority of people who have coverage through Express Scripts.

<u>Plan Design and Contribution Changes:</u>

In providing our employees and retirees with access to high quality healthcare options, we must also evaluate the efficiency and utilization within the plan options. The associate healthcare plans are challenged by a number of factors, including high utilization of out-of-network providers. The use of such providers drives up the cost for everyone because out-of-network providers charge the plan more than in-network providers. There are also other areas of high utilization and inefficiency that we need to address. For example, in one of the East plans, visits to chiropractors are a staggering 658% above the norm and, despite the availability of urgent care facilities, visits to the emergency room are well above the norm in all the associate plans. The Company is also proposing to eliminate the EPO Plan. Participants will continue to have access to the same Anthem network of providers by participating in one of the sponsored plans.

To further help reduce the rising cost of healthcare, the Company is proposing changes in coinsurance, deductibles and co-pays. These changes are designed to incent better choices (such as visiting an urgent care facility when appropriate). They would also reduce exposure to the Cadillac tax. Obviously, the plan design changes as well as enhanced contributions would increase the amount associates would pay for health care, but we believe these changes are reasonable given the value of the benefit we are providing to our employees. To highlight a few of the changes in our proposals:

- Associates would pay an increase next year of $8.10 per week for individual healthcare premiums for the sponsored plans
- Depending on the plan, an individual’s annual in-network deductible for medical for 2016 would be $475 or $625
- An individual’s in-network out-of-pocket maximum for medical for 2016 would be $1,750
- An individual’s annual in-network deductible for prescription drugs would be $50

As a reference point, ask family and friends who work for other employers what their plans provide. Again, we believe the Company’s proposal—and these amounts—are reasonable, and that these changes are appropriate in order to provide our employees with access to high quality healthcare at a fair cost.

Marc Reed
Executive Vice President & Chief Administrative Officer