

# United's Benefits Platform

**November 2009**

Our negotiations are an opportunity to create a better future for our employees and our company

- **For Employees**

- Competitive wages, benefits, and work rules
- An opportunity to benefit financially when United succeeds
- More sustainable job security by making United less vulnerable to industry downturns

- **For United**

- A competitive cost structure in a difficult economic and industry environment
- Enhanced productivity
- Flexibility to adapt to rapid changes in the marketplace, evolving customer expectations and emerging commercial opportunities

# Benefits are a key part of the overall compensation package

- **United continues to believe that employer-sponsored Benefits are an effective way to offer health care coverage and other programs**
- **A disproportionate share of our total compensation package is delivered through Benefits**
  - By their nature, Benefits are more valuable to certain employee segments, while other components (e.g. wages, work rules) are valued more consistently
  - Benefits, particularly health care, are subject to cost trends above general inflation
  - Higher Benefit costs impact United's ability to maintain competitive pay levels
- **We can adjust our Benefits in three key ways to be more effective**
  - Increase the focus on helping employees achieve and maintain good health
  - Ensure programs are effective, well managed and cost efficient
  - Align our plan designs and cost sharing approach with the market
- **By taking these actions and creating an efficient, health-oriented Benefits program, we can position United to offer a well rounded package that provides competitive value to all employees**

# Our goal is to offer a competitive, health-oriented Benefits package based on five guiding principles

## 1 Positive User Experience

- Ensure using our programs is a positive experience for participants
- Make programs clear and understandable

## 2 Meaningful Choices

- Offer meaningful benefit choices to meet employees' diverse needs
- Structure programs to help employees make choices based on plan design and value, not solely on price

## 3 Emphasis On Health

- Ensure programs foster good health
- Make shared investments in health and wellness, including incentives for employees to take positive actions

## 4 Greater Efficiency

- Ensure the company has the flexibility to update or introduce new programs, or to improve how they are managed
- Position United to eliminate inefficiencies and leverage purchasing power

## 5 Market Alignment

- Ensure programs are aligned with the market
- Achieve a cost sharing model that is competitive and sustainable
- Position United to offer a well rounded total compensation package

***Healthier employees and an efficient, competitive United***

Our Benefits program should support employees in achieving and maintaining good health

- **Fostering a healthy workforce has many advantages:**

### **For Employees**

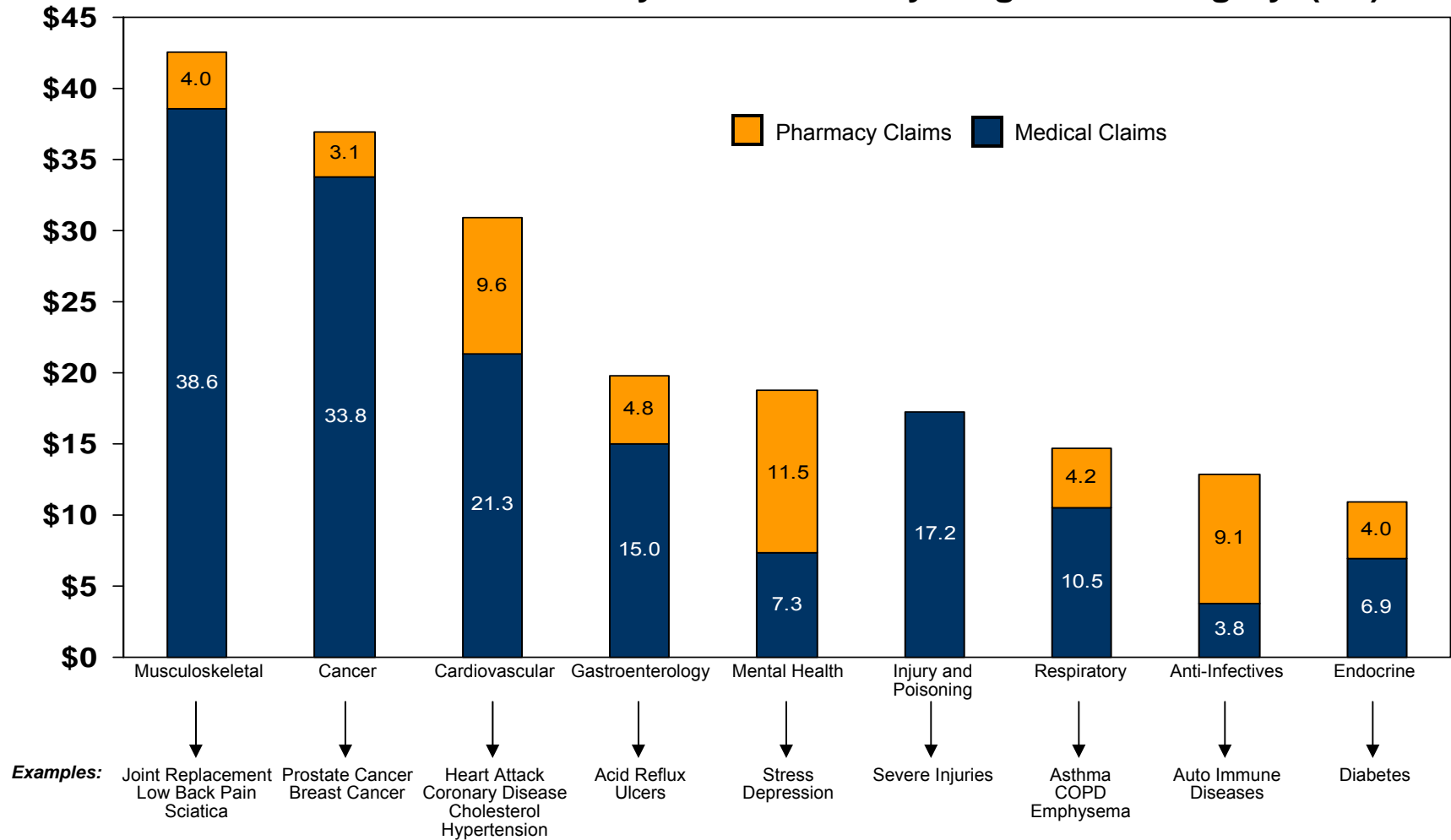
- **Better quality of life**
- **More energy**
- **Higher performance**
- **Greater life expectancy**
- **Better work-life balance**
- **Lower health care costs**

### **For United**

- **Higher engagement and morale**
- **Less sick time**
- **Smoother business operations**
- **Improved customer service**
- **Lower turnover**
- **Lower health care costs**

Over 70% of our current cost is related to conditions that are treatable or preventable, particularly through early detection

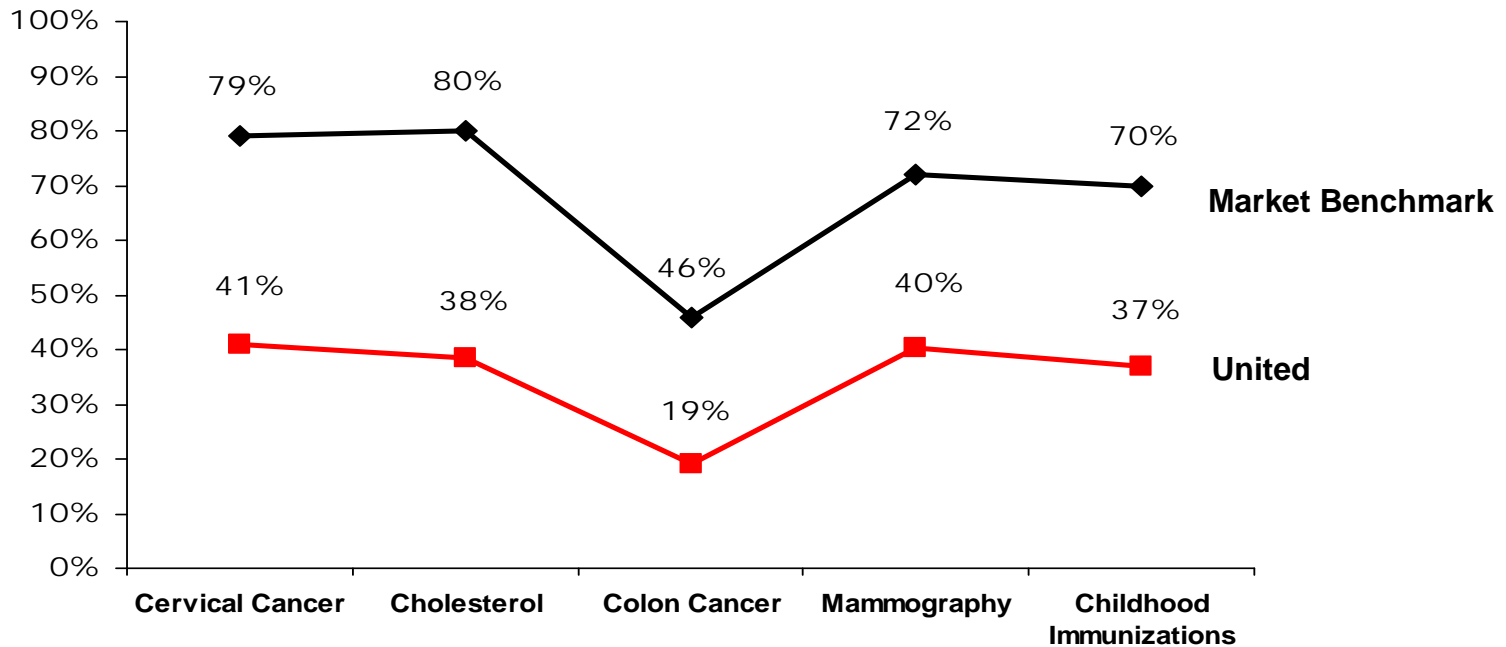
### 2008 Medical and Pharmacy Claims Cost by Diagnostic Category (\$M)



Source: United claims experience data for 2008 from BCBS PPO and Medco (Includes actives and retirees under 65)

Early detection occurs through preventative screenings, where our participation rates are below market norms

### 2088 Participation in Preventative Screenings



- Preventative care is covered with 80% co-insurance in the Medical PPO, which is the primary PPO option for represented employees
- Preventative care is covered at 100% in the Health and Wellness PPO

Source: United's 2008 BCBS Medical PPO claims experience data; HEDIS 2009 Benchmarks (50% percentile) for PPOs

# Lifestyle changes and wellness programs can have a significant positive impact for our workforce

	Examples	Active Health Management	Benefits
Ongoing Conditions	<ul style="list-style-type: none"> <li>• Diabetes</li> <li>• Hypertension</li> <li>• High Cholesterol</li> </ul>	<ul style="list-style-type: none"> <li>• Directly reduces:                             <ul style="list-style-type: none"> <li>—Mortality rate</li> <li>—Risk of kidney disease</li> <li>—Loss of vision</li> <li>—Risk of vascular disease</li> <li>—Risk of coronary heart disease</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 1% reduction in blood glucose can result in:                             <ul style="list-style-type: none"> <li>—8 additional years of vision</li> <li>—6 years without kidney disease</li> <li>—5 additional years of life expectancy</li> </ul> </li> <li>• Maintaining healthy cholesterol levels:                             <ul style="list-style-type: none"> <li>—Reduces heart disease events by 25%-55%</li> <li>—Reduces mortality rates by 40%-45%</li> </ul> </li> </ul>
Lifestyle Changes	<ul style="list-style-type: none"> <li>• Smoking Cessation</li> <li>• Weight Management</li> <li>• Exercise/Nutrition</li> </ul>	<ul style="list-style-type: none"> <li>• Highly effective at preventing conditions from occurring                             <ul style="list-style-type: none"> <li>—Reduces need to treat existing conditions later on</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Approximately 393,000 people die annually from tobacco related diseases<sup>1</sup></li> <li>• Quitting smoking can save approximately \$2,000 per year, not including health costs</li> <li>• Moderate physical activity and proper diet reduces the risk of high blood pressure, diabetes, cardiovascular disease, and other preventable diseases</li> </ul>
Wellness Programs	<ul style="list-style-type: none"> <li>• Biometric Screenings</li> <li>• Health Risk Assessment</li> <li>• Walking Program</li> </ul>	<ul style="list-style-type: none"> <li>• Encourages active involvement in health and well-being</li> <li>• Increases energy and productivity</li> <li>• Improves overall quality of life</li> </ul>	<ul style="list-style-type: none"> <li>• Biometric screenings raise awareness of personal health and health-related risks</li> <li>• High correlation between use of preventative care and overall health</li> <li>• Participation in HRA motivates action</li> </ul>

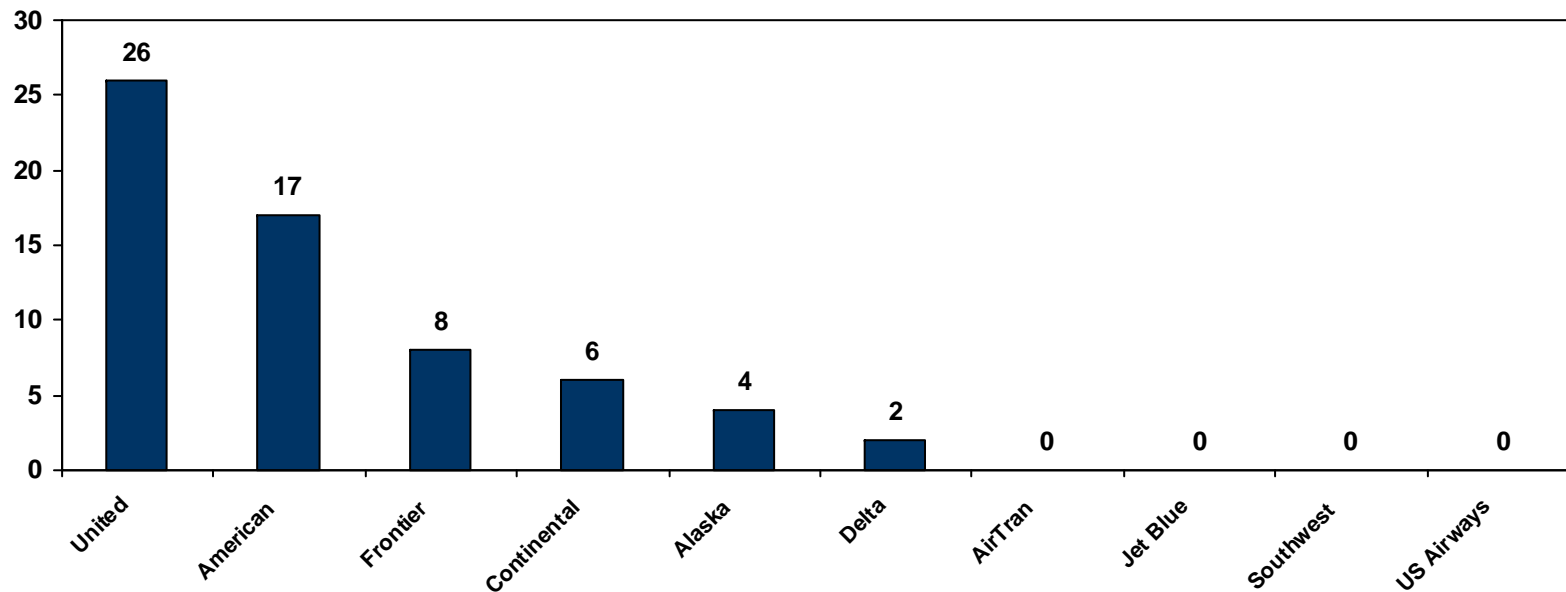
<sup>1</sup> Source: CDC Smoking-Attributable Mortality, Morbidity and Economic Costs (SAMMEC)

To maximize the impact of our health efforts, we need to manage plans efficiently and leverage our purchasing power

### Example: Inefficiency in HMO Plans

- Current contracts require United to offer multiple locally-based HMO plans
- As a result, we offer 50% more HMOs than any other airline
- The same plan design can be offered nationally through a single carrier in an Exclusive Provider Organization (EPO) plan
- Offering a national EPO will create better network coverage and allow us to achieve greater cost efficiency that can be passed along to employees

Number of HMOs Offered (2009)



**Note:** Southwest and AirTran offer a National EPO Plan; this plan type is similar to an HMO but leverages national purchasing power

**Source:** 2009 Benefit Enrollment Materials from each airline

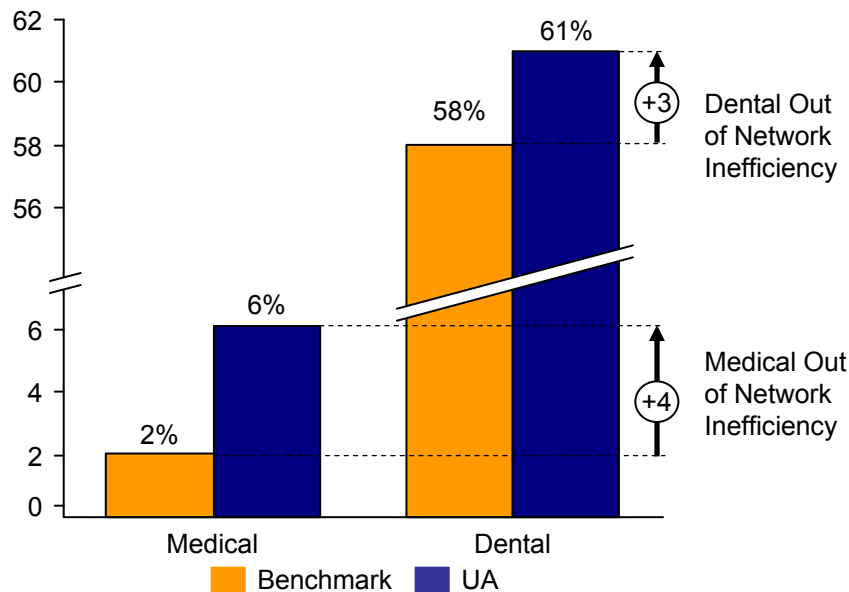
We experience significant inefficiency through higher use of out-of-network providers

- **Network providers meet pre-established quality standards and offer significantly greater discounts that benefit both employees and United**

	Medical	Dental
Average In-Network Discount	51.2%	34.6%
Average Out-of-Network Discount	20.2%	0%

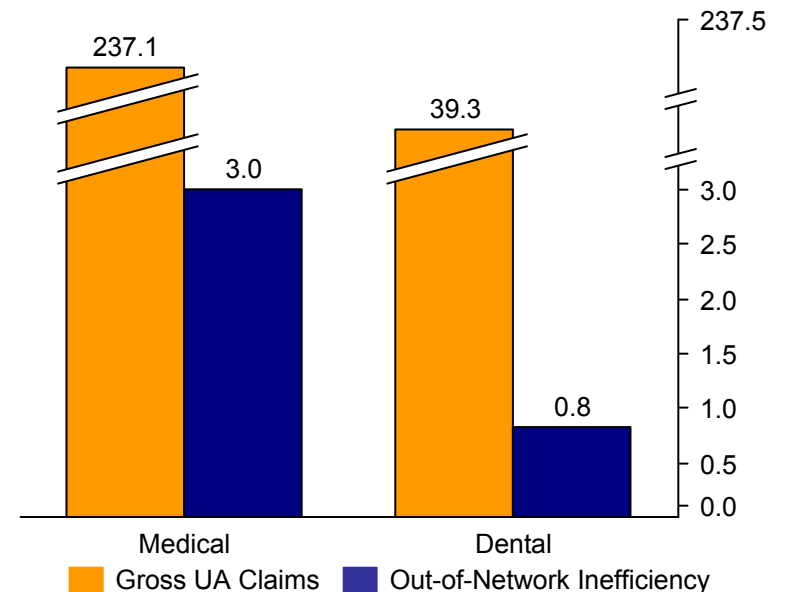
- **As a result, our greater use of out-of network providers...**

**UA Out-of-Network Use vs. Market Benchmark (%)**



- **...leads to a high amount of unnecessary cost**

**UA Gross Claims and Resulting Inefficiency (\$Ms)**



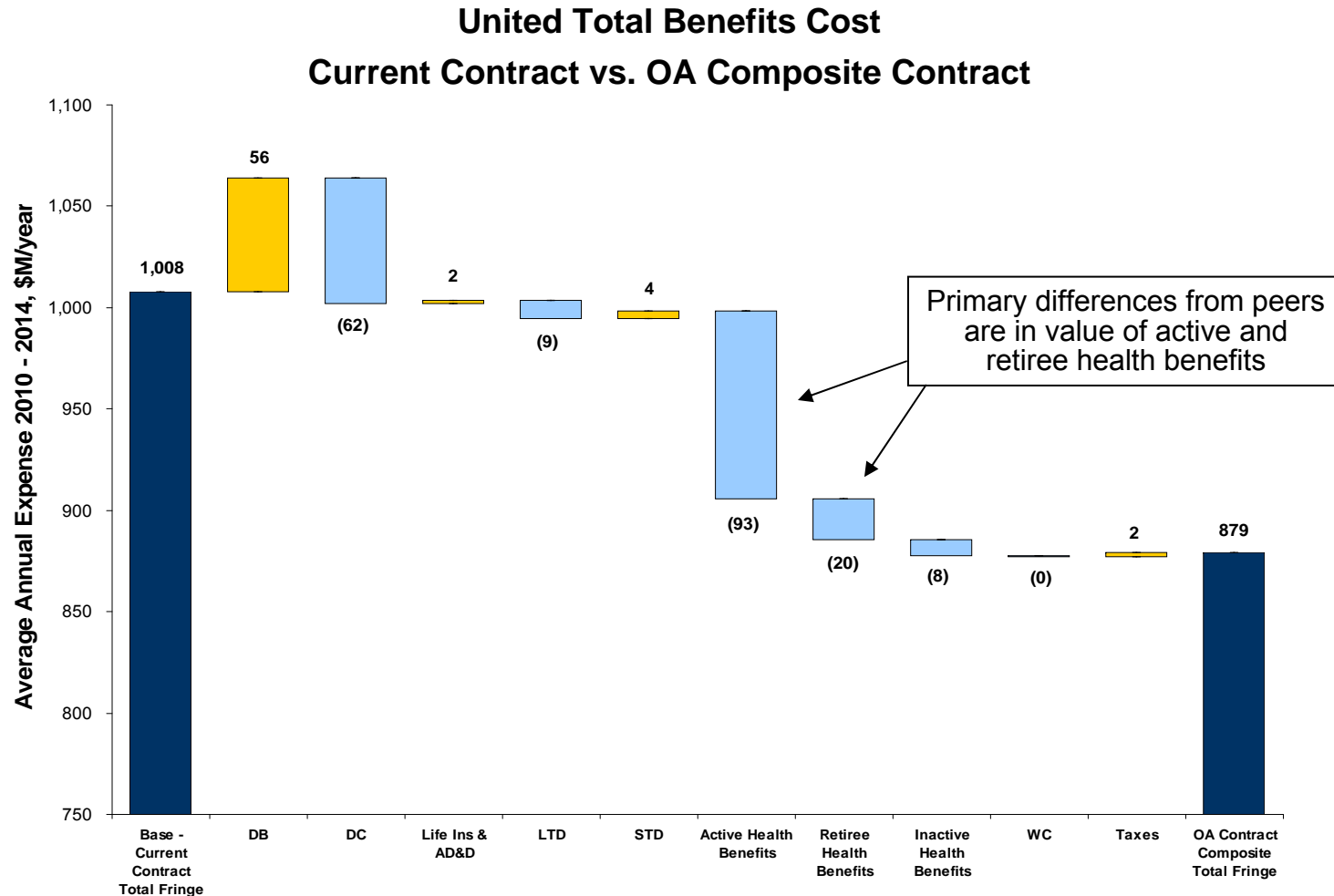
Source: United claims experience data for 2008 from BCBS PPO and Traditional Dental Plan; market data provided by providers (BCBS, MetLife)

By eliminating inefficiencies we can offer multiple health plan choices at competitive price points

- **Allow employees to select the coverage level that meets their needs, and the plan structure that fits how they use health care**
- **Structure plans so that employees' choices are based on program design and value, not solely on price**
- **Example of potential plan types to offer:**

<i>Plan Type</i>	<i>How It Works</i>	<i>What It Emphasizes</i>	<i>Who It Appeals To</i>
<b>PPO Option</b>	<ul style="list-style-type: none"> <li>• No referrals necessary</li> <li>• Co-pay for routine services</li> <li>• Co-insurance for other services</li> <li>• 100% coverage for preventative care</li> </ul>	<ul style="list-style-type: none"> <li>• Open choice of providers</li> <li>• Informed, consumer-oriented use of care</li> <li>• Active health management</li> <li>• Regular preventative care</li> </ul>	<ul style="list-style-type: none"> <li>• Employees who want comprehensive coverage at a competitive price, and who value preventative care</li> </ul>
<b>EPO Option</b>	<ul style="list-style-type: none"> <li>• Structured like an HMO</li> <li>• Referrals are necessary</li> <li>• Fixed co-pays</li> <li>• Very limited non-network coverage</li> <li>• 100% coverage for preventative care</li> </ul>	<ul style="list-style-type: none"> <li>• Relationship with primary care physician</li> <li>• Lower cost versus greater choice</li> <li>• Simple, easy to understand pricing</li> <li>• Broad coverage through national network</li> </ul>	<ul style="list-style-type: none"> <li>• Employees who need lower, predictable costs and will work with a primary doctor in a structured network</li> </ul>
<b>High Deductible Plan</b>	<ul style="list-style-type: none"> <li>• Structured like a PPO</li> <li>• Company-funded HSA provides employee with funds for care</li> <li>• High annual deductibles</li> <li>• 100% coverage for preventative care</li> </ul>	<ul style="list-style-type: none"> <li>• Open choice of providers</li> <li>• Judicious, informed use of care</li> <li>• Coverage focused on high-cost events</li> <li>• Lower premiums and higher usage costs</li> </ul>	<ul style="list-style-type: none"> <li>• Employees with minimal health care needs who want low monthly premiums</li> </ul>

The overall cost of our Benefits package is significantly above our peers, driven primarily by health care



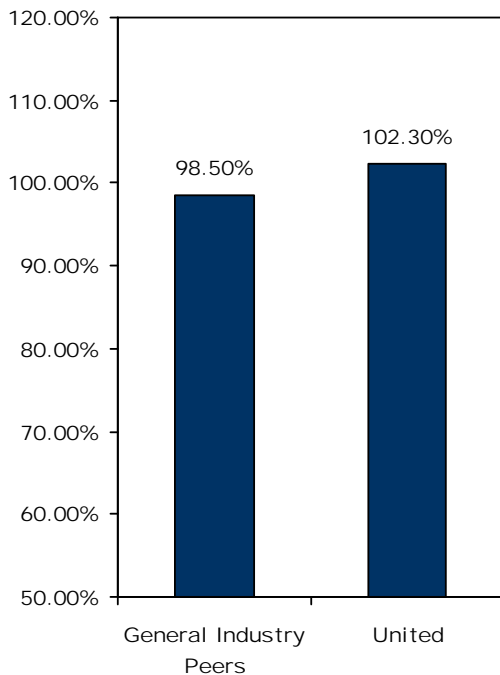
**Note:** Composite weighting (based on ASMs): DL=38%, AA=30%, CO=19%, and US=14% (DL represents merged DL&NW); cost includes pilots, flight attendants, mechanics, and ground employees

Source: United internal analysis

# We need to offer competitive health care coverage supported by market-aligned cost sharing

- **Our current cost sharing model results in United spending approximately 20% more than peers to provide comparable coverage**

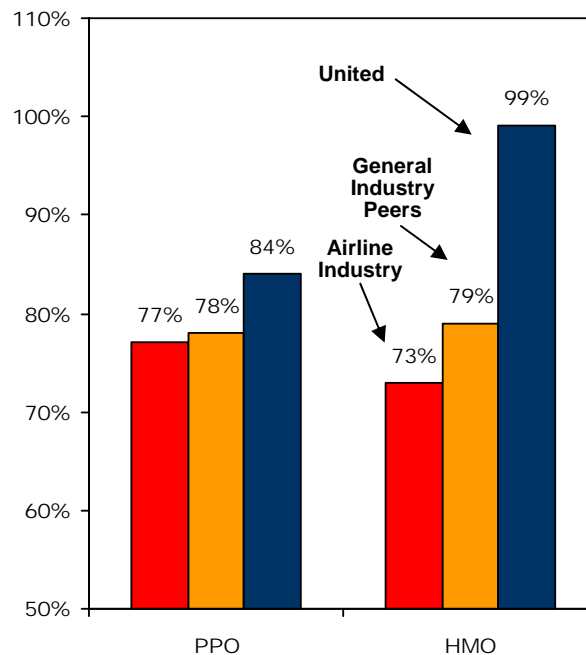
**Health Plan Design That Is Better Than Our Peer Group**



Actuarial value of health care plans as of 1/1/09 as a percent of average for all large employers

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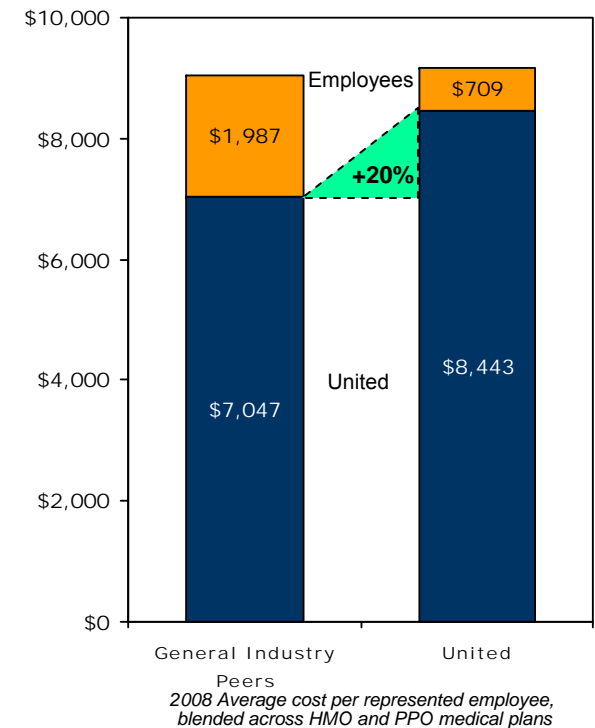
**Company Cost Share That Is Significantly Above Our Peer Group**



Company share of health care premium for active represented employees as of 1/1/09

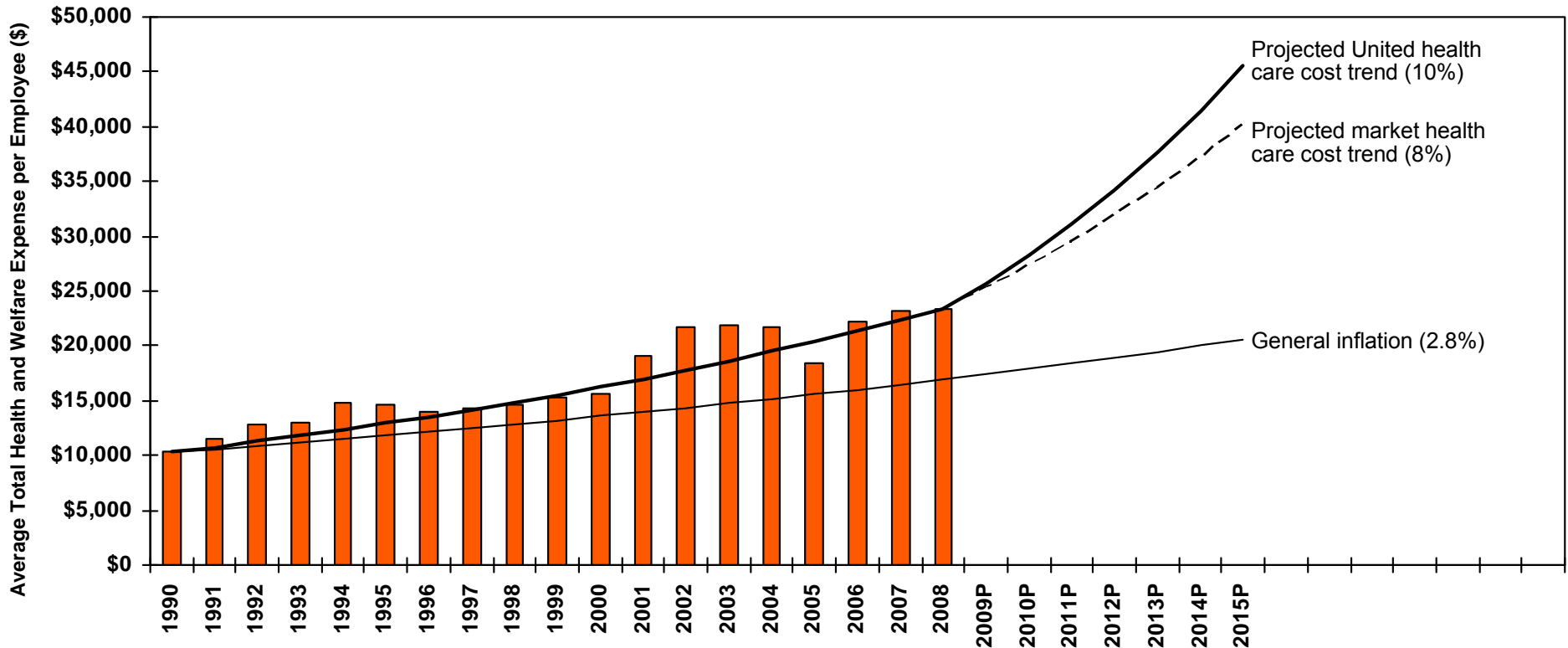
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**Substantial Cost Disadvantage for United**



Without taking action, cost increases will outpace the market, making programs difficult to sustain

### United Health Care Cost Trend vs. Market Trend and Inflation



- **Key drivers of United’s trend include: demographics, inefficiencies in purchasing and plan usage, cost share erosion from current model, and limited emphasis on preventative care or condition management**

# We have taken several steps to improve health and manage cost since 2006, focusing on four key areas

## **Area**

## ***Examples of Actions Taken To Date***

### **Improved Focus on Health**

- Offered 100% preventative care coverage in new Health and Wellness PPO
- Implemented voluntary Condition Management program
- Introduced Health Risk Assessments

### **Efficient Purchasing**

- Joined prescription drug purchasing coalition
- Competitively bid contracts, including PPO claims administration, prescription drug management, Dental plan, and mental health and substance abuse management

### **Market-Aligned Plan Design and Structure**

- Aligned HMO plan designs with market
- Consolidated HMOs where possible
- Converted some HMOs to self-insured

### **Efficient Utilization by Participants**

- Verified eligibility of dependents for coverage
- Aligned prescription drug “strong management” program with market

# Further steps are needed to ensure our Benefits platform is sustainable over the long term

<b>Area</b>	<b>Examples of Potential Future Actions</b>
<b>Improved Focus on Health</b>	<ul style="list-style-type: none"><li>• Explore ways to make preventative care convenient and free</li><li>• Make health screenings available and easy</li><li>• Expand Condition Management programs to cover a wider range of health issues</li><li>• Explore Lifestyle Coaching and other ways to prevent conditions from occurring</li></ul>
<b>Efficient Purchasing</b>	<ul style="list-style-type: none"><li>• Evaluate pharmacy benefits and explore ways to further reduce cost</li><li>• Continue to competitively bid contracts on a regular, planned basis</li><li>• Hold vendors to service and cost standards; replace or upgrade them as needed</li><li>• Consolidate HMOs to a self-insured EPO structure through a national provider</li></ul>
<b>Market-Aligned Plan Design and Structure</b>	<ul style="list-style-type: none"><li>• Offer a range of market-aligned plans at multiple price points</li><li>• Offer tools to help employees chose the right plan for their needs</li><li>• Explore vehicles to support employees in saving for retirement health expenses</li><li>• Consolidate vendors where possible to improve performance</li></ul>
<b>Efficient Utilization by Participants</b>	<ul style="list-style-type: none"><li>• Continue to actively manage prescription drug program, identifying ways to ensure employees follow treatment courses and maximize therapeutic benefits</li><li>• Structure plans to encourage consumer-oriented use of health care</li><li>• Explore ways to increase participation in Flexible Spending Accounts</li></ul>

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***Healthier employees and an efficient, competitive United***

United's focus in negotiations is on flexible, competitive contracts tied to realistic metrics

- **Competitive wages, benefits, and work rules**
- **Meaningful incentive compensation tied to measurable and realistic performance metrics**
- **Flexibility needed to respond to changes in the marketplace, evolving customer expectations and emerging commercial opportunities**

# Appendix

We benchmark benefit programs against both airline peers and a group of leading employers across industries

### **Airline Peer Group**

AirTran

Alaska Air

American

Continental

Delta

Frontier

JetBlue

Southwest

US Airways

### **General Industry Comparator Group**

Alcoa Inc.

Baker Hughes Inc.

Burlington Northern  
Santa Fe Corporation

ConAgra Foods Inc.

Continental Airlines, Inc.

Halliburton Company

Hospital Corporation  
of America

Illinois Tool Works Inc.

J. C. Penney Company, Inc.

Kimberly-Clark Corporation

Marriott International

Nationwide Financial  
Services

Raytheon Company

R. R. Donnelley

The Southern Company

SunTrust Banks, Inc.

Texas Instruments

Waste Management, Inc.

Xerox Corporation