

WILLIAM L. IRVING  
CHICAGO, ILLINOIS 60652

November 2, 2012

Retiree Health Benefits Commission (RHBC)  
Amer Ahmad, Comptroller of the  
City of Chicago; (RHBC) Board Member  
33 North LaSalle Street  
Chicago, Illinois 60602

Leemore Dafney  
RHBC Board Member  
33 N. LaSalle Street  
Chicago, Illinois 60602

Michael Knitter  
RHBC Board Member  
33 N. LaSalle Street  
Chicago, Illinois 60602

Re: *Korshak v. City of Chicago*  
No. 01 CH 4962  
Retiree Health Benefits Commission (RHBC)

Dear Board Members of the RHBC:

As you know, on June 19, 2012, Mayor Emanuel appointed me as a Board Member of the Retiree Health Benefits Commission to serve on said Commission as the representative of the Retirement Board of the Firemen's Annuity and Benefit Fund of Chicago, Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago, Retirement Board of the Municipal Employees', Officers' and Officials' Annuity and Benefit Fund of Chicago and the Retirement Board of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (collectively "the Funds").

I would like at this time to express some of my thoughts, as representative of the Funds, to each of you, as recognized professionals and to place my thoughts on record, hopefully to help resolve into the future vital healthcare issues relating to the retired employees of the City of Chicago and their families.

First, I believe it is important for each of us to understand the history and background of the terms and conditions pursuant to which the City has provided healthcare services to the City's retirees over the past thirty years:

A. HISTORY OF PROVISIONS OF HEALTHCARE SERVICES TO CITY RETIREES

For a period of 30 years, the Funds, representing a class of approximately 35,000 retirees (including dependents) and the City of Chicago ("City"), have vigorously litigated in the Illinois courts all issues relating to the provision of healthcare services for City retirees, including, without limitation, the issue of funding for all retiree healthcare services. ("The Korshak Litigation").

This class action Korshak Litigation began prior to 1987. In 1988, after proofs were introduced into evidence and while the court (Judge Green) was deliberating, the Parties' entered into a ten-year settlement agreement and as required by law submitted the terms of their agreement

to the court for the court's determination as to whether the terms of their agreement were fair and equitable as to all concerned. The Parties, among other terms, had agreed that for the ten year term of the agreement, the City was to pay 50% of all retiree healthcare costs. Notably, Judge Green and thereafter the Illinois Appellate Court both expressly ruled that the terms of the 1988 ten year settlement agreement, including the City's commitment to fund 50% of all healthcare costs, were indeed fair and equitable.

Upon the expiration of the Parties' 1988 ten year settlement agreement in 1997, the Parties effectively agreed that substantially all of the same terms as set forth in their 1988 ten year settlement agreement, including the City's agreement to pay 50% of all retiree healthcare costs, should continue for an additional five years, until June 30, 2002. This five year extension of the terms of the 1988 ten year settlement agreement was accomplished through the passage of mutually agreed upon legislation by the Illinois General Assembly. On June 30, 2002, the legislation was extended to June 30, 2003, while the Parties continued to both litigate as to all annuitant healthcare issues and to engage in extensive settlement negotiations in order to, if possible, arrive at another settlement agreement.

On April 4, 2003, the Parties then entered into a second ten year settlement agreement to bind the Parties until June 30, 2013. (The "2003 Settlement Agreement"). In the 2003 Settlement Agreement, the Parties agreed, among many other terms, that (i) the City would pay between 40% and 55% of each annuitant's healthcare costs (depending on length of service at the time of retirement); (ii) the Funds would pay an agreed upon monthly subsidy to reduce each annuitant's portion of his/her healthcare costs; and (iii) the annuitants would pay from their monthly annuities the balance of the costs as premiums. Many other complex issues were negotiated and agreed to by the Parties. Once again, the Parties, as required by law, submitted the 2003 Settlement Agreement to the court (Judge Dooling) for a determination as to whether the 2003 Settlement Agreement was in fact, and pursuant to applicable law, fair and equitable as to all the Parties. Notably, on July 31, 2003, in a 21 page carefully reasoned opinion Judge Dooling ruled "This Court finds the Settlement Agreement to be fair, reasonable, adequate and in the best interests of all concerned parties."

Specifically, after considering the long history of the contentious litigation and weighing the risks and benefits as to each of the litigants, the court stated:

"This Court determines the settlement is fair, reasonable, adequate and in the best interests of all concerned. Simply put, the annuitants receive good healthcare coverage for ten years and the City avoids the possibility of a financial burden that could greatly weaken the City's economy. If the class members should prevail on their counterclaim and become entitled to health care coverage for life at pre-1983 rates, it would impose a tremendous financial burden on the City and taxpayers of Chicago. On the other hand, if the City should prevail, the class members would be without health care coverage at a time in their lives when obtaining coverage would be very difficult and extremely costly. The same public interest that

favors settlement also favors the City providing good health care coverage for the thousands of class members who have and those who will continue to honorably serve the City and citizens of Chicago."

Second, I think it is important for each of us to understand the nature and purpose of the RHBC as intended by the Korshak Parties and the logical consequences of its success or failure:

**B. THE ESTABLISHMENT OF THE RHBC AS INTENDED BY THE "KORSHAK" PARTIES**

The Retiree Health Benefits Commission ("RHBC") as you know, was established pursuant to Paragraphs G3(b)(c); G4; G5; and G6 of the 2003 Settlement Agreement. In this regard, it is the Funds' understanding that each of you have received a copy of the 2003 Settlement Agreement. Pursuant to the said sections of the agreement, the purpose of the RHBC is to make recommendations as to the plan design of retiree healthcare benefits, costs regarding same and all other issues relating to the provision of retiree healthcare after June 30, 2013. The RHBC therefore, through its expert opinions and recommendations was and is intended by the Parties to the Korshak Agreement to constitute a critical component in establishing the provision of a reasonable, viable and affordable health care benefits plan for City of Chicago retirees upon the expiration of the 2003 Settlement Agreement on June 30, 2013.

The Funds and I, as their representative, deem it critical that the Members of the RHBC are made aware of the foregoing milestone events of this 30 year litigation so that your deliberations and recommendations with regard to post 2013 annuitant healthcare may take place with an understanding that the terms of the 2003 Settlement Agreement are (i) the product of 30 years of intense and vigorously contested contentions on the part of the Parties as to all of the many complex annuitant healthcare issues, including the equitable division and sharing of the costs of retiree healthcare; (ii) that the exhaustively negotiated and agreed upon terms of the two ten year settlement agreements have been judicially reviewed at both the trial and appellate levels of the Illinois courts and were expressly held to be fair, reasonable and equitable as to all concerned; and (iii) that absent fair, reasonable and equitable solutions as to all annuitant healthcare issues post June 30, 2013 substantially similar, if not identical, to the pertinent terms and conditions set forth in the 2003 settlement agreement, the existing *Korshak* class action as well as new class action lawsuits inevitably will be renewed and filed with considerable attendant labor unrest and ongoing substantial litigation costs.

Third, I would like to briefly express, in writing, and place of record some of my thoughts regarding our recommendations to the Mayor:

**C. SOME PROPOSED RECOMMENDATIONS TO THE MAYOR CONCERNING REITREE HEALTHCARE SERVICES AFTER JUNE 30, 2013.**

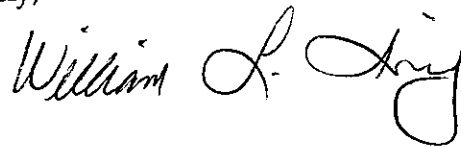
As noted in the Funds' prior correspondence to you as well as my past representations, the timely and seamless provision of continuing healthcare coverage to the City of Chicago annuitants is critical both to the City and, its approximately 35,000 retirees, especially during these difficult economic times. Further, and importantly, the retiree healthcare system established and maintained over the years through the agreements of the Parties has and continues to function very efficiently, economically and equitably as to all concerned. For this reason it should be maintained.

For example, current provisions such as: (i) Definitions of Terms; (ii) terms defining cost sharing; (iii) the method of ascertaining cost projections for the ensuing year; (iv) the length and term of the agreement (absent an understanding of a lifetime term); (v) the inter-party accounting and annual reconciliations of annual cost sharing as between the Parties are but a few practical working provisions best renewed and judicially supervised.

Finally, the Funds and I as their representative, strongly recommend that the Parties to the 2003 Settlement Agreement extend all of the pertinent terms and conditions of the existing 2003 Settlement Agreement for an additional ten year period, or until June 30, 2023, subject to: (i) reasonable and up-to-date modifications to said terms and conditions; (ii) the passage of supplementary necessary legislation by the Illinois General Assembly relating to the Funds' required subsidies; and (iii) continued retention of judicial jurisdiction as set forth in subsection V B.7 of the 2003 Settlement Agreement for purposes of fair, objective and equitable enforcement to the benefit of all parties.

Thank you for your considerations.

Sincerely,

A handwritten signature in black ink, appearing to read "William L. King". The signature is written in a cursive style with a large, looped initial "W".