

Your Guide to Retiree Medical Choice

...and the impact it could have on your personal planning

Overview

The retirement choice program was introduced in the fall of 2003 after an extensive review of the company's retirement benefits. The goal of this program was to implement more contemporary and competitive retirement benefits and simultaneously confront such complex business issues as the rising cost of health care.

One "choice" you made as part of retirement choice was whether to enroll in a new retiree medical subsidy account (RMSA) to help pay for company-provided medical coverage if you meet the age and service requirements when you retire from the company.

By choosing the RMSA, you also became eligible for a "transitional alternative" for retiree medical coverage **if you retire from the company by Dec. 31, 2008**. Depending on your personal situation, the transitional alternative may provide a higher company subsidy for retiree medical.

Please note that this is the final year that you can retire under the transitional alternative. It will not be available if you retire after Dec. 31, 2008. The RMSA will continue to be available after 2008.

Also, as announced in 2003, **Trane will no longer offer company-paid retiree life insurance coverage to any employees who retire in 2009 or later**. However, you can continue supplemental life insurance coverage at the same favorable age-based rates as active employees when you retire. For more information about retiree life insurance, contact the Retiree Administration unit at 1-866-897-6676 or refer to the *Plan Administration, Retirement Choice Eligibility, Life & Accident* and *When You Retire* sections of your summary plan descriptions (benefit books). For more information regarding supplemental life insurance, contact Prudential at 1-800-562-9874 or refer to the *Plan Administration, Retirement Choice Eligibility, Life & Accident* and *When You Retire* sections of your summary plan descriptions.

First Medical Choice for 2008 Retirements: Retiree Medical Subsidy Account (RMSA)

Since you elected the retiree medical subsidy account, Trane has allocated \$1,200 each year to an account set up in your name. In addition, you were allocated \$600 for each year of service you had before September 1, 2003. Amounts are prorated for partial years.

Your account balance grows with interest, which is credited daily and posted to your account monthly. Your RMSA account generally receives the same interest rate credited to the American Standard Pension Plan and is based on five-year U.S. Treasury securities, with a maximum rate of 8%. In 2008, the interest rate is 4.67%. The Retiree Medical

Modeling Tool assumes a future interest rate of 5% for all years. Both company credits and interest accumulate and are withdrawn tax free.

You can begin using the RMSA to offset part of the cost of your Trane retiree medical coverage when you retire from Trane at age 55 or older with at least 10 years of service, or at age 65 or older with at least three years of service. Eligibility requirements for spouse and dependent coverage are the same as those for active coverage. When you retire, company allocations to your account will stop. Interest will continue to be credited to the amount left in your account.

At retirement, you choose the percentage of your retiree medical coverage cost to be withdrawn tax-free from your retiree medical subsidy account and applied toward your retiree medical premiums. You can choose to withdraw 0%, 25%, 50% or 75% of the cost for medical coverage. Each year during annual enrollment, you can change the percentage. If your account eventually runs out of money, you can still continue your retiree medical coverage. However, at that point you will pay the full cost. **Note:** the Retiree Medical Modeling Tool only allows you to model a 25%, 50% or 75% withdrawal and the percentage cannot be changed.

Second Medical Choice for 2008 Retirements: Transitional Alternative

If you retire by December 31, 2008 and elect the transitional alternative, your company-provided retiree medical subsidy will be similar to that offered before January 1, 2004, except that increases in the company subsidy are capped at 5% per year.

Under the transitional alternative, the company pays a portion of the medical premiums for you and your dependents based on your service with the company.

- *If you have 20 or more years of service* when you retire at age 55 or older, the company pays the following amount: 40% of the 2003 cost for retiree coverage, plus a portion of any increase in the cost in subsequent years, with the company's cost not to increase more than 5% in any year.
- *If you are at least 55 and have 10-19 years of service or are age 65 or older with at least three but less than 10 years of service* when you retire, the company pays 20% of the 2003 cost for retiree coverage, plus a portion of any increase in the cost in subsequent years, with the company's cost not to increase more than 5% in any year.

For example, in 2008 under the transitional alternative, if you have 20 or more years of service, the company pays 33% of the total retiree medical cost and you pay 67%. If you have fewer than 20 years of service, the company pays 17% of the total retiree medical cost and you pay 83%. To the extent future retiree medical costs increase more than 5% per year, the company's subsidy, as a percentage of the total cost, will continue to decrease.

Employee Stock Ownership Plan - retiree medical account: Depending on your date of hire, you may be required to make additional contributions for your retiree medical premium beginning at age 65. If you were employed by American Standard in 1989, you

may have received a special one-time contribution to the Employee Stock Ownership Plan (ESOP). This contribution, made to your ESOP's "Retiree Medical Account," was to help pre-fund a portion of the company's subsidy for your retiree medical insurance. Therefore, beginning at your age 65, any amount that Trane contributes to your retiree medical coverage will be reduced by the value of your Retiree Medical Account when you retire, provided you:

- Received this one-time contribution; *and*
- Elect the transitional alternative subsidy when you retire.

The Retiree Medical Account always remains part of your ESOP balance, even if you do not enroll in company-provided retiree medical coverage or elect the RMSA subsidy.

Effective Date of Retiree Medical Coverage

Retiree medical can begin as early as the first of the month following your retirement, but there are a number of reasons why you may want to choose a different date. You or a dependent can elect coverage later as a late enrollee if the person was continuously covered under an eligible medical plan, such as:

- A medical plan with comparable coverage through COBRA (for example, COBRA coverage through Trane).
- Another employer-sponsored group medical plan with comparable coverage (for example, a spouse's or another employer's medical plan)
- A Medicare-risk HMO plan or other Medicare-risk managed care plan

The company reserves the right to make the final determination of whether a plan provides "comparable coverage." If it is determined that you did not have comparable coverage between the date of your retirement and your request for coverage as a late enrollee, you will not be eligible for retiree medical coverage with Trane.

Generally, you cannot cover your eligible dependents unless you are also enrolled for retiree medical coverage. There is one exception. If you are Medicare-eligible (i.e., age 65 or older or Medicare-disabled), you can waive coverage for yourself and cover your non-Medicare eligible dependents until they become Medicare-eligible—for example, your younger spouse until he or she turns age 65. You would then have to meet the late enrollee requirements described earlier in order to reenroll for your coverage and continue coverage for your Medicare-eligible spouse.

Important Note About COBRA

A federal law requires that the company offer you, and your covered dependents, the opportunity to temporarily extend health coverage at group rates in certain instances when coverage would otherwise end. This law is called the Consolidated Omnibus Budget Reconciliation Act, or COBRA.

Provided you have medical coverage while an active employee, you will generally be eligible for COBRA under the company’s medical plan for active employees when you retire. Under COBRA, your cost for COBRA medical coverage will usually be less than the cost for retiree medical coverage. It will **always** be less expensive than pre-65 retiree medical coverage with the transitional subsidy, and it **may** cost less than the RMSA, depending on the drawdown percentage you choose.

For example, if you have 20 or more years of service, here are your *monthly* comparative retiree medical contribution choices in 2008 for Blue Cross PPO retiree plus spouse coverage using a 50% RMSA drawdown:

Transitional Alternative	50% RMSA Drawdown	COBRA
\$ 1,139.71	\$ 855.74	\$732.87

The above examples exclude dental. There is no retiree dental coverage. However, you can generally make a separate election for COBRA dental coverage. (See the *When You Retire* section of your summary plan descriptions.)

If you elect COBRA at retirement, you, and any eligible dependents, can continue COBRA coverage until the earlier of 18 months after your coverage would have otherwise ended or age 65.

More about the Retiree Medical Modeling Tool

The Retiree Medical Modeling Tool was developed to provide you with a means to enter and estimate the value of both retiree medical subsidy options should you retire in 2008.

In its design, the tool is programmed to assume a variety of “macro” factors that are outside of any individual’s control. These include:

- Projected health care costs in 2009 and beyond; and
- Estimated interest rate credited to the RMSA in the years going forward.

Additionally, the tool allows you to enter your own data, which, in most cases, can be modified to reflect a variety of scenarios. Such data includes:

- Whether your spouse will be covered under the Trane retiree medical plan;
- Your anticipated life expectancy;
- If you were to elect the RMSA, how much you would apply toward the cost of your coverage through Trane, as described on page 2 of this guide;.
- The date on which you might begin coverage under Trane’s retiree medical coverage;
- Whether to continue retiree medical coverage when you become Medicare eligible (generally at age 65)

Other considerations:

While it is important to compare the estimated value of the transitional subsidy to the RMSA as part of your decision-making process, choosing between those options is only one piece of the overall retirement-planning picture. Several factors in their totality could weigh more than the value of the transitional alternative subsidy. You may want to consult with a personal financial advisor before making any final decision as to when to retire. In the meantime, if you are leaning toward retiring in 2008, consider the following:

- How soon would you need to access retiree medical through Trane?
 - Do you have access to retiree medical coverage through your spouse, the military or a different employer?
 - Does your spouse have his or her own access to coverage outside of Trane?
- Have you factored the cost of receiving retiree coverage vs. the cost you would pay as an active employee with Trane?
- Have you weighed the value of your salary and other active compensation and benefits (over one or more years) with the potential value of the transitional benefit?
- Can you otherwise afford to retire in 2008?

This summaries information related to the company's benefit programs. In the event of any conflict between these materials and the terms and conditions of the relevant plan documents, the plan documents will govern. The company reserves the right to amend or discontinue its benefit plans at any time.