Good News! Medical plan contributions and deductibles will remain the same in 2000. If you are enrolled in an HMO, your contributions will depend on how the premiums that your HMO charges compare to the costs under the medical plan.

With the Consumer Price Index (CPI) holding below 2% again this year, we all faced a real challenge under the cost-sharing formula. Remember that under the formula, if the company’s costs increase in excess of the CPI, the excess amount is passed on to participants through higher contributions and other plan changes.

Although overall health care costs for 1999 did not exceed the CPI, costs for prescription drugs increased by over 13% and HMO costs increased in some areas by more than 40 percent! Left unchecked, this trend will cause a significant increase in plan contributions and deductibles for 2001. It will take prudent consumers (that’s you!) to help keep costs under control while the company continues its efforts to find ways to address this trend.

But It’s Tough Times for HMOs—And Their Members

Restructure, merge or just get out of the game seems to be the order of the day for many HMOs. After years of rapid, profitable growth and market leadership, the HMO business is experiencing a major shakeout. For years, HMOs focused on building membership, and many were “buying” market share by offering subsidized (although not inexpensive) prices and special plan features. Now, the feeding frenzy for enrollment is over as participation levels everywhere reach saturation point . . over 80% of all employed persons are now enrolled in a managed care plan of some kind.

The major concern for HMOs has now shifted to risk. All the easy cost savings were driven out of the system some time ago and new cost pressures are severely testing HMOs’ resolve. Originally, HMO enrollment tended to be driven by mainly younger, healthier people seeking comprehensive coverage at a modest price. But as membership has matured, HMOs now have a full range of health risks, including large retiree populations. Also, pharmacy costs are skyrocketing; and physicians and other providers are resisting further cost reduction efforts, with some even looking to regain lost income.

The image of managed care has shifted from savior to sinner—and ominously, from a cost perspective, the government is looking to “fix the problem” by dramatically expanding the exposure of health

continued on page 2

2000 Retiree HMO Contribution Schedule

Because of the large HMO cost increases in 2000, retirees in some locations will be required to pay HMO contributions. The retiree HMO medical contribution schedule for 2000 appears on the enclosed rate sheet. If you participate in an HMO plan that requires contributions, you will be billed quarterly by Aetna’s Special Billing Unit. You will receive your bill for the first quarter of 2000 in January.
plans to punitive litigation. This “fix” may also apply to plans like ours. You may agree or disagree with this development, but one thing is very clear—exposure to additional litigation will add significant cost and business risk to health care delivery, and this “cost of doing business” will inevitably be passed on to you, the consumer.

Does all this mean the days of HMOs are numbered? Of course not. Some HMOs are much more efficient at delivering health care than others and quality varies, too. The good ones will stay the course and prosper; some others will reinvent themselves and survive, and hopefully the bad will disappear.

**What Does This Mean for Us?**

In an effort to meet rising costs and maintain or regain profitability, HMOs initially demanded premium increases ranging anywhere from 0 – 56 percent. Meanwhile, regular medical plan costs have remained fairly steady over the past year.

Because the important factor in determining HMO contributions is how their premiums compare to our plan costs, there will be retiree contributions for some of the HMOs.

Rate negotiations with HMOs have been difficult this year, but we have managed to limit employee and retiree contribution increases in many cases by making modest plan design changes. Typically this involved moving up to a $10 copay for an office visit and a $100 copay for each hospitalization. In many cases, pharmacy copays have also been increased to try to offset the surge in drug costs and utilization. These changes should also help to reduce future premium increases by sharing costs and discouraging unnecessary health care consumption. A summary of the HMO changes for 2000 is enclosed.

Overall, this year has been a challenge, but we continue to work hard to offer you a balanced choice of health plans wherever possible. Remember that HMO costs are included in our cost-sharing formula and therefore impact the contributions, deductibles and copayments of all employees and retirees. We need to ensure that everyone pays their fair share for the health care coverage they choose.

We’re confident that our critical benefit plan systems and processes are ready for the Y2K transition. In addition, the outside providers

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**NOTICE UNDER THE WOMEN’S HEALTH AND CANCER RIGHTS ACT OF 1998**

Federal law requires that medical plan participants be provided with this annual coverage notification. Plan participants receiving benefits for a medically necessary mastectomy whom, in consultation with the physician, elect breast reconstruction after a mastectomy will also receive coverage for:

- Reconstruction of the affected breast on which the mastectomy has been performed
- Surgery and reconstruction of the other breast for symmetry
- Prosthesis
- Treatment of physical complications for all stages of mastectomy, including lymphedemas

This coverage will be subject to the same annual deductibles and coinsurance and/or copayment provisions that apply to any other illness.
directly involved in delivering your benefit programs have assured us that they are ready.

Even so, many routine benefit processes depend on several organizations working in unison and utilizing public services such as electrical power, mail services and telecommunications. Because of this, it may not be wise to rely on all of the links in the chain working flawlessly. Don’t depend on everything working at 100% after the New Year; it never hurts to be prepared.

• Don’t leave routine prescription refills and other health care services until the last minute. This is, after all, a holiday period when the mail service is very busy and people everywhere are taking vacation. Take advantage of the advance refill period to request your mail order prescriptions to make sure you have an adequate supply.

• Review the asset allocation of your investments before December 31 (always a good New Year’s resolution anyway!) and make sure you are comfortable with your investment choices. Early in the New Year, don’t rely on instant Internet or telephone access to respond to any unexpected changes in market performance.

We fully expect to get through the New Year without major disruption to your benefit program services. But just as a precaution, Oxy Services personnel will be working through the New Year’s weekend to monitor that all systems are working properly. We recommend you take a little time to plan ahead, and remember that age-old saying—*an ounce of prevention . . .*

1998 Summary Annual Reports are enclosed. The government requires that plan sponsors distribute these financial statements to plan participants annually.

VISION ONE® DISCOUNT PROGRAM UPDATE

Ætna US Healthcare® (Ætna) continues to provide discounts of up to 70% on eyewear and eye examinations through its Vision One program. If you are enrolled in a medical plan administered by Ætna, you are eligible for savings on eyeglass frames and lenses, contact lenses, and eye examinations. The program also offers a mail order contact lens replacement program. The enclosed summary contains updated 2000 rate information. Use your Ætna ID card to access Vision One benefits.

RETIREE MEDICAL FUNDING

While retiree medical benefits under the Oxy Medical Care Plan have historically been paid out of the company’s general assets, several years ago Oxy made contributions to a special trust fund to help pay for future medical costs for retirees who were eligible for Oxy’s Personal Retirement Account (PRA). Earlier this year, the balance in the fund reached approximately $50 million and began paying for eligible retiree medical costs.

As a result of this temporary change in funding, we are required to establish a separate plan, the Oxy Retiree Medical Plan (Plan No. 592), for this group of Oxy retirees. If you are an Oxy retiree who participated in Oxy’s PRA, you automatically participate in this plan. The provisions of this plan are the same as the retiree provisions of the Oxy Medical Care Plan. The trustee of the fund is The Northern Trust Company, 50 South LaSalle Street, Chicago, IL 60675. This change does not apply to any other group of Oxy or OxyVinyls retirees.
Retiree Medical Plan Changes Take Effect

January 1, 2000

As announced in November 1997, the following changes will apply to all retirees who retire after 1990 and who become eligible for Medicare on or after January 1, 2000:

- Retiree contributions will equal the rate paid by active employees (currently $33/month per person).
- The annual retiree deductible will equal the active employee deductible (currently $200/year per person).

The age and service multiples that apply to early retirees will now apply to all affected retirees. However, for Medicare-eligible retirees, the maximum contribution will not exceed two times the employee contribution rate as shown in the following table.

<table>
<thead>
<tr>
<th>If your combined age and service on your retirement date is…</th>
<th>Early Retiree Multiple</th>
<th>Medicare-Eligible Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 to 69</td>
<td>4 times</td>
<td>2 times</td>
</tr>
<tr>
<td>70 to 74</td>
<td>3 times</td>
<td>2 times</td>
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<tr>
<td>75 to 79</td>
<td>2 times</td>
<td>2 times</td>
</tr>
<tr>
<td>80 or more</td>
<td>1 times</td>
<td>1 times</td>
</tr>
</tbody>
</table>

These changes do not apply to employees who retired prior to January 1, 1991 or to those who become eligible for Medicare prior to January 1, 2000.

Happy New Year

2000

The company expects and intends to continue its benefit plans but does not guarantee any specific level of benefits or the continuation of any benefits during any periods of active employment, inactive employment, disability or retirement. Benefits are provided solely at the company’s discretion and do not create a contract of employment. The company reserves the right to modify, suspend, change or terminate any of its plans at any time.