

Retirees' benefits vanish as employers drop plans

By Marion Davis, Staff Writer

Imagine working for 35 or 40 years and discovering that, unless you wait till you're 65, you'll have to pay hundreds of dollars a month, often close to \$1,000, to have health insurance for yourself and your spouse.

What if you had high blood pressure, like half of Americans ages 55 to 64? Or diabetes, arthritis, cancer? How much of your nest egg would you lose before you qualify for Medicare?

As millions of U.S. baby boomers start eyeing retirement, that is increasingly their dilemma. From 1993 to 2004, Mercer Human Resources Consulting has said, the share of large U.S. employers offering health benefits to early retirees fell from 46 percent to 28 percent.

And among smaller employers (under 500 workers), it was only 5 percent, Mercer found. Coverage for Medicare-eligible retirees – supplemental or otherwise – is also vanishing rapidly, Mercer found, with the share of large U.S. employers providing it dropping from 40 percent to 20 percent. (Only 4 percent of small employers offer it.)

“It’s a very bad problem for the under-65 retiree,” said Joel H. Cooper, president of USI-Rhode Island (formerly Benefits Unlimited). “Very, very few companies provide that benefit, and there are very few alternatives available.”

Among his firm’s non-unionized clients, Cooper said, “I would say we’re almost down to zero. ... We might have half a dozen among 1,500 corporate accounts.” Unionized employers are still far likelier to provide the benefit, Cooper said – maybe 60 or 70 of roughly 100 USI-Rhode Island clients, including municipalities. But even they are trying to cut back.

Both Care New England and Lifespan, the health care networks, have discontinued their retiree medical plans, leaving just “grandfather” clauses to protect a few older workers. Brandon Melton, senior vice president for human resources at Lifespan, said union contracts had guaranteed the benefit at Rhode Island Hospital, but it was negotiated out two years ago, with a five-year window to protect the oldest workers.

“We didn’t want to hurt people who were retiring soon,” Melton said. “But we found what a lot of

employers are finding – they just can't afford it.”

Westerly-based Washington Trust Company, which was recently recognized by a national group as one of the “10 Best Companies for Employee Financial Security,” doesn't pay for retiree health benefits, though it does allow pre-65 retirees to stay on the bank's plan at their own expense.

“Probably at least half of them would take it until they get to 65, when they can get Medicare, because it is an issue,” said Vernon F. Bliven, senior vice president for human resources.

In Washington Trust's case, this is not a change – it's how it was when Bliven took over in 1985, he said. But even, he added, it was clear that paying for retiree health benefits “was not a direction you'd want to go. The data was very clear on what the future would hold.” In 2004 alone, a survey by Hewitt Associates and the Kaiser Family Foundation found, employers' retiree health costs rose 12.7 percent – following a 13.7-percent cost hike in 2003. Even if annual growth slowed to 10 percent, costs would still double every seven years.

For many U.S. employers, that reality didn't begin to sink in until 1993, when new accounting rules required them to account for retiree health obligations on an accrued basis.

Imagine having 500 workers, ages 21 to 60, and having to project how much it's going to cost you to insure them as retirees – especially if you guarantee Medicare supplemental coverage, which is cheaper than pre-65 coverage but goes on till the retirees die.

Even worse than pension liabilities, employers discovered, retiree health benefits skewed their books, drowning current profits in future red ink. (New government accounting standards are expected to do the same to states and municipalities.)

“It truly is a real liability,” said Cooper.

Melton said the impact on the balance sheet was a big factor in Lifespan's decision to end retiree health benefits, as were the hospitals' labor shortages.

“If we were in an industry that was downsizing or sending jobs overseas, then we might be in a position where we'd be incenting retirement, but not here,” Melton said. “Here we want to keep our employees as long as we can, especially our allied health professionals and our nurses.” In fact, Lifespan is considering changing its retirement benefits to allow workers to continue expanding their pensions if they work past age 65, he said.

Among firms that do still cover their retirees, the Kaiser/Hewitt survey found, increased cost-sharing is the norm: 85 percent planned to ask retirees to pay more in 2005, 21 percent made retirees pay the full cost in 2004, and another 18 percent planned to do so in 2005.

Other companies, of course, are dropping their plans altogether, protected by recent court decisions that

have exempted health benefits from the legal protections for pensions.

Absent any such coverage, Rhode Island retirees' only option is Blue Cross & Blue Shield of Rhode Island's individual plans, which, for a 60-year-old, now start at more than \$3,700 a year, for limited coverage, or more than \$5,600 for fuller coverage. And Blue Cross is seeking to replace those plans with new, costlier plans next April.

But for companies that haven't yet dropped their plans, there is an alternative. A Warwick company called NEBCO has been creating lower-cost group products that allow employers to reduce or even stop their contributions while making some provisions for their retirees. Cooper, who recommends NEBCO's packages to clients – about 50 have adopted them – said they can help reduce the impact of dropping retiree health plans. When Polaroid dropped its plan shortly before filing for bankruptcy, Cooper worked with NEBCO to create a voluntary plan, administered by a retiree association, with premiums of about \$220 a month, compared with about \$200 a month (half the premium) for Polaroid's plan.

“It has become the solution for some very big corporations that have had financial problems,” Cooper said. “We've used this as a tremendous tool for companies, and helped a lot of people.”

Samuel H. Fleet, president and CEO of NEBCO, a wholesale insurance broker and third-party administrator, said his firm customizes plans to fit the retirees' needs and financial resources – costlier plans with richer benefits for better-off retirees, cheaper plans for poorer retirees – with individual premiums ranging from \$110 to \$480 a month.

With companies that are liquidating, such as Polaroid, NEBCO helps retirees set up separate associations; for employers that still want to run their own plans, it finds alternatives, such as capping contributions – a solution to the actuarial problem – or program phase-outs.

“We work with employers on slowly creating an exit strategy for them,” he said.

For companies still offering the post-65 retiree health benefit, the federal government is about to start providing help: the Medicare Part D subsidy, which will reimburse employers for up to 28 percent of each retiree's drug costs between \$250 “What we see is most companies are getting between \$500 and \$600 for each retiree if their plan is eligible,” said Barry Gilman, a principal at Mercer Health & Benefits in Boston who specializes in retiree health benefits.

Given the administrative costs associated with getting the subsidy, it's not worthwhile for companies with fewer than about 50 retirees, Gilman said. And pre-65 benefits are still where the “vast majority” of employers' costs are, he added.

Nevertheless, he said, given that 50 to 60 percent of the cost of health costs for Medicare-eligible retirees involve prescription drugs, the subsidy will provide a “major reduction,” helping to keep the surviving post-65 plans afloat.