

Health plans for retirees face big cuts

Employers in Western New York might be poised to trim health-care benefits for retirees or jettison them altogether in a cost-cutting strategy to help keep their businesses afloat. If they follow national trends, the local employers will step away from a long-held role of providing health coverage for the older population. For early retirees, employer-sponsored health insurance generally is affordable and comprehensive and is their sole source of coverage before becoming eligible for Medicare. And one in three Medicare-eligible retirees have relied on their former employers' insurance to pay for services not covered by the government plan, such as drug coverage.

But as costs of health care and conducting business have risen over the past 15 years, retiree health benefits have become decreasingly sacrosanct across the country.

Western New York employers will be no different than others across the country, said Jake Flaitz, a human resource consultant with William Mercer in Rochester.

"It raises issues whether people can afford to retire," Flaitz said. "The question will be whether they have access to affordable health-care coverage, and if they don't, what happens? It's a real significant issue. It's a

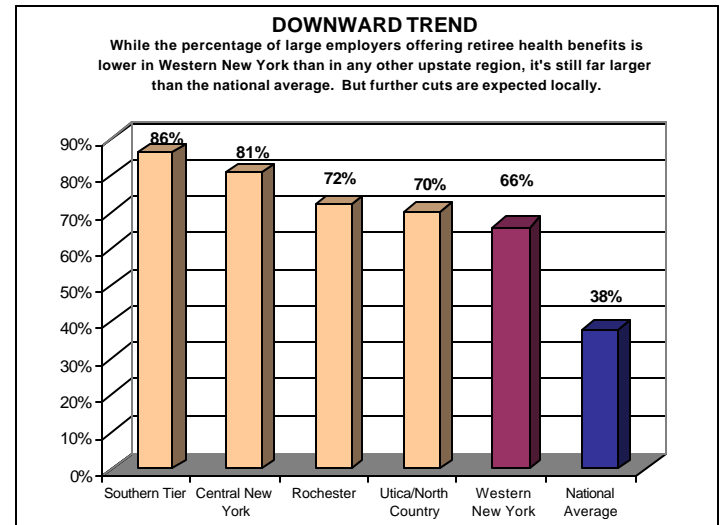
freight train coming down the tracks."

Among large employers, who are far more likely than small or mid-sized employers to offer retiree health benefits, the percentage offering

retiree coverage has dropped from 66 percent in 1988 to 38 percent in 2003, according to an annual survey by Kaiser/Health Research and Educational Trust Employer Health Benefits Survey.

What might have fueled that slide is the federal Financial Accounting Standard 106 introduced in the early 1990s that required employers to account for retiree medical benefits as a liability on their books, said employee benefits attorney Tom Hurley, partner at Jaeckel Fleishmann & Mugel LLP in Buffalo.

"If you didn't have a balance on your books for medical and the next day you've got billions of dollars there, all of a sudden your nice balance sheet doesn't look good to investors," Hurley said. "Companies with billions of dollars of liabilities is where you see employers looking long



SOURCE: UNIVERA HEALTHCARE

and hard at retiree programs. A lot of times, that's the only thing they can do to preserve the business. There's been an increase in momentum as medical expenses have skyrocketed."

Recently, Sears Roebuck & Co. announced that starting in January, retiree health benefits will no longer be available for new hires and will be eliminated for employees under age 40. Aetna is cutting subsidies for those retiring this year and Lucent Technologies made deep cuts in coverage and raised retiree contributions to premiums.

Employers, getting creative in limiting their exposure to costs, appreciate that there's no return on money spent on retirees, said Kevin Gannon, president of Niagara Benefits Group Inc. in Amherst.

"We're definitely seeing employers getting away from paying for retiree coverage, but they're still allowing retirees to be on the plan, but the retiree would have to pay for it," Gannon said.

There's a mismatch between retirees' expectations of health care coverage and what they will receive, according to a recent survey published by the journal Health Affairs.

Though signs indicate otherwise, a majority of Americans age 45 to 64 are confident that upon retirement they will receive employer- or union-sponsored insurance, or will be able to afford to pay for supplemental

coverage. The same majority is marching toward retirement without knowledge of what, if anything, their employers will offer in health benefits and without a good sense of what services Medicare covers, according to Health Affairs.

There appears to be no imminent threat to retiree benefits in Western New York where 66 percent of large employers indicated they are likely to continue covering their retirees next year, according to a recent survey commissioned by Univera Healthcare.

Rich Products Co. Inc. is among them. The food manufacturer offers health

insurance to its 250 salaried retirees but officials continue to monitor the program for cost and impact of legislative initiatives.

"We will look at the program while still balancing the needs of the retirees and associates. It is a balancing act to try to work through," said Gordon Cumming, director of associate services.

Two recent events could have significant impact on the issue.

One is the Medicare Prescription Drug, Improvement and Modernization Act of 2003 that provides \$88 billion in direct and indirect aid for employers to encourage

them to maintain health benefits for Medicare-eligible retirees. The law also provides a new drug benefit, which critics say will erode employers' interest in offering health coverage for retirees. The second

development is a proposed rule adopted by the Equal Employment Opportunity Commission, making it easier for employers to coordinate benefits with Medicare.

Benefit consultant Joseph Curatolo of Georgetown Capital Group expects employers will consider the retiree issue when the 2005 premium rates are released this fall.

"Almost everyone is ratcheting down benefits, but keeping something in tact. What more and more companies are doing are giving allowances and dropping prescriptions," Curatolo said.

Area health insurers are introducing various programs, such as preferred providers organizations which can be more flexible than HMOs. They will offer for the first time in January consumer-driven health plans that pair up high-deductible insurance with savings accounts, built by contributions from employers and employees, to cover routine care. Certain health savings accounts can follow the individual into retirement, which suggests the more the employee saves now, the better off he will be after he stops working, when he can't count on his old work-based health insurance.

"The perfect plan that is promised to employees for life is gone forever," Hurley said.

Reproduced with permission of the copyright owner. Further distribution or reproduction without permission is prohibited.

Business First, Buffalo, NY; August 27, 2004.

Annemarie Franczyk, Reporter

"The perfect plan that is promised to employees for life is gone forever," Tom Hurley, partner at Jaeckel Fleishmann & Mugel LLP