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In retirement

Retirees finding cost of health benefits soaring

NEWS SEARCH

By Bruce Japsen
Chicago Tribune

Tens of thousands of retired workers, long accustomed to generous health benefits, are being hit with huge increases in premiums as rising medical-care costs strain tight corporate budgets in a lackluster economy.

The costs for providing benefits to retirees are rising even faster than premiums for active workers, pushing more companies to eliminate retirement health benefits in the future. Currently, more than 12 million retirees have some kind of medical coverage, provided by roughly half of U.S. companies with 1,000 or more employees.

Retiree premiums are doubling for some, or at least jumping much faster than the 13 to 25 percent rate increase for active workers because companies are exhausting caps set years ago to protect themselves from rising health-care costs, analysts say.

Harmon Davis of Bourbonnais, Ill., knows all about it.

Davis, 60, repaired cash registers and business machines for NCR for 40 years before retiring three years ago under a deal that put his monthly premiums for he and his wife at \$100 this year. But by next year, his monthly premiums will more than double to \$231, according to a letter Davis received from NCR in October.

And by 2005, Davis' costs are projected to triple to \$620 a month — an amount that will eat more than a third of his annual \$21,540 Health-care coverage for retirees tends to be more expensive because they are older and tend to use more medical services, particularly prescription drugs, analysts say. Most stay on employer-sponsored retiree plans until they are 65 when Medicare coverage kicks in and they will then need only an employer-sponsored supplemental policy, which typically includes drug coverage.

But such supplemental policies are going up, too — often double and triple what retirees have been used to for much of the last decade.

Ralph Kolderup, a retired regional sales manager for the former Ameritech, now SBC Communications, said supplemental coverage cost just \$2 a month three years ago. This year, he paid \$133 a month and his premium will rise to \$224 a month next year.

"To go from zero to more than \$2,500 a year is fine if you are working and get annual raises and maybe a performance bonus. But when you are retired, what the hell are you going to do?" said Kolderup, 65, of Palatine, Ill.

"Your income levels are stable unless you want to go back to work when you are 65. Most of us know health-care costs are spiraling out of control in this country but this raises a question. What is going on?"

SBC is like an increasing number of pension. Davis expects he will be forced to look for a part-time job pay the bills.

"A number of us had based our early retirement decision somewhat on the fact that we would have medical coverage at a reasonable rate," Davis said. "Had I known this is coming, there are more chances that I would have stayed than would have left."

The trend of cutting benefits for retirees comes just as Congress passed a drug benefit for seniors under Medicare — one of the most important benefits for retirees with employer-based medical coverage, seniors say.

Yet the Medicare drug plan does little for retirees under 65. Even for those over 65, Medicare's drug benefit will be enacted too late to help them with their premium increases because Medicare's proposed prescription coverage would largely take effect in 2006, with the exception of drug discount cards available next year.

The spike in costs for employers come as companies wrestle with economic conditions and demands by Wall Street to improve bottom lines. Some companies also are exhausting budgets for retiree medical benefits, companies being forced to raise premiums on retirees because of corporate budgeting maneuvers implemented several years ago that set a cap on future retiree obligations.

In SBC's case, the company created such a cap in the early 1990s and told workers they some day faced the possibility of paying a portion of their medical premiums if they rose above the cap. The cap kicked in last year, triggering large increases in retiree contributions.

Because of the dramatic increase in health-care costs over the years, the caps are starting to kick in at companies across the country. About half of all employers offering retiree medical benefits report having such caps, according to a study by the Henry J. Kaiser Family Foundation and benefits firm Hewitt Associates.

"Ten years ago, a lot of companies reduced their liability by putting in caps, and that future deferral is now hitting retirees," said Todd Swim, benefits consultant with the Chicago office of Mercer Human Resources Consulting. "The only way companies can manage that liability without drowning is to institute these caps."

In the future, retiree medical benefits may not even be around for current employees given the current trend, analysts say.

Already, one in five large employers say they are going to eliminate retiree coverage for "future retirees," typically new or recent hires, within the next three years, the Kaiser-Hewitt analysis indicates.

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