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## Companies Limit Health Coverage of Many Retirees

By MILT FREUDENHEIM

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**E**mployers have unleashed a new wave of cutbacks in company-paid health benefits for retirees, with a growing number of companies saying that retirees can retain coverage only if they are willing to bear the full cost themselves.

Scores of companies in the last two years, including the telecommunications equipment giants [Lucent Technologies](#) and [Alcatel](#) and a big electric utility, TXU, have ended medical benefits for some or all of their retirees and instead offered to let them buy coverage through a group plan. This coverage is often more expensive than many retirees can afford.

Experts expect that the trend, driven by the fast-rising cost of health care, will continue, despite the billions of dollars that the government will distribute to companies that maintain retiree health coverage when the new Medicare drug benefit begins in two years. In contrast to pension financing, companies are not obligated to set aside funds to pay for retirees' health benefits, and the health plans can usually be changed or terminated at the company's choosing, with no appeal available to the retirees.

The costs can be a shock. According to surveys by benefits consultants, companies that offer health benefits to retirees typically have subsidized about 60 percent of the premium. Losing that support all at once can mean hundreds of dollars a month in unexpected costs.

Moreover, in dropping their subsidies, many companies push retirees into insurance pools that are separate from those of younger, healthier workers, executives said. That lowers the company's costs for insuring its current workers, while raising the premiums charged to retirees even further.

James Norby, president of the National Retiree Legislative Network, an advocacy group that is urging Congress to strengthen legal protections for retired workers, said companies that charged for formerly covered benefits had found "a clever way of getting out of the contract they made to people who had been retired for 15 or 20 years."

Employers that are shifting costs to their retirees often present the change as a benefit: although the company is no longer subsidizing coverage, premiums are usually lower than for individual policies, and the retirees do not have to worry about being rejected by insurers because of their

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age or prior health problems.

The emergence of these plans "is a very significant trend," said Frank McArdle, a health policy expert with the [Hewitt Associates](#) benefits consulting firm in Washington. "Even though it's not subsidized health coverage, retirees, particularly early retirees under age 65, still have access to a group product that they could not readily duplicate on their own." Those with medical problems are often rejected by commercial insurers, he noted.

But those considerations are little comfort to some early retirees. Eloise Bolt, 56, who took early retirement in October 2002 from her job as an information technology project manager at TXU in Dallas, said that she was "really hurt and really angry" when her monthly insurance premium — which also covers her self-employed husband — soared from the \$100 she had paid when she was working.

According to Ms. Bolt, TXU said that the \$100 represented 20 percent of the total premium, and that on retirement after 24 years with the company, she would be paying 60 percent. But instead of rising to \$300 or so, as she had expected, her monthly premium jumped to \$659, and rose to \$725 this month, with a higher deductible.

"The math does not work out," said Ms. Bolt, who abandoned her retirement plans and took a \$9-an-hour job as a secretary to pay for the insurance.

Debbie Dennis, a TXU vice president, said that retirees' premiums were figured separately from those of active employees and then "segmented" within the retiree group according to age, length of service, medical history and actuaries' estimates of a person's future use of health services.

When TXU trimmed its retiree benefits at the start of 2002, the company announced that all employees hired since Jan. 1 of that year would have to pay the full cost of health benefits when they retired. Like other companies, TXU — which has 12,000 employees and 8,000 retirees — is encouraging younger workers to save for their future health costs. TXU is promoting participation in the company's 401(k) retirement plan. It matches employee contributions up to 6 percent of their salary.

"New employees can plan for these costs with money in their savings plan," Ms. Dennis said. "They will still have access to the lower cost of the company's buying power."

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Last year, only 36 percent of companies with 500 or more workers still offered a retiree medical plan to at least some retirees not yet eligible for Medicare, down from 50 percent in 1993, according to a recent survey by Mercer Human Resource Consulting.

Last month, a study for the Kaiser Family Foundation by Hewitt Associates found that among employers that have maintained retiree coverage, about 15 percent have required at least some retirees to assume the full cost of their insurance in the last two years. Another 31 percent said they would probably adopt these so-called access-only health plans within the next three years.

"Twenty years from now, no company will offer retiree health care," Uwe Reinhardt, a health economist at Princeton University, said.

Mr. McArdle of Hewitt said that the roster of companies offering retiree health benefits had dwindled as medical costs soared and employers encountered new competitors, both overseas and at home, that rarely covered retirees.

According to the Kaiser-Hewitt survey, the average monthly health insurance premium for an employee who took early retirement last year was \$845, including coverage for the spouse. So early retirees who lost the typical 60 percent subsidy would face added costs of more than \$500 a month.

The impact would be less severe for people 65 or older who are covered by Medicare; retiree benefits for them, when they are offered, are usually the equivalent to so-called Medigap supplements to Medicare. In the Kaiser-Hewitt survey, the average premium for employees who retired at 65 last year was \$419, including coverage for a spouse.

Lucent Technologies, whose business went into a free fall with the popping of the telecommunications bubble, adopted an access-only health plan this year, but only for the spouses of 9,000 management retirees who had retired since March 1990 with annual pay of \$87,000 or more.

William Price, a company spokesman, said the cutbacks were necessary to keep Lucent — which has 22,000 United States employees but provides health benefits to 240,000 retirees and

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their spouses — "viable and competitive."

Many retirees are bitter about such changes. "I took the offer to retire in 2001 mainly because they were protecting health care benefits," said Edward Beltram, 58, a former Lucent human resources manager who lives in Woodland Park, Colo., and must now pay \$375 more a month to maintain coverage for himself and his wife.

Mr. Beltram, who worked for Lucent and for units of a predecessor company for 31 years, added, "I feel they have reneged on their promises."

Jerry Martin, who retired in 2002 after 17 years with TXU, planned to pay the full cost of the company's retiree health benefit for himself and his wife. But he dropped the coverage after TXU's actuaries revised their estimates, and his premium jumped from \$1,224 a month last year to \$2,066 on Jan. 1, 2004, dwarfing his \$1,276 monthly pension and leaving him angry.

"They say, 'We won't worry about these people that are going to get old,'" said Mr. Martin, a 56-year-old computer technician.

With retiree health costs continuing to spiral, more and more companies are planning to reduce or eliminate retiree health benefits — especially prescription drug coverage — without waiting for the new Medicare drug benefit to become available in 2006, said Marianne Fazen, executive director of the Dallas-Fort Worth Business Group on Health, an employers' group.

One employer in her area, Alcatel, a French-owned telecommunications company whose North American operations are based in Plano, Tex., recently announced that it would reduce subsidies for all retirees immediately, and end them in 2006.

Many companies, especially retailers with high turnover and low-paid work forces, and technology companies with relatively young workers, do not provide retirees any health benefits. [Intel](#), an exception among technology companies, provides an access-only plan for retirees and helps out by providing \$1,500 for each year of eligible service, to be used only for premiums in the Intel retiree health plan, said Gail Dundas, an Intel spokeswoman.

People who retire and start their own business or join a small firm may welcome the chance to pay a group rate, said Helen Darling, president of the National Business Group on Health, a research organization supported by large employers.

"It's an important interim step," said Tricia Neuman, a Medicare policy expert at the Kaiser Family Foundation, which sponsors health care research. "This is better than tossing people out into the individual insurance market, and it is a richer benefit than is available under Medigap," the supplementary coverage that Medicare beneficiaries can buy.

Encouraging workers to save for these costs, employers like [Deere & Company](#), the tractor manufacturer, and financial service firms like Fidelity Investments are calling on Congress to establish new retirement medical benefit accounts that would resemble 401(k)'s for health care.

"We're looking for a tax-advantageous way for folks to start saving," said Mert Hornbuckle, vice president for human resources at Deere.

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