

## Headlines

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# Most Employers Cutting Retiree Health Care: Study

by Kim Dixon

Most U.S. employers are planning to further scale back health benefits offered to retirees, as companies struggle with the upward march in the cost of medical care and weigh increased contributions from the government's Medicare program, a survey found.

Ninety-five percent of the mostly Fortune 500 companies polled expect to further restrict their retiree health plans over the next five years, and 14 percent plan to stop providing coverage entirely, the survey of 163 companies by benefits consultants Watson Wyatt found.

Employers have been exiting the retiree health business for a decade-and-a-half, amid rapid inflation in the cost of health care and increasing mobility of workers. But some feared the pace would quicken amid recent changes that boost benefits provided by Medicare, the government's health insurance program for the nation's 43 million elderly and disabled people.

"There is definitely more change in the air now that Medicare Part D has come into play. There are fewer companies that are not planning on doing anything at all," said Cara Jareb, director of retiree medical at Watson Wyatt. "The willingness to eliminate the benefit is clearly increasing."

Changes in the Medicare program include adding prescription drug benefits, known as Medicare Part D. Experts feared that with a richer government benefit, employers would be more likely to stop offering coverage.

About a third of U.S. employers offered current workers retiree coverage in 2005, down from about two-thirds in 1988, according to a recent study by the nonprofit Kaiser Family Foundation.

According to Standard & Poor's, plans for retiree benefits at S&P 500 companies, excluding pensions, were underfunded by \$321 billion, meaning promises to retirees are only 22 percent funded.

EMPLOYERS WEIGH EXITING

About three-quarters of U.S. companies polled are accepting a Medicare subsidy from the government intended to keep employers in the business of helping workers defray health costs when they retire.

"The question is, is the bribe enough?," said Mark Pauley, a health economist at the Wharton School at the University of Pennsylvania. "My distinct impression is that a fair number of employers did adjust their own contributions around the Medicare benefit. But the numbers completely abandoning it are small."

Most companies are skimming the benefits they do offer. A quarter of employers are tightening eligibility for current workers, and a similar amount are offering more expensive plans.

About 40 percent of employers said they believed the best way to solve their retiree health cost problem is to exit it altogether, although most continue to offer benefits because of practical considerations, the study found.


The same amount, about 40 percent, said taking the government subsidy is the best way to keep costs down. Jareb said it showed that even though companies might think exiting the business would help with costs, most are unlikely to do it at this point.

"In essence the numbers indicate that -- whether due to employee relations, benefits philosophy or collective bargaining -- exiting retiree health is not a viable option for the majority of employers" the study said.

*Additional reporting by Emily Chasan in New York and Joanne Kenen in Washington*

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