

Retirees' health costs jump for third year

By Kimberly Blanton, Boston Globe Staff | December 15, 2004

Retirees for a third straight year are paying double-digit increases for healthcare coverage through their former employers, which are shifting a greater share of the cost to new retirees, according to a study released yesterday.

The US private sector's total costs for providing health coverage to all retirees surged nearly 13 percent this year. But their retirees paid more: Premiums for people who retired during 2004, at age 65, were on average 24 percent more than those paid by their counterparts who retired in 2003, according to analysis by the Henry J. Kaiser Family Foundation and Hewitt Associates. Similarly, people who chose early retirement this year -- before they reached age 65 -- paid on average 27 percent more than did early retirees in 2003.

Employer-sponsored health coverage is a valuable and increasingly rare benefit for retirees, particularly those who are not yet 65 and eligible for the federal Medicare program. Employers, which have an advantage when purchasing health coverage at lower group insurance rates, often subsidize retirees' coverage to levels far below what they would pay for insurance purchased on their own.

In 2004, the average monthly cost for an employer to cover a retiree under age 65 was \$487, of which the retiree paid \$187, according to the survey. The average monthly cost to cover a retiree under 65 and a spouse was \$1,124, of which the retiree paid \$387.

But as the benefit has become increasingly expensive for employers, more are dropping their retiree health plans, including prominent companies that filed for bankruptcy protection such as Polaroid Corp. and Bethlehem Steel. One in three large employers offered retiree health benefits this year, down from two in three employers in 1988, according to an earlier Kaiser study.

"Many have been following the broader story of the erosion of employer-based health insurance," said Drew Altman, Kaiser Foundation president. "This is part of that story."

The Kaiser Foundation, a health research organization in Washington, D.C., and Hewitt, a benefits consulting firm in Lincolnshire, Ill., analyzed health benefits of 333 large, private-sector employers with 1,000 or more employees from May through September.

The 2004 study was Kaiser/Hewitt's third annual retiree healthcare survey, and it marked a third year of double-digit increases in premiums for retirees. In the 2003 survey, employers raised healthcare premiums for 2003 retirees between

18 and 20 percent. Researchers tracked only new retirees in each study, not existing retirees.

While retiree health costs are rising rapidly, private-sector pensions usually do not. Just 17 percent of retirees from the private sector receive automatic cost-of-living increases, according to the Employee Benefit Research Institute.

In other evidence healthcare costs are being shifted from employers to retirees, 18 percent of companies surveyed said they were likely to provide access to healthcare next year only if retirees paid 100 percent of their costs. Another 11 percent plan to terminate health coverage for employees retiring in future years. Kate Sullivan Hare, the executive director of healthcare policy for the US Chamber of Commerce, said employers honor their healthcare commitments to existing retirees. But she said rising costs are a growing concern to employers.

Younger workers' health costs are rising sharply due to "people who worked there 30 years ago and the ones who are now retired," Sullivan Hare said. "It's affecting his healthcare costs, his salary and the prospect of whether he might even have a job there in two months."

She acknowledged health benefits for future retirees will be less generous than past benefits.

"It's the same thing they feel with their retirement income," said Sullivan Hare. "Whereas their parents were guaranteed a certain pension or salary after they retire, today we're being told to open up 401(k)s and IRAs."

Kaiser also asked companies for the first time how they plan to respond to the new Medicare prescription drug benefit for seniors, which goes into effect in January 2006. Policy makers were concerned the new government benefit would encourage employers to extricate themselves from increasingly costly drug benefits. Employers that maintain their drug coverage for retirees would receive a government subsidy under the program.

Nearly 60 percent of companies said they would continue their current drug plan for retirees and accept the subsidy. Another 8 percent said they would end coverage, while 17 percent of those offering a plan said they would redesign it to be a supplement to the Medicare program.

"There was significant concern in the final stages of debate that the new drug benefit would accelerate the erosion of employer coverage," said Tricia Neuman, a Kaiser vice president.

"These findings suggest that employers, at least for the short term, plan to maintain benefits for current retirees."