

Business Insurance

Big employers retool retiree medical

By Jerry Geisel

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WASHINGTON—Some of the nation's largest employers are taking new approaches to providing health care coverage to retired workers that avoid the extremes of benefit-rich plans that over the long run are unaffordable or not providing coverage at all.

The new approaches were outlined last week at the third annual Employer Health and Human Capital Congress in Washington by Ford Motor Co. and Deere & Co., which recently have put new designs in place for both pre-Medicare and Medicare-eligible nonunion retirees.

The approaches rely heavily on either health reimbursement arrangements or health savings accounts, which retirees can use to pay for uncovered health care expenses. Such expenses can include medical claims that fall under a deductible, as well as in the case of older retirees, Medicare Part B and Part D premiums.

For Ford, several forces drove the Dearborn, Mich.-based automaker to account-based plans, the main one being the need to limit its costs to a fixed and predictable amount that won't mushroom out of control in the future.

"We wanted to provide a coverage option whose costs would be sustainable over time," said Diane Bechel Marriott, manager-health care strategy and design.

Ford's approach involves HRAs. For both pre-Medicare and Medicare-eligible retirees, Ford contributes \$1,800 per retiree, plus an additional \$1,800 for a retiree's spouse, to an HRA. In the case of pre-Medicare eligible retirees, Ford continues to provide retiree health care plans, though its contribution to the plans is capped at what it paid in 2006, with future cost increases born by retirees.

Ford took several steps to ease the transition, Ms. Marriott said. First, it gave retirees plenty of time to prepare for the changes. It announced the new program in November 2006 and the program went into effect Jan. 1. In a June 2007 mass mailing, the company explained to 65,000 beneficiaries what an HRA is and why the changes were being made, among other things. Then, in September 2007, another mailing went out explaining the steps beneficiaries would have to take to obtain coverage.

"You want to give people plenty of time to prepare," but sending information too early increases the likelihood that it might be lost, Ms. Marriott said.

In its HRA design, Ford took steps to make the arrangements user-friendly. For example, Medicare-eligible retirees can make one annual election so that monthly Medicare Part B premiums are automatically paid from their HRAs.

Additionally, the full amount Ford credits annually to retirees' HRAs is available at the beginning of each year.

Like Ford, Moline, Ill.-based Deere & Co. also started account-based plans in January for early and Medicare-eligible retirees. But unlike many other corporations that either have cut back or eliminated retiree health care benefits because of the huge costs, the changes Deere made were not about survival.

"We are making record profits. Our intent was not to have a bottom-line impact" but to have retirees more engaged, said Steve Clark, Deere's manager of benefits planning and strategic design.

In designing its account-based plans, Deere chose to link HSAs with insurance plans for younger retirees, while using HRAs for Medicare-eligible retirees.

Tax law drove those decisions, Mr. Clark noted. Under law, while employers and employees can both contribute to HSAs, such contributions are not allowed after an individual is eligible for Medicare, though accumulated HSA contributions can be tapped to pay for health care expenses.

Contributions to HRAs, though, can be made at any time, but only employers can fund HRAs.

Employers considering whether to offer HRAs or HSAs as a vehicle to help retirees pay for health care expenses need to be aware of other differences in the accounts, Mr. Clark said.

For example, an HRA is a notational account, which means an employer contributes to it when a retiree needs to pay for a claim or premium. As a result, there is no buildup of investment income.

On the other hand, HSAs are funded by actual contributions. That means investment income is earned on contributions, and HSAs are completely controlled by beneficiaries.

What HSAs and HRAs have in common, Mr. Clark said, is that withdrawals are tax-free when used to pay for health care expenses.

Communicating with retirees about HRAs and HSAs, though, can be challenging. For example, some Medicare-eligible retirees have seen the program as a takeaway because they have to pay the full premium of about \$90 a month for dental and vision coverage, which previously only cost a few dollars a month.

What retirees don't understand, Mr. Clark said, is that Deere is continuing to pay for the bulk of the coverage—through its HRA contribution—rather than directly paying the dental and vision care premiums.