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## Cuts in Health Benefits Squeeze Retirees' Nest Eggs

By MILT FREUDENHEIM

**T**o help pay medical bills left behind when her husband, Gordon, died of skin cancer complications last summer, June Yeager, 82, of Oakdale, Minn., was forced to use a third of his \$10,000 in life insurance. It was not that the Yeagers lacked health insurance; they were eligible for Medicare and received benefits from Minnesota Mining and Manufacturing, from which Mr. Yeager retired in 1975 as a shipping clerk.

But 3M decided in 1994 to alter its benefits package for retirees: Retired employees said it increased the annual out-of-pocket deductions for retired blue-collar union members, for example, to \$1,500 from \$140, and cut back on payments for doctor bills not covered under Medicare.

The Minneapolis company was hardly alone in instituting such changes. Most employers, in fact, have cut or dropped coverage for retirees in the last six or seven years as health care costs have soared. (Health care premiums will increase between 10 and 30 percent in 2001, according to the major insurers.) And a growing number of elderly Americans like Mrs. Yeager have been forced to dip into savings to pay for hospital deductibles or prescription drugs, which are not covered under Medicare.

Fewer than one in four employers now provide medical coverage of any kind for Medicare-eligible retirees; 40 percent provided retiree coverage in 1994, according to a recent national survey of companies with 500 or more employees by William M. Mercer, a benefits consulting company. About 31 percent of employers still cover retirees under age 65, who are not yet eligible for Medicare, but that, too, is down — from 43 percent in 1994 and 46 percent in 1993, Mercer said.

The largest companies, those with at least 5,000 employees, are more likely to cover retirees, said Frank McArdle, research director in Washington for the benefits consulting firm Hewitt Associates. However, even many of them, like 3M, have limited the benefits by raising deductibles, or placing caps or ceilings on how much they will pay, and shifting other costs to the former employees, he said. Employers are eager to try a defined contribution approach, much like the 401(k) retirement plan, that would pass on the responsibilities of meeting rising health care costs to the employees.

Many retirees had expected their comprehensive health coverage to last forever. Mrs. Yeager, whose husband was employed at 3M for 34 years, and a group of

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other 3M retirees and their spouses contend that the company had promised lifetime benefits. But they say that, without being consulted, their benefits were reduced in 1994 in bargaining with the Oil, Chemical and Atomic Workers union. The group is seeking class action status for a lawsuit against 3M in Federal District Court in Minneapolis.

"We were just about breaking even under the old contract," said Edward Hughes, 75, of Maplewood, Minn., a factory worker at 3M for 46 years who was diagnosed with Parkinson's disease after he retired in 1991. "Under this one, my wife and I are having to go into our savings."

Helen Braumberger, 79, a 3M factory worker for 37 years, says she now struggles to pay for cancer treatments. "I had to give up my car," a seven-year-old Buick, to save on expenses, she said.

Katherine Hegmeyer, a 3M spokeswoman, said the company did not discuss pending lawsuits.

Retirees have been hit hardest by cutbacks in prescription drug coverage. Bruce Vladeck, who used to head the federal agency that runs the Medicare and Medicaid programs, calls drug coverage for retirees "a disappearing phenomenon." As employers retreat, "the pressure to expand Medicare benefits to include prescription drugs obviously increases," said Mr. Vladeck, who now directs a Medicare policy center at Mount Sinai Hospital in New York.

More than a decade after Congress repealed a Medicare expansion that had included prescription drug coverage, bipartisan debate over bringing some form of drug coverage back continues. President-elect George W. Bush and Vice President Al Gore supported the idea during the election campaign. Mr. Bush said he favored a drug benefit as part of an overhaul of Medicare.

"Corporate America is also interested in a Medicare drug benefit," said John Rother, director of legislative and public policy at AARP, the retiree advocacy association. "Prescription drugs are a growing burden for any company with a unionized labor force" strong enough to insist on keeping retiree drug benefits, he said.

The retreat from retiree health benefits has accelerated since 1993, when a new accounting rule forced companies to reduce their reported income by an amount equal to the present value of future promises for retiree health care. Later, after the promises were sharply reduced, many companies added back the projected savings to increase their annual net income.

Among the first to abolish retiree health benefits was J. P. Morgan, the investment banking company. Starting in 1989, Morgan reduced these benefits for existing employees and eliminated them for new hires. To ease the transition, Morgan employees could take cash from a portion of the company's retirement life insurance benefit, which was also later abolished.

Last year, Boeing joined the list. It eliminated company-subsidized retiree medical coverage for employees hired after Jan. 1, 1999. Retiree health benefits continue for those hired earlier, except for former employees of McDonnell Douglas; they were buying their own health insurance before McDonnell and Boeing merged.

Changes are also planned at General Motors. The automaker provides generous health benefits for nearly 700,000 retirees and their dependents, at a cost approaching \$2 billion in 2000. But coverage for retired salaried workers not protected by union contracts will drop over the next few years. G.M. has said it will no longer take responsibility for retiree health coverage for tens of thousands of salaried workers hired after January 1993. To cushion the blow, G.M. is building a fund for these workers to use when they retire, setting aside 1 percent of their salaries each year.

G.M. and other large automakers have been working with the unions to try to slow health care costs by promoting the use of generic drugs and disease management programs to assure appropriate use of pharmaceuticals, said Preston Crabill, G.M.'s director of health care plans. The change in health coverage at G.M. resembles the switch from pensions to 401(k) plans that swept corporate America in the 1980's and 1990's. In both cases, the employee assumes the risk of accumulating enough to cover expenses that may grow with inflation.

Benefits consultants say many companies are moving toward providing employees with a predetermined amount of money, called a defined contribution, for health care, instead of guaranteeing defined benefits with open-ended costs.

In a tight labor market, employers have been reluctant to change to defined contributions for health care for active workers, who could easily find jobs with better benefits elsewhere. But health care experts say the changes that have been felt by many retirees are in the cards for active workers, too, when the economy slows and employers regain the upper hand. A 1999 survey of employers for the Kaiser Family Foundation said more than half would seriously consider a defined contribution approach.

"Because of the economy and the labor market, you can't squeeze worker health benefits," said Deborah Steelman, a Washington lawyer who represents insurance companies and drug makers, and a member of a bipartisan commission on Medicare reform. "It's logical for employers to say, 'These people don't work for me any more.' It's a place to cut."

But Patricia Wilson, an independent health benefits consultant in Rosemont, Pa., pointed out that promises of retiree medical benefits had been essential during the last decade of corporate downsizings when many companies reduced their payrolls.

After all, she said, "adjustments in the work force could not have been accomplished without the existence of retiree medical benefits" to attract volunteers to take early retirement.

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