Employers Seek to Shift Costs of Drugs to U.S.

By MILT FREUDENHEIM

The bills to provide drug benefits through Medicare that were passed by the House and the Senate last week offer some of the country’s largest employers a long-sought prize: shifting at least some of their burden of soaring drug costs to the federal government.

With billions of dollars at stake, those companies are lobbying hard to make sure that those gains survive in the final version of the law.

The effort is being led by a shrinking number of companies that pay for health coverage for millions of retired workers — notably General Motors, Ford, Verizon, SBC Communications, I.B.M. and Caterpillar.

Last week's bills would let them shift some costs by creating Medicare-subsidized managed care organizations that offered drug benefits and subsidies for employers that maintained their drug coverage. Indeed, one of the sharpest debates to come, as the legislation heads into a murky period of House-Senate negotiations, is over how to discourage companies from dropping retiree health benefits altogether.

The bills would cost a total of $400 billion over 10 years. Part of that would ultimately save money for employers, but the Congressional Budget Office has not yet calculated how much. By some accounts, Ford alone could save $50 million a year.

Employers are not the only ones with big money at stake. The health insurance industry is already lobbying Congress for significant changes in the bills that would divert more of the money to it.

Some conservatives who want to shrink the government and reduce taxes are attacking the Medicare bills as corporate welfare. But Uwe E. Reinhardt, a health care economist at Princeton University, argues that the bills are "really a supply-side measure that would lift a burden of social insurance" from employers and release spending for capital investment and dividends.

The 28,000 employers who provide drug benefits to retirees are spending $22.5 billion this year for their
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former employees' prescriptions, according to a study by Hewitt Associates, a consulting firm, and the Kaiser Family Foundation.

These hard-lobbying companies, most with unions that put a priority on health benefits for retirees, represent a smaller and smaller group of employers. About one in 3 big employers offered retiree health benefits in 2002. And many of those plan to drop the benefit for future retirees within three years, another survey by Hewitt and Kaiser found.

Both the Senate and House bills would establish a limited Medicare-subsidized drug benefit with premiums and deductibles. It would be offered by an array of preferred provider organizations and health maintenance organizations, and with traditional fee-for-service Medicare.

Most employer drug plans are much more generous: they have no separate deductibles or premiums. But employers could add advantages by covering the premium and/or deductible for their workers and still save part of their average cost of $1,500 for each retiree.

For employers who stick with their current drug plans, the House bill would offer a sliding subsidy equivalent to 28 percent of the actual cost of drugs purchased, but only after the first $250 for each retiree, with a $5,000 ceiling. The Senate bill offers a direct annual subsidy to these employers of $840 a retiree.

But most employers have already eliminated health benefits for retirees, if they ever had them, and the Medicare legislation will probably accelerate that trend, according to the Congressional Budget Office. It forecast that 37 percent of retirees, or 4.4 million people, would lose drug coverage under the Senate bill and 31 percent under the House version.

Most companies that still have drug benefits say they will continue them for current retirees, though often with dollar ceilings as drug costs soar.

But employers are leery of promising medical care to workers who have not yet retired. Motorola, for example, "expects to continue retiree medical coverage, but only for employees who retired before 2002," said Randy Johnson, a human resources director. Motorola has also said it will limit the amount of expenses it covers.

A quarter of the companies surveyed by Hewitt are already reaching these ceilings and requiring retirees to pay a greater share of drug costs.

"It is clear that employers will react by scaling back their drug coverage for retirees," said Jonathan Gruber, an economics professor at the Massachusetts Institute of Technology. The question is how many will do it and when. It is already happening, he said, adding that the legislation "will hasten the trend."

Kenneth S. Abramowitz, a health policy expert and managing director at the Carlyle Group of...
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international investors, said, "Corporate America is probably very happy to see the government go into the pharmaceutical insurance business."

First introduced by unions bargaining with employers in the 1960's, retiree health benefits reached a peak in 1988 as many companies used them to enrich early-retirement packages. The percentage of large companies covering retirees' health care dropped sharply in 1991 after a new accounting rule required companies, in their annual reports, to estimate the cost of future obligations and reduce profits accordingly.

Spending on drugs — generally not covered by Medicare — is at least 40 percent of retiree medical costs, and they have risen 15 to 20 percent annually, even as profit increases slowed in a sluggish economy.

For some old-line companies, the benefits represent a heavy burden — one, they point out, that their less generous competitors, and newer companies with far fewer retirees, do not have to bear. Sixty-seven of the country's largest companies have promised more than $1 billion each, $332 billion in total, to current and future retirees for health care, according to the Watson Wyatt benefits-consulting firm.

Under an accounting rule, Financial Accounting Standard 106, the Detroit automakers and the regional Bell telecommunications giants had to reduce their reported profits by hundreds of millions of dollars last year, on top of enormous current bills for retirees' medicine.

Ford's prospective savings of $50 million or more — 17 to 20 percent of current spending on retiree drugs — might be augmented by a reduction of $40 million more in its annual accounting estimate of future spending for retirees if the changes in Medicare are enacted.

Companies like Ford would probably coordinate their health coverage with the new Medicare benefit. They would not be likely to drop retiree health benefits except under dire economic conditions, health policy experts said.

"Someday, if these car companies are skidding near bankruptcy, they're going to have to break the deal," Professor Reinhardt said. Unlike with pensions, no money has been set aside for future retirees' health benefits, he said, adding, "F.A.S. 106 is all unfunded."

Edward J. Kaleta, chairman of the Employers Coalition on Medicare, including three dozen big companies, said, "We want to make sure that we continue to stay in the game, and control escalating double-digit increases in our drug costs."

And Dr. Vincent Kerr, director of health care management at Ford, noted that employers would be paying for the new program through payroll and other taxes. "Employers hope we will get to participate in that system we support with our dollars," he said.
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The Business Roundtable, an association of chief executives of corporations with millions of employees in total and $3.7 trillion in annual revenue, hailed the passage of the Senate and House bills.

The organization said it would now concentrate on the conference committee, where, away from public scrutiny, lobbyists for business and other interest groups typically press for language that advances their interests.

Glen Barton, chief executive of Caterpillar and chairman of the Business Roundtable's health and retirement task force, said the group "pledges to work with conferees to develop and pass legislation" that provides options for employers to "coordinate" their benefits with Medicare.