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GE, IBM Ending Retiree Health Plans in Historic Shift

By Alex Nussbaum - Sep 9, 2013

America's biggest employers, from GE to IBM, are increasingly moving retirees to insurance exchanges where they select their own health plans, an historic shift that could push more costs onto U.S. taxpayers.

Time Warner Inc. (TWX) yesterday said it would steer retired workers toward a privately run exchange, days after a similar announcement by International Business Machines Corp. General Electric Co. (GE) last year said it, too, would curb benefits in a move that may send some former employees to the public insurance exchanges created under the 2010 Affordable Care Act.

While retiree health benefits have been shrinking for years, the newest cutbacks may quickly become the norm. About 44 percent of companies plan to stop administering health plans for their former workers over the next two years, a survey last month by consultant Towers Watson & Co. (TW) found. Retirees are concerned their costs may rise, while analysts predict benefits will decline in some cases.

"Things are going to change dramatically," said Ron Fontanetta, a partner at New York-based Towers Watson, which advises GE and other large companies. "Over the next two to three years, we see a much more aggressive rethinking of what employers are going to provide."

The adjustments come as insurers have increased access the past few years to Medicare Advantage plans that provide benefits beyond the U.S. government health program for the elderly. Additionally, the health-care law promises to make it easier for those younger than 65 to buy insurance that's guaranteed and subsidized by taxpayers.

Private Exchanges

The private exchanges are designed to join with companies to find the best deals for the former workers. The public exchanges established under Obamacare, set to open Oct. 1, were created to provide insurance for millions of uninsured Americans. In both cases, enrollees will be able to select from a menu of private health plans.

Companies argue that many retirees can find more choice and a better deal on the exchanges, said John Grosso, head of the retiree health task force at Aon Hewitt LLC, a Chicago-based consultant. Instead of taking a one-size-fits-all company plan, a healthier retiree might find a less expensive policy with a higher deductible, or one that saved money by favoring generic drugs, he said in a telephone interview.

Less healthy workers or those who need more comprehensive coverage may not fare as well, Grosso said.

'Gold-Plated' Plans

"Some of them may not be as well off because they had a really gold-plated plan, but others who are paying a meaningful contribution to their own plan now can right-size the coverage," he said.

At the same time, retirees have expressed concern that subsidies provided by companies in private exchanges may not keep up with rising medical costs, potentially putting them at financial risk in the future. And an influx of retirees could put added pressure on public exchanges that provide taxpayer-supported subsidies.

Retirees aren't the only ones feeling the pinch. Last month, United Parcel Service Inc. told workers it would no longer provide health care for 15,000 spouses who can get benefits through their own employer. The company cited rising medical costs in general as well as the added expenses and new insurance options created by the health law.

IBM's Decision

IBM (IBM) said last week it will shift about 110,000 Medicare-eligible retirees to Tower Watson's Extend Health, the largest private Medicare exchange. Former workers will find more options than the business could provide through its own plan, IBM, the third-largest U.S. employer according to data compiled by Bloomberg, said in a statement e-mailed Sept. 7. Caterpillar Inc. and DuPont Co. also have moved Medicare-age retirees onto the Extend exchange.

For most, coverage will come "at the same or lower cost" than they pay now. The Armonk, New York-based company will still make contributions to a tax-free health retirement account for the workers.

IBM capped its subsidies to retirees in the 1990s and "didn't make this change to save money," Doug Shelton, a spokesman, said in an e-mail. "It does not reduce our costs." Rather, the company is making the change to help former workers, whose premiums and out-of-pocket charges are projected to triple by 2020 under the current plan, Shelton said.

Ted Greenberg, 69, worked for IBM for 39 years and retired in 2007. He said he wasn't sure what the changes would mean for his family and worried IBM will follow the lead of competitors and eliminate health-care subsidies altogether.

Subsidies, Stipends

"A couple of them basically did away with all subsidies and stipends and said to the retirees, 'You're on your own.'" Greenberg, a former director of billing and contracts, said in a phone interview. "Given the trends in the industry, I am concerned."

Retiree coverage has been dwindling since the early 1990s, as health-care costs increased and changes to accounting standards forced companies to declare future health-care liabilities. Only about half of large employers still provide the benefit, a decrease from 80 percent two decades ago, Aon Hewitt's Grosso said.

Already, many companies exclude new hires from retiree benefits and cap contributions to covered retirees, said Paul Fronstin, a researcher at the nonprofit Employee Benefits Research Institute in Washington. At the unionized or public-sector employers where the benefits are more common, "they're dealing with the same cost pressures," he said.

Limiting Participants

General Electric said last year that it would close its retiree plan to new entrants starting Jan. 1, 2015. The Fairfield, Connecticut-based company has established a call-in line and other resources for former workers who'll be buying their own insurance after that point, said Seth Martin, a spokesman.

"We continuously assess our benefit programs to strike a balance among employees, retirees, investors and our ability to compete," Martin said by e-mail. "The changes we made to our post-65 retiree health coverage are consistent with national trends in employer-sponsored retiree health plans."

The change hasn't come without controversy. Retirees feel GE "stripped them of something of substantial value that they believed they earned," Dennis Rocheleau, 71, a former GE labor negotiator, wrote last year in a letter to the company's board. Rocheleau, whose benefits were unaffected, said the company should reconsider.

"They're saving millions of dollars and the people they're taking it from are the ones who can afford it the least," Rocheleau said in an interview.

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