



HOW TO WEATHER EMPLOYER CUTS OF RETIREE HEALTH BENEFITS

It's becoming increasingly common for companies to reduce or eliminate promised health care benefits for retirees, or no longer offer them to newer employees. In most cases, there is little or

nothing retirees can do to stop the changes. But with preparation, retirees and future retirees can ensure critical health care coverage and minimize the financial impact.

A 1998 survey by William M. Mercer Inc. found that only 38 percent of large employers offer health care coverage for retirees, down from 46 percent in 1993. They also found companies boosting premiums and co-payments, and pushing retirees into managed care plans.

Early retirees generally have the biggest worry. Someone retiring at age 55 or 60 must cover health benefits for several years until they become eligible for Medicare, the government-sponsored health care program. If their former employer amends or terminates their plan, they may find themselves underinsured or uninsured. The problem could worsen if Congress raises the age, now 65, at which workers can start to collect Medicare benefits. President Clinton has proposed that early retirees without health care coverage could enter the Medicare program before age 65 by paying \$300 to \$400 a month in premiums, but that proposal has not been enacted.

So what can you do if you are counting on your former employer's health benefits to either cover you until you become eligible for Medicare or supplement costs not covered by Medicare?

Review your plan documents. Everything starts with the language of the health care plan document. What's caught many retirees by surprise is that although their companies may have promised in brochures and letters to fully pay for health care coverage for life, the plan documents themselves contained clauses that gave the employer the right to amend or terminate coverage. That's the clause, say the courts, that overrides any other promises.

Review your summary plan description. The plan that's in effect when you retire is the important one to you. What exactly does it promise? The Department of Labor's Pension and Welfare Benefits Administration says that unless the language specifically promises that health benefits

after retirement will continue at a specified level for a specified time, you probably aren't guaranteed coverage. Any language that gives the employer the right to amend or terminate the plan will usually trump any other promises. Review the plan language with your financial planner and a company benefits specialist.

Watch early retirement offers. Early retirees sometimes accept lower buyout offers in exchange for guaranteed health care coverage. It's attractive because health benefits are expensive. But again, it's important to carefully review any documentation both in the formal plan or any written early retirement contract. If it's apparent from the documents that the guarantees are not legally ironclad, you may want to reconsider a buyout offer. Although not always the case, employees often can negotiate early retirement packages. You may want to bring in legal counsel to negotiate.

Use COBRA. You also can use a federal program called COBRA to extend health care coverage if your employer drops your plan within the first 18 months of your retirement. However, you can use COBRA only for the balance of the 18 months. For example, if you've been retired for a year when your employer drops coverage, you could use COBRA for only another six months. If you have been retired longer than 18 months when your employer drops coverage, you can't use COBRA at all. Also, you must pay the entire premium costs, plus a two percent administrative fee.

Buy private insurance. This is the most expensive route for retirees, but it may be your only choice. One option is to convert the group plan you were covered under to individual coverage. The insurer can't deny you coverage because of pre-existing conditions, but your premiums will probably skyrocket. You may do better finding other private coverage.

Either way, planners recommend that people build a savings fund to help pay for out-of-pocket health care coverage. You may even want to consider funneling extra money into tax-favored accounts, if possible, which can be withdrawn penalty free after age 59 ½ to help cover premium costs.

January 1999—This column is produced by the Institute of Certified Financial Planners, a national association representing the top financial planners in the country, and is provided by Joseph Hoffman, a local member in good standing of the Institute.