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Retiree Health Benefits: Entitlement or Inconvenience?

Jennifer Pontinen
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"Retiree Health Benefits: Entitlement or Inconvenience?"

According to the Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, an estimated 3.8 million early retirees (ages 55-64) receive health coverage from an employer or union.[1] It can be difficult and expensive for these early retirees to obtain coverage on their own. Carrying coverage from their former employer helps them bridge the gap until they are eligible for Medicare and/or an individual Medicare Supplement Plan. In addition, another group also relies on employer-sponsored health insurance - retirees age 65 and older. Although they receive Medicare benefits, they rely on their prior employer's health plan for prescription drug coverage, doctor's office co-pays, and out-of-pocket maximums - coverage that can be limited with Medicare alone. Since retirees age 65 and older rely on Medicare for their primary coverage, their coverage in the employer-sponsored plan is secondary. The employer-paid portion of these premiums is less than that of the pre-65 retirees. Because of this, those retirees under age 65 have been faced with larger premium increases than those 65 and older.

As health care costs continue to rise dramatically, retiree health coverage has been a hot topic of discussion. As a matter of fact, between 1988 and 2006, the share of large employers offering retiree health coverage declined from 66% to 35%.[2] Employers have tried to reduce their costs by discontinuing retiree benefits for new employees, increasing the premiums and deductibles for retirees already on the plan, or, most drastically, terminating coverage for all retirees on the plans. All of these scenarios leave retirees with the burden of replacing this coverage. In most cases, they are leaving a much more comprehensive plan that costs them less and purchasing a plan with less coverage that costs them more.

Companies are caught between a rock and a hard place. On the one hand, they must review and control their costs. Some of their competitors may not have these costs. This increased cost may make their products more expensive and affect their ability to be competitive. This, in turn, will affect the company's bottom line, and ultimately its stock price. However, the company promised these benefits to their workers many years ago. Employees came to work knowing that, in retirement, they would be taken care of. With retiree pension plans also being cut, losing their health insurance can cause some retirees to have to choose between food and necessary medication. Companies feel they must cut costs in order to compete but know that the human impact of cutting these costs is large. This leaves a company choosing between two scenarios – and neither one seems favorable.

In 2004, a survey of 408 large employers that offer health benefits found that 10% had stopped offering retiree benefits for future employees in the past year and 20% said they would do so within three years.[3]

In 2005, the federal government introduced Medicare Part D with coverage starting on January 1, 2006. The long-awaited Medicare Prescription Drug Plan was met with skepticism and anticipation. Many who were eligible for the plan found it was beneficial to change to an individual plan, so they dropped the coverage provided by their former employer. However, retirees could choose to stay with their existing coverage as long as it qualified as "creditable coverage" according to the Center for Medicare and Medicaid Services. Employers who provided prescription drug coverage to their retirees age 65 and older could be eligible for a tax subsidy. This helps reduce the company's costs, yet still provide benefits for the retirees.

The total cost of retiree health benefits increased by an estimated 6.8% from 2005 to 2006.[4] In prior years, double-digit increases were common, so it is likely that increased cost-sharing (retirees are paying a large portion of the premium than in prior years) and the Medicare Prescription Drug Plan are having positive effects on premium increases.

When asked if they thought the federal government should play more of a role in financing pre-65 retiree health coverage, large employers are divided on the issue – 54% say “no”, while 46% say “yes”.[5]

The three main industries that have the highest obligations for retiree health benefits are the automakers, the airlines, and the steel industry. In the auto industry, increased health insurance costs have hit hard. These “legacy costs” severely affect the ability of U.S. automakers to compete internationally. Asked how General Motors got to the point where it is now, General Motors chairman Rick Wagoner, said, "We have a long history, almost 100 years. We have a lot of employees. We have a lot of retirees, a lot of dependents. … Promises were made about benefits to those people that weren't very expensive when they were made. And it's really given us some financial challenges." Gary Chaison, a professor of industrial relations at Clark University, stated, "Much more than any other part. What you're doing when you're buying a car is you're spending a lot of money for the health care benefits of workers who are making that car."[6]

The auto industry has been in the news lately as the three big automakers, GM, Ford, and Daimler-Chrysler recently reached agreements with the United Auto Workers Union (UAW) to establish and fund Voluntary Employees’ Beneficiary Associations (VEBAs). The companies agreed to transfer billions of dollars to the VEBAs which will be managed by the UAW. This immediately improves the company’s balance sheet by removing billions of dollars worth of retiree health care liabilities. In addition, retiree health benefits will no longer be an issue that can be negotiated in collective bargaining agreements. This will also help companies reduce their costs. "Companies that provide retiree heath care are faced with very high costs," said Christine Faris, a senior manager for Smart Business Advisory & Consulting L.L.C. in Devon, Pa. "The magnitude of costs is huge, but the health care costs are also unpredictable. From a company's perspective it is looking to transfer that unpredictability to another entity." "The liability for retiree health care is huge and it affects the value of the company because it's on the balance sheet," Ms. Faris said. "By removing that liability the company is much more attractive to investors and it puts the company in a better financial situation."[7] The UAW accepted this agreement because it felt that accepting about half of the retiree health insurance liability was better than the alternative – potential bankruptcy filing by General Motors. In bankruptcy, retirees would get nothing. Retiree health insurance benefits do not have the same protection as pension benefits. The Pension Benefit Guaranty Association steps in to cover pension payments that were promised by companies who can no longer fulfill those obligations. Setting up a VEBA trust fund allows companies to share some of the costs of retiree health insurance, yet still know that their former employees have coverage available.

All companies that offer retiree health benefits cite the need to reduce these costs because they are unpredictable and sharply increasing. HR Focus reported in April of 2004: “Sears is eliminating company-subsidized medical insurance for employees after retirement. Employees under 40 will have access to medical benefits at group rates when they retire but the company will no longer provide a subsidy. Employees who are 40 and older will continue to receive subsidized medical benefits at retirement, but the subsidy will be capped at 2004 levels.”[8]

In late 2006, Qwest Communications decided to cut retiree health benefits. An article published on October 24, 2006 states, “Starting in January, Qwest will require any former management employee or nonunion employee who retired after 1990 to pay any future increase in health care costs.”[9] Bob Toevs, a company spokesperson, commented that despite this change, the company still covers a majority of the health care premiums. “Health-care costs are rising at an alarming rate for all industries," said Toevs. "The change is simply a response to market conditions - conditions that are affecting every business and its employees." The changes "would probably put us in line with other companies across a wide swath of industries, including other telecommunications companies," Toevs said.

Lucent Technologies, Inc. made the decision in 2003 to cut company subsidy of health insurance premiums for retirees. About 20,000 retirees will now begin paying premiums or see an increase in the premiums they already pay. This is estimated to save the company about $75 million. The company filing with the Securities and Exchange Commission states, "In 1999 we had about 118,000 U.S. employees supporting 106,000 retirees. Today, we have about 24,000 U.S. employees supporting the healthcare benefits of about 240,000 U.S. retirees and their dependents. The company's retiree healthcare costs have increased 85 percent in the last six years to about $850 million. At the rate healthcare costs are increasing, unless we take action now we could face close to $1 billion in annual retiree healthcare costs in the near future – about 10 percent of our annual revenues and close to half the payroll costs for our entire business."[10]

With Medicare Part D now available for prescription drug coverage, retirees have a choice for affordable coverage.[11] A wide range of plans are available so each person can customize their plan to the coverage they need. In addition, Medicare Advantage Plans have recently been re-energized. These plans have been available since the 1970s. According to the Kaiser Family Foundation report on Medicare Advantage Plans in June 2007, enrollees in a Medicare Advantage Plan tend to be healthier than those enrolled in traditional Medicare.[12] These plans offer co-payments on doctor office visits and coverage for prescription drugs – something retirees have stated are important to them.

Companies received some assistance from the Equal Employment Opportunities Commission (EEOC) to help them reduce the cost of their retiree health benefits. On April 22, 2004, the EEOC announced that employers would now be able to provide reduced benefits to retirees who were eligible for Medicare compared to those retirees who were not.[13] Because of this ruling, employers will not have to worry about being in compliance with the Age Discrimination in Employment Act. This ruling became final on December 26, 2007. On March 24, 2008, the Supreme Court turned away a legal challenge that was filed by AARP against the ruling.[14] The justice's action upholds the ruling once and for all. In addition to allowing coordination of health benefits with Medicare, the ruling also states that employers can differ in the level of benefits they provide to retirees and to their dependents. They can be changed as the company sees fit, or even eliminated. This ruling does not apply to Medicare-eligible retirees already active on company retiree health plans. Their coverage must remain the same as the coverage offered to non-Medicare eligible retirees.[15] A lawyer for the EEOC was told by several companies that "if they had to provide identical benefits for retirees under 65 and over 65, they would just drop retiree health benefits altogether for both groups."[16] "Implementation of this rule is welcome news for America's retirees, whether young or old," said Commission Chair Naomi C. Earp. "By this action, the EEOC seeks to preserve and protect employer-provided retiree health benefits which are increasingly less available and less generous. Millions of retirees rely on their former employer to provide health benefits, and this rule will help employers continue to voluntarily provide and maintain these critically important benefits in accordance with the law."[17]

In addition to this being a problem for privately-held companies, the public sector will soon feel this pain. With 50 states and numerous other municipalities, there is in excess of $1 trillion (yes, trillion) in retiree health care liabilities looming.[18] Suddenly, it becomes apparent that this problem will affect all taxpayers. We, as taxpayers, will help subsidize the health insurance premiums for countless public sector retirees – in addition to paying for our own health insurance!

Companies are feeling the cost-crunch just like the Social Security system. Social Security has been around since 1935. It came about around the time of the Great Depression as a way to provide some minimal amount of financial security for the elderly. Over the years, more and more people became eligible for social security benefits and now, fewer people are paying into the system to support all who are collecting payments or who will soon be eligible to collect payments. Social Security is projected to begin incurring deficits year after year starting in 2011. At that rate, the social security trust fund will be depleted by 2041.[19] In order to deal with this, the federal government has continually increased the age when people are eligible for full Social Security payments. Additionally, legislators have discussed and proposed a variety of means to permanently fix the problem, and one possible proposal is to increase FICA taxes. The problems seen in the Social Security system are also confronting retiree health benefits. Health insurance benefits were initially provided to retirees when health care costs were much lower. Over time, more and more retirees were added to the system while fewer and fewer workers were available to spread the costs out over. Health care costs have skyrocketed and people are living longer. Companies and current employees are paying more for their health insurance – retirees should too.

Affordable health insurance is one of the more pressing issues for many retirees. Fixed pension payments and fixed social security payments are relied upon for income – some retirees have little in the form of cash savings. A portion of their compensation while working was promised in the form of retirement benefits – pensions, health insurance, life insurance, and/or dental insurance. Many of today's retirees worked for 20-30 years for the same company. They expected that their loyalty to the company would be rewarded with the company fulfilling its promises – providing pensions and health care benefits to them and their dependents in retirement.

For the pre-age 65 retirees, this issue is incredibly important. Being ineligible for Medicare means premiums are substantially higher. Even if their employer provides the health plan, the premium the retiree is responsible for will more than likely increase from what they were paying while they were employed. Yet, purchasing an individual health insurance plan is a major challenge. Premiums are quite expensive, and if they or their dependents are in poor health, they may be turned down. In some cases, private insurers could also choose not to cover certain pre-existing conditions.

Retirees age 65 and older have different concerns. Yes, they are eligible for Medicare, but Medicare has deductibles, co-payments, and coverage limits. It is essential for these retirees to have supplemental insurance. Upon turning age-65 and becoming eligible for Medicare, individuals are automatically enrolled in Medicare Part A. This coverage has no premium and provides benefits for hospitalization. In addition, they have a six-month "open-enrollment period" for Medicare Part B. Part B covers doctor visits and out-patient services and has a monthly premium. If someone chooses not to enroll in Part B during the open-enrollment period, they will pay much higher premiums when and if they do choose to enroll. At the same time they are in their Medicare Part B open-enrollment period, they can choose to purchase an individual Medicare Supplement Plan. Most of these plans pick up all or a portion of the costs not covered by Medicare (deductibles and co-payments). Now that Medicare Part D is available to cover prescription drugs, there is an open-enrollment period at the end of each year when those eligible can choose a plan and enroll. If they choose not to enroll, they must wait until the end of the next year – ultimately going one year without prescription coverage. Although all plans are different, each has coverage limitations. Deductibles, co-payments, gaps in coverage and/or coverage maximums are seen in all plans.

If an individual retired at age 65 and signed up for Medicare Part B and Part D and an individual Medicare Supplement Plan, they would have good coverage for the rest of their life. But, most retirees today did not choose this route. When they reached age-65, they signed up for Medicare Part B and kept their employer plan as supplemental insurance. Those retirees now in their 70s and 80s considered their employer plan "deferred compensation," knew it was a better plan for them, and expected it would always be available. Today, they are well beyond their "open-enrollment period" and would, most likely, get turned down for an individual Medicare Supplement Plan due to their health.

Employee recruitment and retention is important in today's competitive work environment. Providing health insurance while working and in retirement is a benefit that many prospective employees feel is very valuable. Having this benefit can dictate whether an employee retires at age 55 or age 65. According to the TIAA-CREF Institute's 2006 report entitled, *The Retiree Health Care Challenge*, "The availability of retiree health benefits also influences the age of retirement and the retirement decision itself, as employees with employer-sponsored health coverage are more likely to retire earlier than employees without such coverage."[20]

As employees approach retirement age, they begin to be more cognizant of the benefits their employer provides to them in retirement. Recently, employers have made a conscience effort to help employees realize that ultimately, they, the employee are responsible to prepare for their retirement. Employer-sponsored 401(k) plans are the dominant form of retirement investment plans. Employers have gradually reduced or eliminated the traditional "pension" plans and have begun to hold employees accountable for saving enough of their pay as the work so they have enough to live on in retirement. The shift from defined benefit pension plans to defined contribution 401(k) plans is a fair comparison to the shift from employer-sponsored retiree health insurance to "retiree-sponsored" retiree health insurance – in other words, retirees are now increasingly responsible for securing their own health insurance in retirement. It is important for employers to educate their employees so they are prepared for the large magnitude of costs awaiting them in retirement. In 2006, the Employee Benefit Research Institute (EBRI) conducted a study that found that "an individual age 55 in 2006, who retires at age 65 in 2016 and lives to age 80, will need $219,000 in savings (at age 65) to pay for the entire cost of employment-based health coverage, Medicare Part B premiums, and out-of-pocket expenses, if there is no employer contribution toward the cost of retiree health insurance coverage."[21] Employees who retired years ago face large costs as well. Employers did not educate them and help them save money while they were working so they could have sufficient funds available to cover these costs. Instead, they told them that they would be able to remain on the employer-sponsored plan and they, the employer, would pick up some of the cost. If employers are, <u>just now</u>, choosing to educate existing workers on their expected costs for health care in retirement, how can they fairly cut the benefits of workers who have been retired for 10, 20, or 30 years?

Retirees affected by changes in their health insurance are many. When Qwest announced that in January of 2007, all retirees would be responsible for any premium increases to their health insurance coverage, the Association of US West retirees (company acquired by Qwest in

2000) reacted strongly. Nelson Phelps, executive director of the organization called the changes “heartless” and “the most significant any retirees has seen.” Phelps and the association had been supporters of Richard Notebaert, Qwest CEO but now feel differently. “I think it's heartless,” Phelps said. “I think we've seen the real Mr. Notebaert - a person who lacks compassion and concern about the very people that built the business that he's now managing and reaping financial rewards from.”[22]

The Lucent Retirees Organization (LRO) had a similar reaction when cuts were announced in 2003. “We're shocked that Lucent is doing this to the retirees,” says Ed Beltram, communications director of the organization. “We... are astonished that Lucent seems to be placing the burden of much of its recovery on the backs of retirees,” writes LRO president Ken Raschke in a public statement on the group's website. While retiree benefits are being cut, executives of Lucent “are continuing to receive millions in salaries, stock options and retention bonuses and are not experiencing the degree of financial pain that they are inflicting on retirees.”[23]

IBM increased retirees’ premiums as a way to reduce the company’s costs and still provide benefits for their retirees. Retirees are not pleased with the change. "We feel that IBM has a social contract with the retirees ... for which they are now reneging," says Sandy Anderson, a former IBM employee in Vermont who says his premiums for retiree coverage have risen from about $90 a month in 2000 to more than $500 for his family. He and others have formed a retiree group aimed at restoring lower payments.[24]

According to Allentown Morning Call on March 24, 2004, “Verizon Communications stated it expects its obligation for post-retirement benefits to fall by $1.3 billion as a result of the new Medicare prescription drug benefit….Verizon is relieved of liability for promises to pay benefits for retirees now that liability shifts to the federal government and the taxpayers. A corporation improves its bottom line, but at the expense of the taxpayer and to the detriment of retirees."[25]

When union contracts were re-negotiated throughout the 80's and 90's, the union took concessions in order to ensure companies could afford to offer health care coverage to its retirees. The union at ACF Industries, Inc. in Barboursville, West Virginia offers one example. "To make health coverage affordable for future retirees, the union accepted lower starting pay for new workers in exchange for lower-cost major medical coverage for retirees. According to the contract, any employee retiring during the term of the agreement will contribute a flat $100 per month for life towards the cost of such coverage. The Company will pay any additional required costs."[26] Basil Chapman, a retiree of ACF, and a member of the union, received a phone call from an executive with his former employer. He was told that retirees would soon be responsible for paying premiums for coverage. Prior to this, coverage had been provided by the employer with no charge to the employees. Mr. Chapman responded, "We have a contract. You can't do that." He then stated that he would file a lawsuit against the company if they did. Within days, the company responded with a lawsuit of their own – suing Mr. Chapman, stating they do, in fact, have the right to change the retiree health benefits. "I can't understand why they're picking on me," Mr. Chapman says. "I'm just a retired guy who was sitting on my porch." The union, which represented Mr. Chapman and other retirees also named in the lawsuit, decided to file a countersuit. They argued that the company went through "the charade of telephoning retiree Mr. Chapman about the cuts, just so it could provoke a predictable negative reaction and then use the reaction to immediately sue."[27]

Another company, Asarco, Inc., raised retiree health insurance premiums in 2003. At the same time as the announcement, the company sued certain retirees living in Arizona. Asarco also interpreted the "duration clauses" listed in the union contracts as applying to retiree health coverage. In other words, the agreement to provide retiree health coverage until the retiree became eligible for Medicare expired when the union contract expired. "Three unions filed a counterclaim on the retirees' behalf against Asarco: the Steelworkers, the International Brotherhood of Electrical Workers and the International Chemical Workers. The retirees' suit says that the duration clauses weren't meant to limit the retirement benefits of people who had already retired, as such retirement benefits were meant to last during retirement independent of the expiration of agreements applicable to active employees. It added that the alleged 'severe financial distress' has not prevented the Company from paying its top management quite handsomely. And it said that 'unforeseen circumstances' do not justify a breach of contractual obligations ... to persons living on fixed income who can ill-afford to pay the costs the company has shifted upon them."[28] Despite premiums increasing to where they are now half of his monthly pension, Chuck Yarter, an Asarco retiree, must stay with the plan as his wife has diabetes. Mr. Yarter's ability to afford, or even <u>obtain</u> another health insurance plan are extremely limited. With the premium increases and his inability to find another, more reasonable health insurance plan, Mr. Yarter is looking for part-time employment. "If the company kept its promise, I'd be all right," he says. "Nobody ever thought the company would try to renege on a contract like that."[29]

General Motors, Daimler Chrysler, and Ford have all recently reached agreements with the UAW to transfer a portion of their retiree health care liabilities into VEBA trust funds to be managed by the UAW. This relieves the companies of the uncertain commitment to provide retiree health insurance. They now know exactly how much they must contribute annually to the fund. While this may sound good on the surface, it, in fact, does not guarantee retirees their benefits. There has been a history of mismanagement of VEBAs. “In the past, VEBAs proved costly to UAW workers. The union set one up with Detroit Diesel in 1993 that cost company retirees dearly when funds in it ran out in 2004. It happened again to Caterpillar retirees in 2005 who'll see their out-of-pocket costs triple by 2010, and the sky's the limit after that.”[30] Larry Solomon worked at Caterpillar for 34 years. He said, “The UAW better be very careful about this Voluntary Employees Beneficiary Association that GM is pushing. For years, we were told by Caterpillar that we were getting an invisible paycheck in the form of free healthcare for the rest of our lives. Then, just as I was retiring in 1998, they put a VEBA in place. The fund ran out in 2004. So now, me and the wife are paying $200 a month for coverage in addition to all kinds of out of pocket expenses we were never supposed to deal with -- and those expenses are likely to rise. Other members of the union have begun a lawsuit.”[31]

Retirees took less pay while working in exchange for the promise of benefits in retirement. Many retirees rely on social security payments and pension payments as their primary sources of income. Social security payments increase by around 3% per year to cover cost of living increases. Pension payments typically do not include a cost of living adjustment. As they age, their need for health care increases. Health care costs as a whole have increased tremendously, which, in turn pushes their health insurance premiums up. Add all of that together and it is easy to see that many retirees are struggling to get by.

Case Questions

1. Do companies have an obligation to their employees to provide benefits in retirement that can help them sustain the same standard of living they were used to while working?
2. Is it ethical for companies to discontinue providing retiree health benefits when these individuals have been receiving them for many years?
3. Should companies continue providing retiree benefits when their competitors are not?
4. If employers choose to discontinue their retiree health insurance plans, should they do so for new employees only or all employees, present and past?
5. When is it practical to change retiree health care benefits?
6. How important is retiree health insurance to today's workers?
7. Should companies offer retiree health insurance or is it the responsibility of the retiree to purchase an individual plan?
8. Should the federal government provide a pre-Medicare plan for retirees age 55 to 65?
9. Would a national health insurance plan solve the retiree health insurance problem? Is a national plan a better solution than company-provided health insurance?
10. Should unions take a more active role in managing the health care benefits of their members? Are VEBA trust funds a good alternative for companies and retirees?

Additional Information

While working as a financial advisor, I also held a Life & Health Insurance License. During that time, I experienced three mining company bankruptcies. LTV Steel filed bankruptcy on December 29, 2000.[32] LTV employed over 1500 people on the Iron Range and had numerous retirees on their health insurance plan. Employees and retirees scrambled to find health coverage to replace the coverage they had lost. National Steel followed in March of 2002.[33] Shortly after filing bankruptcy, U.S. Steel purchased the National Steel plant located in Keewatin, MN. The existing 400+ workers were able to obtain benefits from US Steel, but retirees were not included in the new company's benefit plans. On May 1, 2003, Eveleth Mines, LLC filed for bankruptcy protection, as well. Later in 2003, Cleveland Cliffs, Inc. and Laiwu Steel Group of China jointly purchased the assets of Eveleth Mines and re-opened the operation.[34] Again, the purchasing companies did not assume any of the retiree benefits previously provided by Eveleth Mines. A VEBA trust fund previously set up was available to provide limited benefits to select retirees. Once these funds were exhausted, retirees needed to find other health coverage.

Retirees who had relied on this coverage for years now had to find new insurance and had no idea where to start. In each case, the company held informational meetings that were packed full of concerned employees and retirees. Despite their efforts and an attempt to "help," in essence, these meetings just caused more confusion and concern. Most retirees were well beyond their Medicare Supplement Plan open-enrollment period. Fortunately, in all three cases, Blue Cross Blue Shield offered a special enrollment period to all retirees already on Medicare. Those not Medicare-eligible qualified for the Health Coverage Tax Credit (HCTC) if they were receiving pension benefits from the Pension Benefit Guaranty Association (PBGC). Since the companies all filed bankruptcy, the PBGC took over their pension plans. Retirees were able to retain their pension benefits, but in most cases they were reduced. The tax credit provided some relief as a portion of their individual health insurance plan premiums were reduced.

This was a confusing and frustrating time for many people. I felt fortunate to be there to help because I knew they would not be led astray – they would leave my office with good health insurance coverage and answers to their questions.

Personal Analysis

Key Ethical Issues

Are employers obligated to provide for their employees after retirement from their company? In the past, it was typical practice for employees to stay with the same employer for 20-30 years. These employees expected that as a "reward" for their years of service that they would have access to the company's health plan and receive a pension in retirement. This was basically part of their compensation package. With rising health care costs and more retirees receiving monthly pension payments, these employers continually see increased costs. Additionally, they are competing with companies who do not have these costs. Their products are automatically less expensive because the additional costs do not need to be built in. Employees today are not as "loyal." Most employees do not stay with one company for 20-30 years. Thus, they do not "vest" in the existing retiree benefits plans. These employees want something different. The company is caught between their retired employees and existing employees. If they discontinue the existing plan, many are affected – existing retirees and existing employees who may have been there 15-20 years but are not yet retired. However, if they keep the plan, each additional employee added to the plan compounds the cost – it is never-ending! Plus, newer, shorter-term employees technically receive no benefits, so they may not be satisfied. Is there a happy medium for the employer and the employee?

Impact of the Ethical Issues on the organization and the relevant stakeholders

The organization must balance the "needs" of both its employees and its stockholders. The employee "needs" to be fairly compensated for his or her work. Does this necessarily include providing benefits once they leave employment through retirement? The answer to that question is increasingly "No." The stockholder "needs" to receive their expected return on their investment. If they do not, they may choose to sell their shares of the company. This could cause a decline in the stock price. The company can help their stockholders receive their desired return by increasing revenues and/or decreasing costs. The increasing issue is the fact that competition is eroding the revenues of these companies and other costs are rising, so they must closely scrutinize all costs in order to see increased profits.

Feasible alternatives to the ethical issues

Employers have begun to implement alternative benefit plans. The VEBA trusts implemented in the auto industry are a way for companies to still provide the promised benefits to retirees, yet cap their costs. More health insurance companies may introduce and heavily promote Medicare Advantage Plans that employers can choose to offer their retirees. This could also be beneficial for both parties.

Things have changed dramatically over the last few decades. I do not feel companies should renege on their promise to provide these benefits. I believe companies should come up with a way to cap their exposure, yet still offer some level of benefits. Retirees must understand that health care costs have risen substantially, and they will continue to rise. It is reasonable for companies to pass on the annual increases in premium cost. One way to do this would be to cap the amount or percentage of the premium the company will pay. All of us who are still working see increases in our health insurance premiums – it should be expected that retirees will, too. Companies must address this issue now, as costs will just continue to compound. Current workers do not necessarily place as much value on this benefit as the workers of the past. I feel it is practical to cap or reduce retiree health benefits for existing workers. These workers have time to adequately prepare – they can plan to cover these benefits. A company will then know that there is an end in sight!

Source List

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[2] Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, Page 1.
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[4] Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, Page 11.
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