SAFEGUARDING

RETIREE HEALTH CARE BENEFITS:

PROTECTING RETIREES FROM FIXED-INCOME EROSION

Submitted by:

The National Retiree Legislative Network

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TESTIMONY OF

BILL KADEREIT, PRESIDENT

NATIONAL RETIREE LEGISLATIVE NETWORK

BEFORE

THE COMMITTEE ON EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

On

"Safeguarding Retiree Health Benefits"

Thursday, September 25, 2008

10:00 a.m.

2175 Rayburn HOB

Good morning, Chairman Miller and Members of the Committee. My name is Bill Kadereit and I am from Heath, Texas. I appear before you this morning as President of the National Retiree Legislative Network or NRLN, an organization that represents more than 2 million retirees across America. I commend you, Mr. Chairman, and the Committee for focusing on this vitally important topic and appreciate this opportunity to spend a few minutes with you this morning.

Our retiree organizations serves a cross section of the top Fortune 500 companies such as Boeing, IBM, Johns Manville, Alcatel Lucent, Prudential, Raytheon, Detroit Edison, Pacific Bell, GM, Ford, Chrysler, AT&T, and a dozen more.

Our members live in all 50 states and over 300 Congressional Districts. Although the majority of our membership is retired management employees, over 15% are retired union workers. Most of them feel betrayed by their former employers.

At the heart of this betrayal is that so many employees, even retired managers, were unaware that their former companies could break their promises to their retirees. For example, many retired managers say they were not aware that the lump sum pension payments offered as inducements to older workers to retire often came from workers' own pension plan assets. Nor did they realize that health care benefit plans contained statements that reserved to the company the right to reduce or cancel health care benefits. Retiree exit interviews ended with a handshake and the passing of an envelope stuffed with benefit promises.

Sandy …… a retired IBM Manager who saw his own insurance bill triple in 2004 put it this way: "I feel I misled a lot of people, that I've lied to people;" then he said, "It does not sit well with me at all."

Capping and canceling health care liabilities in the 90's was the beginning of a disturbing trend that continues to this day. International Paper used FASB 106 to book health care liabilities and then introduced caps. The effect was $18.7 million in earnings gains each year through 2000. In 2000, 2001 and 2002 they capped benefits of newly acquired companies and through 2004 benefited by another $65 million. Sears implemented caps during the 90's and fed $383 million to earnings since 1997.

IBM implemented caps in 1999 that affected 190,000 retirees. It took three years for retiree health care costs to reach the $625 cap but in 2002 retiree premiums increased nearly 67% and another 29% in 2003.

Adding the greatest insult to this injury is the heinous Equal Employment Opportunity Commission, or EEOC rule of 2007 which permits companies to discriminate against over-age-65 retirees who can have their benefits eliminated completely with companies claiming necessity in order to maintain benefits for younger workers. There are over 10,000,000 retirees over age 65.

Over-age-65 GM retirees will be forced onto Medicare without the catastrophic, dental, vision, or hearing insurance they now have, effective January 1, 2009. A GM retiree, who must purchase supplemental insurance, plus the four elements just cited, will be in the hole over $400 a month starting in January 2009. A retiree on a fixed income pension of $36,000 is going to lose between 18-20% of his or her after tax income if they replace all lost coverage. Ford, Chrysler and GM are casting a big shadow over the retirement landscape. Singling out over age 65 retirees sets an example that will lead to more companies targeting them. It is ironic that retirees under age 65 are no better protected now than before the EEOC rule became effective.

I am not blaming the Big Three. The trend is universal. The EEOC rule and the fact that ERISA does not vest retiree benefits are the real culprits. **For this reason, maintenance of health care benefits in effect on the day of retirement is a top NRLN priority.**

Congress must address the problem of catastrophic insurance for all retirees and Medicare eligible Americans. It is not just uninsured people who are vulnerable.

Robert ……, a 66-year-old Dallas retiree, has brain cancer. He gets free supplies of a tumor-fighting drug through a program for low-income families. His premiums have jumped by $365 a month, his deductible and co-pays and other out of pocket expenses are on top of that; "it eats up all the pension" which is $850 a month his wife, LaRue, says. They have cashed in his 401(k) account and taken out a second mortgage on their home. **Two other NRLN priorities are the inclusion of catastrophic coverage in Medicare and the creation of a Medicare buy-in option, at cost, for all under age 65 retirees**

Elizabeth Warren, a Harvard Law School professor and one of the authors of Consumer Bankruptcy Project, examined a sampling of noncommercial bankruptcies from 1991 to 2007, and people 65 and up were more than twice as likely to file and the filing rate for those 75 and older more than quadrupled. This is very real and frightening!

So given all of this, what can Congress do to provide greater safeguards for retiree health benefits? The NRLN has three main recommendations:

First, prevent broken promises to retirees and mitigate the harm from the EEOC ruling by offering incentives to companies but requiring them to maintain their existing level of health care contributions for retirees. This incentive could take the form of tax credits that would offset part of the cost. The NRLN calls this Maintenance of Cost Protection (MCP).

Second, amend ERISA to prohibit the use of defined benefit pension plan assets to make lump-sum severance payments—an operating expense that should be paid from a restructuring reserve or from operating revenues. This will ensure that any pension fund surplus can be applied to retiree health care costs through use of IRS Sec 420 transfers to 401(h) trusts, as long as a cushion of 120% of current assets is maintained in the pension fund.

Third, in 1986, Congress passed the "Medicare Catastrophic Act of 1988" that provided catastrophic insurance that would protect fixed income seniors from devastating health care bills. But it was attacked by seniors who declared it prohibitively expensive at the time. The law was repealed in 1989. Now is the right time to work out a new bill that solves the catastrophic dilemma.

Thank you, Mr. Chairman and members of the Committee. We stand ready to work with you and your staffs on these and other legislative proposals that you may consider. I'd be happy to answer any questions you or the Committee members may have.

INTRODUCTION

The National Retiree Legislative Network (NLRN) was established in 2001 when a few retire association leaders began to realize that retirees' hard-earned company pension and health benefits were being eroded at the same time pay and perks for corporate executives and profits for shareholders were increasing. The value of retirees' pension and health care benefits was shrinking at an alarming rate. So the NRLN was organized around one simple proposition: we earned these health and pension benefits and no one was going to take them away without a fight.

The NRLN currently has both association members and individual members. NRLN retiree organizations represent a cross section of more than 2 million retirees from the top Fortune 500 companies such as Boeing, IBM, Johns Manville, Alcatel Lucent, Prudential, Raytheon, Detroit Edison, Pacific Bell, Aetna, GM, Ford, Chrysler, AT&T and a dozen more. NRLN members live in all 50 states and over 300 Congressional Districts and are part of a growing Internet-connected grassroots organization. Although the majority of the NRLN's membership is retired management employees, over 15% are retired union workers.

The NRLN urges Congress to acknowledge the seriousness of the economic and social consequences caused by the erosion or cancellation of employer-sponsored retiree health care benefits and the shifting of health care costs to retirees, most of whom exist on fixed income. These older Americans, who have absorbed years of inflation without the benefit of cost-of living adjustments (COLAs) to their pensions feel betrayed by the executives of the companies they helped build through decades of loyal service.

While the rising tide of national health care problems has been debated for months, if not years, the impact of retiree health care take-backs has inflicted deep economic and social scars. Broken promises by ongoing companies and repudiation of benefit commitments through corporate bankruptcies and reorganizations threaten to add catastrophic losses to more than 20,000,000 retirees now.

Before detailing the problem, its impact and a proposed solution, Congress must be made aware that many private sector retirees feel they have been abandoned, forgotten and treated as unworthy of receiving the benefits they have earned. NRLN retiree associations hear daily from retired union workers - well educated and highly skilled - who have been the backbone of America's middle-class. Retirees understand the following:

- They have earned their health care benefits through 20-50 years of dedication as factory workers, accountants, engineers and supervisors who have been loyal to the employers that promised these benefits in retirement. But their benefits have been taken away through the fine print of “Reservation of Rights” clauses and court decisions favoring corporations. They feel betrayed by unethical executives aided by the judicial system who have been able to cancel health and other benefits earned by retirees.

- They have been driven to a lower common denominator by people who think of that making sure the health benefits they have earned continue is unnecessary since they are no longer contributing to the corporate bottom line. .
- They believe Congress cannot empathize with a retiree who has been on fixed income for 10 years, and that Congress can’t grasp the humiliation caused by their economic loss.

- They say the 2007 EEOC rule permitting the elimination of health care benefits of those retirees over 65 makes no sense as it simply encourages corporations to continue to break their commitments to their former employees but now with legal immunity.

The NRLN is sensitive to the complexities of health care issues, corporate competitive issues and the differing opinions regarding defined health benefits but asserts that the defined benefit concept should never be abandoned in deference to special interest needs. We stand ready to work with Congress and any other interested parties in helping to achieve focus and action regarding defined pension and health care policies for the good of retirees and our country.

On October 23, 2005, TIME Magazine announced that its October 31st edition to hit the newsstands the next day would feature an in depth investigative report entitled “The Broken Promise.” The TIME introduction accurately captured the dire situations millions of America’s retirees are encountering and are destined to experience even worse circumstances in the future unless positive action is taken by Congress and our President to stem the tide of broken retirement promises. It begins with the judicial system:

“A TIME investigation has concluded that long before today’s working Americans reach retirement age, policy decisions by Congress favoring corporate and special interests over workers will drive millions of older Americans—a majority of them women—into poverty, push millions more to the brink and turn retirement years into a time of want for everyone but the affluent. The transition is well under way, eroding efforts of the past three decades to eliminate poverty among the aging.”

From taxes to health care to pensions, Congress has enacted legislation that adds to the cost of retirement and eats away at dollars once earmarked for food and shelter. That reversal of fortunes is staggering, and even those already retired or near retirement will be squeezed by changing economic rules, TIME reports.”

“Congress’s role has been pivotal. Lawmakers wrote bankruptcy regulations to allow corporations to scrap the health insurance they promised employees who retired early—sometimes voluntarily, quite often not. They wrote pension rules that encouraged corporations to underfund their retirement plans or switch to plans less favorable to employees. They denied workers the right to sue to enforce

retirement promises. They have refused to overhaul America's health-care system, which has created the world's most expensive medical care without any comparable benefit. One by one, lawmakers have undermined or destroyed policies that once afforded at least the possibility of a livable existence to many seniors, while at the same time encouraging corporations to repudiate lifetime benefit agreements. All this under the guise of ensuring workers that they are in charge of their own destiny—such as it is, TIME reports. Businesses in one industry after another are revoking long-standing commitments to their workers. It's the equivalent of your bank telling you that it needs the money you put into your savings account more than you do—and then keeping it. Result: a wholesale downsizing of the American Dream. It began in the 1980s with the elimination of middle-class, entry-level jobs in lower-paying industries—apparel, textiles and shoes, among others. More recently it spread to jobs that pay solid middle-class wages, starting with the steel industry, then airlines and now autos—with no end in sight, TIME reports."

Well they had it right in 2005. But today, in September of 2008, things are far worse than foreseen by reading this report written by *TIME's Pulitzer Prize-winning investigative team of Donald L. Barlett and James B. Steele*

This paper will review our perspective as to what has happened and why American retirees have lost so much before and after 2005. Examples of the erosion or total elimination of health care and life insurance benefits and the resulting consequences during this decade will be highlighted and supplemented with data published by well-regarded third party foundations and institutes along with U.S. Government sources. In closing, we will offer a win / win proposal that we believe has potential to stem the tide of retiree economic distress. It is our hope that Congress will be courageous on behalf of U.S. retirees and enact legislation to protect employer-sponsored health care benefits.

The NRLN collected and studied feedback from NRLN members who live in all fifty states and who retired from 26 different corporations across a multitude of sectors and industries. There are more than 2,000,000 people who retired from these companies who are or were collecting benefits from defined benefit health plans. They are non-union management people and formerly represented union workers. They retired from factory, sales and service and distribution, engineering, human resources and government affairs jobs and from most executive levels of management. Over 15% of our members are retired former dues paying union members who are just now realizing that companies don't have to bargain with unions over their benefits.

Ironically, retired senior managers are sickened by what is happening more than any other segment of our membership. During their working years, many had to make tough decisions to layoff hundreds or thousands of current retirees. They closed factory doors and offices across the country and in the process repeated the corporate pledge to retirees as they left, "We are sorry you are losing your jobs, but at least your pension and health care benefits will be with you throughout retirement." To those who simply retired voluntarily, exit interviews always ended with management handing the retiree an envelope stuffed with benefit promises.

These managers seldom, if ever, were informed that lump sum pension payments offered as inducements to older workers to retire came from workers pension plan assets and not company cash. They did not realize that the U.S. Supreme Court changed the meaning and intent of ERISA. Few, except corporate HR and corporate legal officers understood that health care benefits were not protected by ERISA and that the fine print in health care summary plan descriptions (SPD's) contained a "Reservation of Rights" clause that reserved company rights to reduce or cancel health care benefits. Also, they would never have thought that a federal commission, the EEOC, would support age discrimination that would cause 10,000,000 retirees over age 65 (source - Kaiser Foundation, December 2007) to be placed at risk to lose earned health care benefits.

This testimony is based upon facts gleaned from first hand experiences of NRLN members and other retirees. In addition, this data is supplemented by data from the Kaiser Family Foundation, Mercer Inc, the Commonwealth Fund, the Social Security and Medicare Board of Trustees Annual Report, and AARP. We also offer a digest of investigative articles published by various authors and an eleven page NRLN paper detailing why we oppose the 2007 EEOC. See the appendix references – NRLN papers are available in printed copy and in electronic copy form.

A February 14, 2008 article in USA Today reported that approximately 79,000,000 baby boomers (born 1946-1964) would start turning 65 in 2011. The U.S Census Bureau 2007 report sites that the number of Americans age 45 or older was 93 million in 2000 and will grow to 115 million, by 2010. This report also reveals that 50% of the 2007 registered voters in the U.S. were under age 45, those between ages 45-84 comprised 33% while those age 65-84 represented 17%. Today, 50% of all voters are over 45. According to U.S. Census projections, the number of Medicare-eligible seniors will double to 70 million by 2030 and reach almost 82 million by 2050. Given this demographic trend, unless there is a massive shift in voter registration demographics, most voters will have gray hair in 2012.

In addition, the Employee Benefit Research Institute reported in 2007 that retirees who retired at age 55 or older comprised 86% of all retirees, those retiring at 65 or older comprised 33%.

What we have to offer you is an honest, albeit passionate, portrayal of what has happened, what's happening or about to happen in America regarding a concerted effort to unravel the defined benefit plan concept for health benefits. The employer-sponsored system for delivering health benefits has been successful, stood the test of time, and has proven far more equitable, reliable, and economical for retirees and companies than alternative schemes authored by and lobbied for by corporate interests, financial institutions, and insurance and drug companies. These seemingly uncontrollable influences have derailed our sense of purpose and resolve to fix, not just put band-aids on, pension and health care affordability issues. What we don't need is more risk! We believe that Medicare as a system is not broken; we just need make it work better and at a lower cost and we need to keep the promise and to fund it.

THE EVOLUTION OF SOCIAL SECURITY AND MEDICARE PLANS 1937-1965:

A review of the Social Security and Medicare Programs and U.S. economic growth provides the framework for a basic understanding of the factors that led to the 2008 retiree health care crisis and need for action. The Social Security System was created in 1937 to provide Old Age and Survivors Insurance (OASI) and was enhanced twenty years later by the addition of Disability Insurance (DI) in 1957. Both programs are referred to on a combined basis as OASDI.

The U.S economy recovered from a 1933 era depression and work was scarce though growing through the early 40's and the start of World War II. World War II was followed by many years of post war growth, interrupted briefly by the Korean War in the early 50's, before the disability income component of the program was enacted in 1957. Growth boomed thereafter as the U.S established itself as an economic force in the world. The expansion of new industries spurred by new technologies and products like radios, TV's, vehicles, telecommunications products and services, aviation, and work tied to growing federal and state infrastructures including a military buildup, created a long period of a thriving economy.

The post World War II boom created high demand for new skills and bidding wars for talented workers. Companies offered private pension plans and health care benefits as recruitment and retention incentives. Offering benefits provided tax advantages and was far less expensive than increasing pay that increases with hours worked and overtime and was a good deal for workers and employers.

In 1965, Medicare was enacted to compliment Social Security. Medicare consisted of Hospital Insurance (HI) or Part-A and Supplemental Medical Insurance (SMI) or Part B. Medicare Part C, or Medicare + Choice, was later added in an attempt to privatize Medicare. In 2003 Medicare + Choice was renamed and restructured as Medicare Advantage at the same time that Congress added the Medicare D Prescription Drug benefit. Both were enacted under the umbrella of the 2003 Medicare Modernization Act (MMA).

OASI, DI, HI and SMI (including Medicare Parts B and D) are managed as four separate trusts and an annual trustees report is published that reports on all four. These contributory programs have served America as public income and health care security vehicles for those who need support as their working careers ended and they benefit most retired Americans beginning at age 62 and beyond.

“THE 2008 ANNUAL SOCIAL SECURITY and MEDICARE TRUST FUND REPORT”

Data from the trust fund report covers the year 2007 are shown in Table A. The following highlights may be useful in viewing the scale of national health care and may be compared with corporate health care costs reported elsewhere.

Social Security 2007:

Total OASDI benefits of $594 Billion were paid to 49.8 million beneficiaries in 2007; an average of $11,934 for every beneficiary.

Medicare 2007:

Hospitalization Insurance (HI) benefits of $203 Billon (averaging $4,614)

Supplementary Medical Insurance (SMI) benefits of $228 Billion (averaging $5,193) were paid to 44.0 Million beneficiaries in 2007.

The total of $431 Billion in (HI) plus (SMI) payments averaged $9,809 for every beneficiary

Table A **-2007 ($'s in billions; people in millions)**

Category	Social Security Programs			Medicare Programs		
	OASI	DI	OASDI	HI-"A"	SMI-"B/D"	HISMI**
# People Receiving Benefits	40.9	8.9	49.8	44.0	44.0 *	44.0
$ Value of Assets 12-31-06	$1,844.3	$203.8	$2,048.1	$305.4	$33.1	$338.5
$ Incoming in 2007	$675.0	$109.9	$934.15	$223.7	$238.2	$461.9
$ Outgoing in 2007 (billions)	-$495.7	-$98.8	-$594.5	-$203.1	-$228.5	-$431.6
2007 Net Asset Increase	$179.3	$11.1	$190.4	$20.7	$9.7	$30.4
$ Value of Assets 12-31-07	$2,023.6	$214.9	$2,238.5	$325.0	$42.9	$367.9
$ Outgoing in 2007/Recipient	$12,119.8	$11,101.1	$11,937.8	**$4,613.6**	**$5193.2**	**$9,809.1**
# Of People Taxed	163.0	163.0	163.0	168.0	75% = general Revenue; 25% = premiums	Not Applicable
$ Outgoing 2007 /Person Taxed	$3,041.1	$606.1	$3,647.2	$1,208.9	75% = general Revenue; 25% = premiums	Not Applicable
$ 2007 Incoming /Person Taxed	**$4,141.1**	**674.2**	**$4,815.3**	**$1,331.5**	75% = general Revenue; 25% = premiums	Not Applicable
2008 Max. Taxable $ Income	$102,000	$102,000	$102,000	No limit		
Employee Tax Rate	5.30%	.90%	6.20%	1.45%		7.65%
Employer Tax Rate	5.30%	.90%	6.20%	1.45%		7.65%
Combined Total Tax Rate	10.6%	1.80%	14.40%	2.90%		15.30%

* Medicare B (SMI) - 44.0 is a rough estimate and presumes that every Medicare "A" enrollee is also enrolled in Medicare "B" and "D" and / or may be enrolled in a Medicare "C" (Medicare Advantage) plan. **The 2008 Premium for B= $96.40, surcharge if mod gross > $82k or $164k,; D=base $27.93,. States pay 14% of D cost but declines to 10% by 2014. Note: Data may not add due to rounding error. Plan administrative costs for 2007 were are: OAIS 6%; DI 2.5%; HI 1.4% and SMI 1.5%

A Kaiser Foundation Family Foundation presentation published September 8, 2008 represents the health care premium cost for a single person in 2007 averaged $4,479, with the employer contribution at $3,785, leaving $694 to be paid by workers. Family premium data were $12,106, $8,825 and $3,291 respectively.

Data from two reports, Population in the Social Security Area, released in July 2007 and Social Security Beneficiary Statistics (for the year 2007), published by Actuarial Publications, are shown in Tables B and C.

Table B highlights show that in 2007, of 309.1 million Americans, 15.1 million or 4.9% were age 60-64 and 38.4 million or 12.4% were age 65 or older. Thus, 53.5 million or 17.3% of our population was over age 60. Of those 60 or older, 44.5 million were rated as fully eligible.

United States Demographics – The Actuarial Publications, July 2007 updated report, titled Population in the Social Security Area. This report defines a baseline for initial sizing of age groups relevant to this proposal. The report stratifies the total U.S. population by age and sex groupings for the years 2003 through 2007 and identifies and distinguishes those in each grouping by whether or not group members are fully insured. The table below is an aggregation of sub-groupings; see reference for details.

Table B - **2007 (millions)**

Age Group	**Population***	**% Population**	**% Fully Insured****	**# In Population Fully Insured**
All <	215.0	6	Undetermined	Undetermined
50-54	21.8	7.1%	92%	20.1
55-59	18.8	6.1%	91%	17.1
60-64	15.1	4.9%	89%	13.4
65	38.4	12.4%	81%	31.1
Unites States	309.1	100.0%	Undetermined	Undetermined

* Social Security Area population includes 50 states, D.C, Puerto Rico, Virgin Islands, Guam, American Samoa and North Mariana Island. **Fully insured percentage for all < 50 could not be determined; 65 plus is interpolated.

Table C reveals that 34.5 million received benefits in 2007.

Social Security Benefit Recipients – The Actuarial Publications, report, titled Social Security and Beneficiary Statistics – Number of Retired Workers and their Dependents receiving benefits on December 31, 2007. This data identifies the number of Social Security benefit recipients age 62 or older and their dependents receiving payments. Recipients are a subset of the population segments in the table above:

Table C - **2007 (millions)**

Retired Workers	# Dependents	Total Recipients
31.5	3.0	34.5

The Kaiser Family Foundation's September 2008 Medicare Fact Sheet report stated there were nearly 45,000,000 on Medicare with 10,100,000 of these enrolled in Medicare Advantage Plans. The 34.5 million in Table C excludes 10,100,000 who receive benefits from private Medicare Advantage Plans.

Medicare Advantage plan carriers are subsidized 12-17% by the Medicare trusts. This burden is born by all tax- paying working Americans.

THE GROWTH OF CORPORATE HEALTH CARE PLANS 1989-2008:

The increased usage of pension and health care benefit defined plans to lure and retain valuable employees was a boon to American business and the promise of these benefits throughout the days of retirement was more than an accepted fact, it was a bargained for promise to workers. There was a trust that these benefits would be there and that this promise along with Social Security and Medicare safety net for all working Americans was the reward for loyalty, dedication and hard work. That's what bonded employees and companies and thus benefited retention.

Very few employees ever suspected there was fine print called the "reservation of rights clause" inserted into company health care plans or SPD's. These multi-page legal documents are nearly illegible.

Health care cost inflation, including private insurance profit and administrative services cost rises have always been a factor that has influenced corporate and government planning for providing benefits. This was true in the late 80's and is true today. However, other events have significantly shaped corporate policy and have created a great difference in how Congress must view the impact of inflation on corporate retirees.

According to The Kaiser Family Foundation Employer Health Benefits 2007 Annual Survey, inflation of health care costs track with insurance company profits, hospital care, physician services, prescription drugs, medical technology, an aging population, and workers who use more services and pay a smaller share for the cost of services. Behind each of these are a myriad of reasons like research, administrative costs, medical fraud and other debatable reasons. This Kaiser report reveals details as to how surveyed firms rated the leading factors to increases in health insurance premiums for 2007. The table below summarizes the contributing factors, in rank order of rating, for large firms

(200 or more workers) and all firms. The % shown reflects the combination of the two rating responses "A Lot" or "Somewhat" affects increases.

The Kaiser Family Foundation Employer Health Benefits 2007 Annual Survey

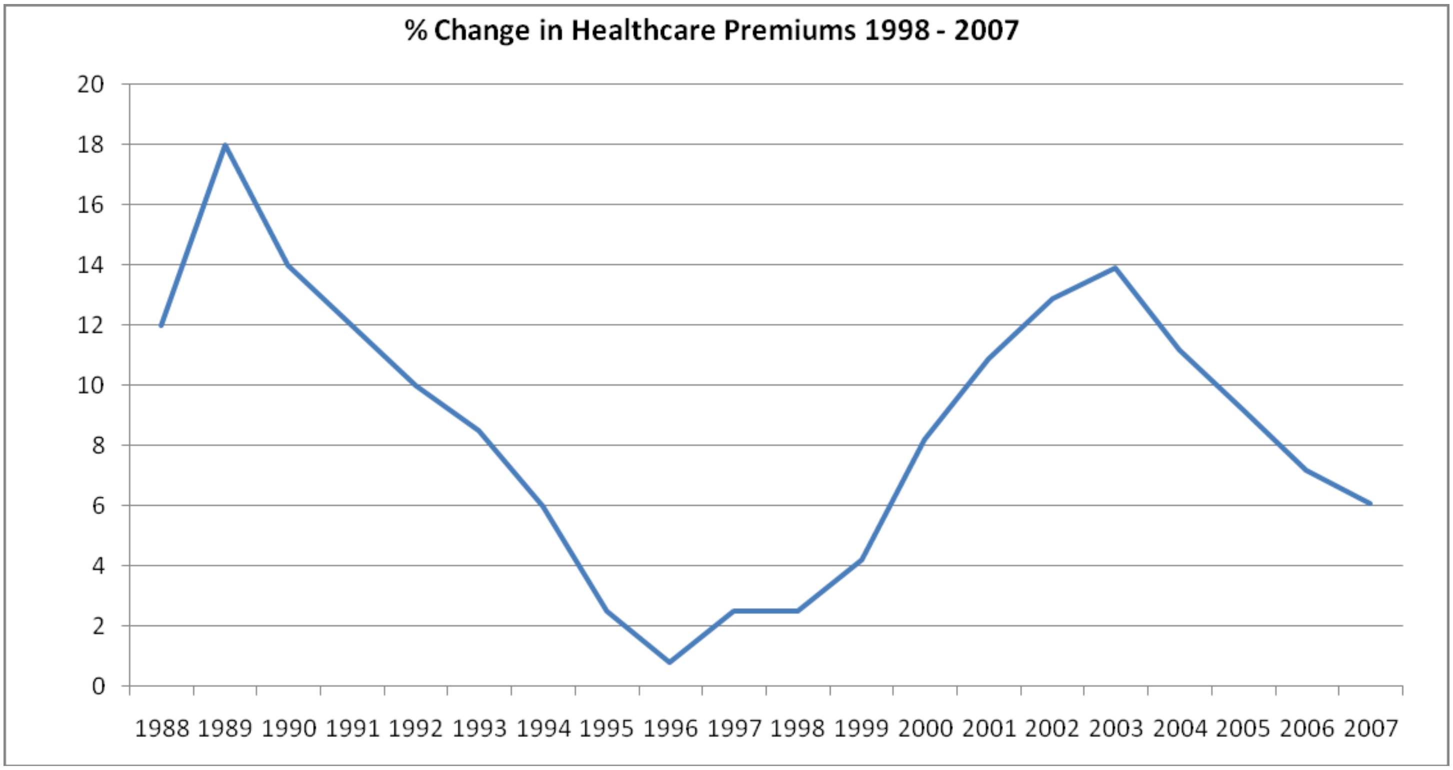
PREMIUM INCREASE FACTORS	Rank	RATINGS FROM FIRMS WITH 200 OR MORE WORKERS	Rank	RATINGS FROM ALL FIRMS
Higher spending for prescription drugs	1	95%	1	94%
Higher spending for hospital care	2	94%	2	92%
Higher spending for medical technology	3	89%	6	85%
Higher spending for physician services	4	87%	4	88%
An aging population	5	85%	3	90%
Insurance Company Profits	6	75%	5	86
Workers using more services because they pay a small share of the total Cost of Services	7	68%	7	71%

The NRLN urges Congress to face the fact that drug prices in this country are too high. Global competition and industry restructuring is tough but it is the path we chose as a country. The auto, airline, steel, chemical, telecommunications and tens of other industries have been lean, aggressive and compelled to compete for markets on a global basis. Drug companies have no excuse good enough not to do the same. Most technology businesses manage research well and compete, why not drug companies. They buy proprietary ingredients and fillers offshore and then manufacture and package offshore yet lobby that importation is unfair. There are bills in both the House and Senate requiring importation of safe drugs and competitive bidding, please pass them. The generic drug testing and approval process if fraught with anti-competitive practices and is undermanned and underfunded – please fix this.

The NRLN supports health care reform and supports the 5 principles recommended by the National Coalition on Health Care (NCHC): 1) Health care coverage for all including catastrophic coverage, 2) effective cost management discipline, 3) better information technology systems and a stronger quality and safety discipline, 4) equitable financing and 5) simplified administration.

SHIFTING HEALTH CARE PREMIUMS and COSTS TO RETIREES:

The most often looked at health care cost measurement index is the premium index. Exhibit A of the 2007 Kaiser Survey (see Appendix) reveals that premium inflation in 1988 was 12.0 %, .8% in 1996, 13.9% in 2003 and up 6.1% in 2007.



Assessing blame or finding the causes for health care inflation is not a simple task. The solutions can be even less clear, though some are very obvious. The complexities in deciding who pays the bills and how much is the right amount. Also, courts and regulations issued by the Internal Revenue Service (IRS) and the Securities and Exchange Commission (SEC), the Equal Employment Opportunity Commission (EEOC) and accounting standards promulgated by Financial Accounting Standards Board (FASB) are factors that can confound and overturn Congressional intent.

The A critical factor affecting active employee and retiree health care benefits over the past 20 years was the December 1990 Financial Accounting Standards Board (FASB) approval of Accounting Standard 106 and its implementation in the first quarter of 1993. This rule caused employers to accrue for and book health care liabilities the same way they must recognize pension liabilities and forced massive charges to the bottom lines of U.S. corporations. IBM announced it was taking a $2.3 billion charge and one of the Big Three auto companies absorbed a $30 billion charge. FASB 106 triggered a corporate health care panic.

The effect of FASB 106 is told, in part, by an October 2005 Time magazine article (see Appendix) that states, "From 1988 to 2004, the share of employers with 200 or more workers offering health insurance to active employees who also offer it to retirees, plunged from 66% to 36%. The end result: a fresh and additional burden on retirees." The Kaiser Family Foundation Employer Health Benefits 2007 Annual Survey data confirm the exact data and further shows 2005 at 33%, 2006 at 36% and 2007 at 33%.

THE ASTOUNDING FACT IN THE KAISER STUDY, NOT REVEALED IN THE TIME ARTICLE, IS THE PLUNGE FROM 66% TO 36% OCCURRED IN JUST THREE YEARS, BETWEEN 1990 AND

1993. THOUGH THE RATIO REACHED 40% IN 1998 AND 1999 IT HAS NOT BEEN HIGHER THAN 37% SINCE!

FASB 106 triggered a permanent reduction of 50% (66-33) in the number of companies offering retirees health care insurance and stimulated a rash of early retirement offerings in the early 90's, prior to the Rule 106 1993 implementation. Those who agreed to retire before an established cutoff date and those already retired were guaranteed continued payment of premiums, deductibles, co-pays and coinsurance, including the effect of subsequent inflation adjustments. Because companies wanted to oust older, more highly paid employees they conditioned acceptance of these offers by demanding the prospective employee signed a waiver of his or her rights under the Age Discrimination in Employment Act (ADEA).

Thus began the era of cost sharing (aka shifting) and health care "caps". The 1989-1995-96 implementation of caps affected hundreds of thousands of retirees. While some might mistakenly believe that this cap helps the retiree, it does just the opposite. It caps the employer's health care plan liability at a fixed amount for each affected retiree and requires that the retiree absorb premium, deductible, co-pay, co-insurance and catastrophic plan inflationary increases in future years. The retiree knows his/her cap value and each annual enrollment period and is advised to sign up for payment of his/her new monthly premium increase. The health care cap was a manifestation of a cynical view espoused by some corporate officials that retirees were expendable and represented a legacy cost that had to be shed.

It is important to note that health care caps may seem innocuous when implemented but are a ticking bomb waiting to go off as premiums and shifted costs grow over time. This is because the dollar value of the cap may be adequate for several years. The IBM retiree who received $625 a month in 1999 may not have realized that IBM was no longer in the game until several years later. In fact, some NRLN members who retired from IBM back in the 1999 time frame, are just now feeling the full brunt of increased premiums and costs. They have lowered their coverage limits, increased deductibles, decreased visits to the doctor and don't take medications as frequently as directed. That's what health care caps have done to retirees.

These shifts have been accompanied by a near disappearance of Cost of Living Adjustments to defined pensions. Where questionable, if not illegal, pension plan reversions and stock market devaluations have not decimated the value of plan assets, surplus over 120% has been transferred to trusts established under Section 401(h) of the Internal Revenue Code in defined benefit pension plans and then used to pay for the corporate share of the cost of health care up to the cap. The burden of cost increases has been shifted to the retiree.

Data collected by the NRLN shows that the erosion of purchasing power measured by retiree dollars diverted from fixed income pensions to pay for health care premiums, deductibles, co-pays, and co-insurance has eroded 15-20% of retiree disposable income in the last ten years alone. The NRLN is highly suspicious of any company that claims to be suffering from retiree health care cost inflation once they have implemented caps that have been in effect 4-5 years.

Where health care caps are not announced or are called something different, some employers may absorb more of the cost but at best it is shared 50/50 between the company and the employee or retiree. Retirees bear a greater burden from these types of arrangements since at least the employees have the opportunity to offset the additional cost through annual merit increases and COLAs whereas the retiree pays from fixed income. Active and retired members of Congress and federal employees have not experienced cost sharing that we are aware of. Congressional and federal retirees receive an annual COLA based on a change in the consumer price index (CPI).

Mercer Consulting released a report in September of 2008 reporting preliminary findings from 59% of the companies responding indicating that they intend to keep down rising health care costs in 2009 by raising workers deductibles, co-pays or out-of-pocket spending limits. They estimate that the cost of health care will rise by 5.7% in 2009, the same amount as expected in 2008. The Associated Press quoted the author, Blains Bos, as saying “It’s not something to cheer about, especially since costs are getting passed on to employees.”

The Mercer report states that between 2003 and 2007, the average deductible for an individual grew from $250 to $400 or 60%! For a family, it rose from $1,000 to $1,500 or 50%. These changes seem exceptionally high!

MEASURING COST SHARING AND THE COVERAGE REDUCTION IMPACT

There are three levels of impact to be considered when examining the complexities of the economic impact when plan sponsors make decisions that cause retirees to dig into their fixed income.

The Impact of Level I – The Health Care Cap or Imposed Cost Sharing

In 1999, IBM changed health care plan benefits and also capped its annual medical expense insurance cost at $7,500 a year or $625 a month. IBM serves as a prime example of how Lucent Technologies, Detroit Edison, Qwest Communications, Raytheon, Monsanto, UPS, Boeing, and other NRLN retiree association companies and others shifted costs to retirees over the past 10-15 years.

To examine how this works, let’s use a sample set of annual data over a four-year period. In this example, we used the 1999 base year actual to set the cap amount implemented on 1/1/2000. This is the standard procedure used in setting caps. The retiree pension is set at $40,000 (50% of active pay), adjusted for 15% tax or $34,000 after tax and 3.5% as annual CPI erosion factor (no COLA).

Type of Premium Coverage and Year	Company Share Cap Effective 1/2001	Retiree Share	Total Premium Cost	Retiree % Total	Retiree Pension Adjusted by 3.5%	Retiree Share as % of Adj. Pension	Retiree Net A/T Cash
Family - 2000	$6,400	$0	$6,400 *	0%	$34,000	0%	$34,000
Family - 2001	$6,400	$400	$6,800	5.9%	$32,810	1.2%	$32,410
Family - 2002	$6,400	$700	$7,100	9.9%	$31,661	2.2%	$30,961
Family - 2003	$6,400	$1,700	$8,100	20.9%	$30,553	5.6%	$28,853

Family - 2004	$6,400	$3,700	$10,100	36.6%	$29,484	12.5%	$25,784
Family - 2005	$6,400	$4,700	$11,100	42.3%	$28,452	16.51%	$23,752
Family - 2006	$6,400	$5,200	$11,600	44.8%	$27,456	18.9%	$22,256
Family - 2007	$6,400	$5,700	$12,100 *	47.1%	$26,459	21.5%	**$20,759**

*The 2008 Kaiser Family Foundation Survey reported that the average annual health care premium was $6,428 in 2,000 and $12,106 in 2007.

The NRLN believes these data are a very good portrayal of what has happened to retiree purchasing power and the destabilization of their lives. An $80,000 salary earned a defined pension of ~ $40,000 or $34,000 after tax. In seven years, inflation ate up $7,541 or 22% and mandatory health care sharing created by the setting of a "cap" consumed another $5,700 or 17%. A 39% loss of annual purchasing power, $13,241 (or $1,103 a month) was incurred in the first seven years of retirement.

Not all large companies have imposed caps but estimates indicate that 55% or more of the companies with over 200 employees have and the number is growing rapidly.

Some Examples of Level I impact –

Hanesbrands eliminated its contribution to retirees' health-insurance premiums on December 1, 2007, but continued to provide access to the group rate for retirees who can pay the full cost of the premium. Retirees under age 65 who had paid premiums from $60 to $130 a month experienced a rise in cost to $750 a month. For a retiree carrying a spouse on his or her health care policy, the cost went to $1,200 a month or more. (**Appendix Page 41**)

Tommy remembers the day when he opened the letter from his former employer. "It was a year ago [2003] that I got the letter from AT&T," the retired computer engineer recalled. "It was nice. Just before Christmas."

The letter informed Tommy that the company-paid health insurance benefits he and his wife had been guaranteed when he retired after 34 years with the company were being cancelled. The company informed Tommy, then 60, that continued coverage would cost him $411 a month.
"The only choice I've got is to pay the $411, or else there would be no insurance for me and my wife," he said. (**Appendix Page 64**)

Edward, who spent 24 years working for GenCorp Inc., formerly called General Tire & Rubber, pays $568 a month for health care insurance for himself and his wife. He needs the coverage to help pay for five drugs his wife, Anna, takes for arthritis, hypertension and thyroid and cholesterol problems. The couple's premium more than erases his GenCorp pension of $320 a month. To make ends meet, Edward, 75, works 30 hours a week as a greeter at Wal-Mart Stores. (**Appendix Page 67)**

In a March 16, 2004 article, The Wall Street Journal reported that when Robert retired from International Business Machines Corp. (IBM) in 1992, he was paying $40 a month toward health-care premiums for himself and his wife, LaRue, with IBM paying the rest. In 1993, IBM set ceilings on its own health care spending for retirees. For those on Medicare, the cap was $3,000 or $3,500, depending on when they retired. For those younger than 65, the cap was $7,000 or $7,500. Spending hit the caps for the older retirees in 2001, thus pushing future health care cost increases onto retirees' shoulders. Robert, 66 years old, saw his premiums jump more to $365 a month for the couple. Deductibles and copayments for drugs and doctor visits added $663 a month in 2003. This ate up all of his pension which is $850 a month, Robert had brain cancer. Though he received free supplies of a tumor-fighting drug through a program for low-income families, he had to cash in his 401(k) account, and he and LaRue had to take out a second mortgage on their Lake Dallas, Texas, home. (**Appendix Page 69**)

Carolyn, the widow of a Johns Manville employee, had to drop the company-sponsored health care insurance because of escalating cost and find her own coverage. She is currently paying $160 per month plus Medicare plus co-pays which adds up to more than $3,000 per year. Carolyn's pension as a surviving spouse of her husband who worked for JM for 26 years and died two weeks shy of his 50th birthday is $3,120 annually. (**Appendix Page 70**)

<u>The Impact of Level II</u> – Reduction of Benefits or Plan Modifications

It is the next level of health care cost reduction that tips the scale and the moral and economic future of millions of retirees, including tens of thousands in the NRLN membership. That is, the reduction of or canceling of health care benefits through modification of the health care Specific Plan Document (SPD). These are permanent reductions or cancellations of benefit coverage, many of which are implemented just to help the bottom line. Since health care benefits are not protected by ERISA, companies can impose their will with impunity.

Each time a benefit is changed or reduced the dollar cost of that benefit is subtracted from the dollar cap in effect before the reduction of cancellation. So, not only does the benefit get cancelled, the cap is lowered which intensifies the burden of cost sharing.

In the example above, the $6,400 cap amount would be reduced dollar-for-dollar by the value of cancellations, forcing the retiree to come out-of pocket to replace the cancelled or reduced benefit. An example might be the cancellation of Dental Benefits. Lucent Technologies cancelled this benefit in 2004 and advised plan participants that their health care cap was to be reduced by the corresponding dollar amount of the cancellation savings.

Some Examples of Level II impact –

Geraldine knew that her pension would be modest, given her tenure of just 15 years at AT&T and spinoff Lucent Technologies. What she did not expect was that her retiree health premium would eat up every penny of that pension — and more. "It's frightening," said Geraldine, 63, whose former employer has raised her medical insurance bill steadily since she retired in 1998. At $560 a month, it now eclipses the $514 pension. Geraldine, who lives near Chicago, remembers when a job at a big company meant "you were taken care of the rest of your life." (**Appendix Page 42**)

"I thought I was going to live the good life," recalled Pete, 69, who took early retirement from Caterpillar Inc. in 1992. He bought a 30-foot trailer and traveled the Southwest with his wife and friends. He even withdrew home equity, taking out a loan on his paid-off home, bolstered by a faith that his medical costs would never be a burden. But in 2005, Caterpillar began charging Wilson $125 a month for his medical insurance premium. In 2006, the bill jumped to $172. His medical bills continue to mount, most recently for a mysterious weight loss Wilson's doctors are trying to pin down. (**Appendix Page 43**)

John spent 39 years at Lucent Technologies' corporate predecessors, Western Electric and AT&T Network Systems. An engineer and supervisor, he moved his wife and children from Maryland to Pennsylvania and then to Ohio so he could serve the company where he was most needed. In 1995 he retired, half a year shy of 60, believing that he had full health benefits for himself, his wife, and his youngest child.

Three years later the benefit cuts began. John, now 70, is paying over $700 a month in health insurance premiums for his wife and teenage son. He's also carrying the cost of a $200-per-month life-insurance policy whose premiums the company stopped covering. "I'm paying $1,000 a month more than I expected," John says. "I'm not on welfare. But my wife has gone to work, I've given up my golf membership, and we don't go away on vacations."

Had he known 11 years ago that the company would renege on its promises, "I would have worked longer," he says. "And my wife might have gone to work when she was younger and gotten a better job." (**Appendix Page 44**)

Badly injured in a 1997 automobile accident, Stephen, 59, retired on disability from LTV Steel in Indiana after three decades as an electrical repairman. He took with him full health benefits for himself and coverage at $138 a month for his wife and youngest son. In 2002 LTV Steel went bankrupt, and though pieces of the company were acquired, the obligations to retirees were not.

As required by law, Stephen's pension was assumed by the federal Pension Benefits Guarantee Corp., but it was reduced from $1,900 a month to $1,200 and his $360-a-month special disability payment was eliminated. No law protected health benefits, so his and his family's vanished.

Stephen managed to find insurance that would cover what his Medicare disability payments didn't, at $295 a month. His wife, a substitute teacher, and son, then 16 years old, were uninsured—and remain so. "I went into the steel industry right out of high school," Stephen says. "I thought I'd have a comfortable life and provide for my family**.** Health care is a basic necessity, and it really hurts that I can't provide it for them." (**Appendix Page 44**)

Margaret's husband, William, a Lucent Technologies retiree, was dying of cancer in January 2003 when the couple received a letter telling them that the death benefit an employer promised him decades ago would be canceled -- in one month. "I guess I'm going to have to die before then," William, 79, told his wife of 50 years.

He wasn't joking. Both of them knew that Margaret would need the money when her husband's leukemia overtook him. His pension would be cut in half upon his death, and six months later, Margaret's spousal retiree health coverage would end. The Middletown, N.J., couple planned to use the death benefit of $39,000 for medical and burial costs. After five years of fighting cancer, he was failing, and he went back into the hospital Jan. 14 for what he and his wife knew would be the last time. He told her sardonically, "I have a deadline." He didn't make it. He died on Feb. 24, 2003. Lucent saved $39,000. (**Appendix 48**)

Don retired from Lucent Technologies nine years ago after 30 years of service. He is one of the retirees cited in a recently published book titled *The Big Squeeze: Tough Times for the American Worker* authored by Steven Greenhouse, a writer for The New York Times. When Jensen retired there was no cost for the Lucent-sponsored health care and dental insurance for him and his wife. Today, their premium cost is $863 per month just for health care. They have dropped the dental insurance. The couple has been working three part-time jobs to try to pay for their health care coverage until they are eligible for Medicare. (**Appendix Page 58**)

George, a Lucent Technologies retiree in Eatontown, NJ, said, “my healthcare expenses (Aetna POS and Dental) now consume 34.4% of my pre-tax retirement paycheck. Lucent raised my Medical payments 23.5% this year [2008]. I can find no evidence on the Internet to substantiate that health care costs have risen by that amount.” (**Appendix Page 58**)

“I am one of those being greatly affected by Lucent reneging on their promises of medical coverage,” Ed said. “My current monthly pension check is for $2007.97 a month, I now pay $704.92 for medical and dental my 2007 medical coverage will now be $1004.15. After taxes and medical that leaves me with $818.82 a month pension, I was receiving $1118.05

“As a result of the increases in medical I had to look for employment and at almost seventy years old not to many opportunities were available, the only work I could find was an evening custodian job at the local school which I have accepted. It now looks like I am descendent to work till the day I die, thanks to Lucent.” (**Appendix Page 60**)

Years ago, Bill said, he and his fellow John Deere employees bled green. Now, Bill says, he's just being bled. And he blames changes Deere has made in its health-benefit program for its retirees. The Flex Retiree Organization, a group of retired Deere workers that Bill started last year, filed a class-action lawsuit against Deere, trying to restore the old benefit system they had. The complaint stems from a move Deere made Jan. 1, when the farm machinery manufacturer cut health, dental and vision insurance benefits for the approximately 5,000 Flex retirees, Bill said. (**Appendix Page 66**)

After 33 years at Eastman Kodak Co., Don left pretty satisfied. He had climbed fairly high on the job ladder before health problems made him retire from his process engineering job. He had made good money and he was leaving with some guarantees about his future.
Then he and tens of thousands of other Kodak retirees received a letter in August 2008 informing them that those guarantees about health care and life insurance were gone." They changed the deal," said Don, 61, "I earned it. I worked for it. That was the deal. I don't like feeling powerless." (**Appendix Page 70**)

Ed is not living the carefree life he envisioned when he retired from a taconite mine in Keewatin, MN in 2001. He has no time for lounging in a La-Z-Boy, golfing or fishing for pleasure. Instead, Ed rises early and sets about growing vegetables, trapping beaver for pelts and harvesting wild rice on a lake near his home in Bovey. His wife, Sue, sells the bounty at farmers' markets four days a week.

They do this to survive. Just a few months after he retired at age 50 from National Steel Corp., his employer of 30 years went bankrupt, taking with it longtime promises to provide a livable pension and cheap health insurance for life. Even though the U.S. Pension Benefit Guaranty Corp. stepped in to protect workers' pensions, Ed's monthly payment was cut almost in half to $1,350. And the buyer of the mine, U.S. Steel, never made good on the old promise to provide retiree health insurance. (**Appendix Page 72**)

<u>The Impact of Level III</u> – The Take-Back of all Take-Backs-The EEOC rule of December 26, 2007

The NRLN, in this paper, will not go through the litany of discourse related to EEOC hearings, pleas for comments, court proceedings, including the U.S. Supreme court's refusal to hear the case against the rule, or other process related anecdotes. This history and related details are available on request.

The business lobby that stimulated and favored the rule convinced the EEOC that if they were not allowed to discriminate against Medicare eligible retirees, companies would reduce health care benefits for retirees under age 65. The NLRN believes that many of these companies supporting the rule were highly profitable and were only interested in dumping what they refer to as "legacy costs" retiree benefits, in an effort to bolster the bottom line and golden parachutes.

It never occurred to EEOC commissioners that pleas of foreign competition may have been a ploy to dump American industry "legacy costs." If they had been really interested in protecting retirees, they could have written a Maintenance of Cost commitment to those under 65 into the rule itself, thus requiring that benefits for those under 65 must be retained. They didn't. Instead, they settled for a fuzzy verbal understanding that companies needed to dump those over 65 under the bus so those under 65 could be protected.

The results are coming in and retirees under 65 will discover that while they think they may be relatively better protected, the erosion of their benefits is inevitable. Neither ERISA nor the EEOC rule will help and in a few years, the cry from companies will be …we just have to dump all retirees or we can't compete. Actually, they don't have to say anything or seek permission from anyone, they can just do it.

As retirees' companies eliminate their retiree health plans, they will leave retirees dependent on Medicare – either traditional Medicare or Medicare Advantage plans - that do not measure-up to most company plans. Even though many retirees are participating in cost sharing under their current plans and economic hardships (see Level I and II above) are prevalent, a wholesale move off company plans cause a total loss of the important supplemental coverage to Medicare that most employer-sponsored retiree medical plans provide.

This action totally destroys any hope for Maintenance of Costs required by IRS Code Section 420 or Maintenance of Benefits which used to be the old Section 420 requirement when employers transfer so-called surplus assets from their defined benefit plans.

Dying of cancer, Thomas did everything he was told to make sure his wife would collect on the life insurance policy he had through his employer. But Spherion Corp., the temporary staffing company where Thomas worked, told his widow she would not receive any of the $426,000 in benefits she believed she was due. When she went to court, Spherion succeeded in getting her lawsuit thrown out. She only received a refund of the few thousand dollars in insurance premiums she and her husband dutifully had paid. The total, she said, would not cover the costs of Thomas' funeral. (**Appendix Page 32**)

Robert, 77, is one of 10 named plaintiffs in the federal lawsuit against Embarq and Sprint Nextel for alleged violations of federal retirement law - specifically, the Employee Retirement Income Security Act of 1974.

The plaintiffs seek class-action status to sue on behalf of approximately 13,000 retirees of regional and local phone companies in 15 states. The retirees worked for various companies that Sprint Nextel acquired over the years and then made subsidiaries of Embarq in May 2006. The suit focuses on Embarq's decision in July 2007 to cut off health insurance to all retirees who have reached age 65 and are Medicare-eligible. That change took effect Jan. 1 2008. The company also is eliminating or reducing life insurance coverage for these older retirees. (**Appendix Page 66**)

Jim, a 65-year-old accountant supervisor who retired from General Motors Corp. in 2005, sensed he might be losing ground. He knew his career-long employer was in deep pain. When he logged onto the Internet, he saw he would be sharing that pain along with all of GM's over-65 retired white-collar workers.

GM said on July 15, 2008 it would stop paying its share of supplemental insurance premiums, instead adding $300 to the monthly pension amount to offset some of the new expense. Retirees already pay part of that premium, and two years ago GM froze its share at current levels. (**Appendix Page 68**)

Why retirees covered by company defined plans lose when shifted to Medicare plans:

CATASTROPHIC INSURANCE – This coverage is included in most company-sponsored plans and is usually expressed as a maximum-out-of-pocket limit such as $1,500 - $3,000. Protection kicks in after a retiree pays deductible and copayments. Coinsurance costs apply and once the limit is reached, the plan pays 100% of covered benefits. MEDICARE DOES NOT PROVIDE THIS COVERAGE!

PRESCRIPTION DRUG INSURANCE - Many company plans do not require payment of separate premiums or deductibles and coinsurance. Medicare D plans require a monthly premium of approximately $35 for low-end plans and a $295 annual deductible. Initial copayments are comparable but once the cost of drugs exceeds $2,700, Medicare pays nothing for the next $3,400.

DENTAL: Medicare plans don't include the coverage but most company plans do. Market premiums vary widely depending upon coverage ordered and locale. A typical rate would be $35 a month.

VISION – Medicare plans don't include the coverage but most company plans do. Market premiums vary widely depending upon coverage ordered and local. A typical rate would be $35 a month.

HEARING - Medicare plans don't include the coverage but most company plans do. Market premiums vary widely depending upon coverage ordered and local. A typical rate would be $35 a month.

OTHER – Some coverage is important to specific retirees but not to others. For example, GM retirees value Extended Care Coverage (ECC) whereas others may have never heard of it and may not place a value on it. If you have it and have been paying for it, the loss of access can be significant.

Financially strapped large U.S companies are the first obvious candidates to use the EEOC rule. Ford, Chrysler and General Motors benefit plans are nearly identical, proving that benefits were a recruiting tool in the auto industry. Since GM was the most recent of the big three to use the EEOC rule (they will probably say the rule had nothing to do with their actions), the NRLN studied the prospective impact of what GM is implementing January 1, 2009. As it was with Ford and Chrysler, this action will only affect "salaried" retirees and their dependents.

U.S Auto Big-Three "Salaried" Retiree Data:

BIG THREE AUO – Number of Retired Salaried Employees		
Company	Retirees & Spouses over age 65	Retirees over age 65
GM	197,400	108,570
FORD	65,000	35,750
CHRYSLER	14,000	11,200
THE BIG THREE	538,000	299,840

The General Motors solicitation of retirees interested in replacing their health care insurance is currently in the planning stages and retiree final decisions will be made during an upcoming open enrollment period. The data below has been collected from GM retirees and may vary some as a result of unexpected increases or decreases in coverage and price and the final decisions made by retirees. The NRLN data is based solely on what retirees currently pay GM for current coverage and what the cost to replace that exact coverage would be on the open market.

We have reviewed coverage and premium information from sources in Michigan and other states and believe the actual costs per month will not vary significantly enough to detract from the story told by the numbers in our table below.

We expect vast swings in the actual pensions being paid to retirees. Our assumption is that the average salaried retiree would have retired on a pension at 50% of his/her pre-retirement annual salary at GM. In this case that basis is an average of $72,000. While there will be variation in pension calculations, there will be even greater variation in actual average pensions of all 108,000 retirees over age 65. Some of them have been retired 20 years or more and whose pensions will be lower than the $36,000 used in this study.

All comparisons of coverage and premiums must be made on a like-for-like basis. We assume that all existing coverage will be replaced and that deductible, copay, coinsurance and catastrophic coverage elements will be replaced on a like-for-like basis. The NRLN is familiar with sales efforts to switch a prospect into lesser coverage at a competitive price. This may cause a retiree to discover later that they are less protected than they thought. Bait and switch tactics are not unusual. However, once all the options are on the table and like-for-like replacements can't be achieved, and won't fit the budget, retirees have no choice but to compromise.

The table below shows Medigap and Medicare Advantage alternatives, but in either case, with the assumptions made, we see a 20% or greater loss in fixed income or purchasing power, that must be absorbed by GM retirees over age 65. Also, be aware that the 17% PFFS plan subsidies are at risk.

GM SALARIED RETIREE CHOICES AND LIKELY OUTCOME OF EEOC RULE

Retirees & Spouses over age 65	197,400	197,400
Retirees over 65 -	**108,570**	**108,570**
Annual Supplemental Pension Increase	$3,600	$3,600
2008 Current Coverage (Cost / month for 2; retiree & spouse)		
Hospital & Medical Plan for Two	$121.00	$121.00
Catastrophic or Out-of-Pocket (included in Plan)		
Prescription Drug Plan (included in Plan)		
Hearing (included in Plan)		
Dental	$15.00	$15.00
Vision	$2.00	$2.00
Extended Care Coverage	$14.00	$14.00
2008 Medicare B Premium ($96.40 - $76.20 = $20.40)	$40.80	$40.80
Premium for Life Insurance - Policy Value = $51,000	$0.00	$0.00
Total 2008 Premiums to be Saved in 2009	**$192.80**	**$192.80**
2009 Monthly Supplemental Pension Increase	**$300.00**	**$300.00**
Estimated Tax on Added Pension 15.00%	($45.00)	($45.00)
Recaptured Net Cost Sharing CASH Available Jan 1, 2009	**$447.80**	**$447.80**

2009 Benefit Replacement (Cost for 2; retiree & spouse))				Monthly Cost to Retiree	Medigap Supplement	Medicare Advantage Supplement
Cost of 2009 Medicare B Premium (Plan is A + B + Supplement)				($98.00)	($196.00)	($196.00)
Purchase Medigap Plan C			age/carrier & state related	($150.00)	($300.00)	
Medicare Advantage (Michigan PFFS Plan)			age/carrier & state related	($150.00)		($300.00)
Purchase Catastrophic Insurance with max OOP @ $1,500 & $3,000				($75.00)	($150.00)	($150.00)
Dental Coverage				($20.00)	($40.00)	($40.00)
Vision Coverage				($15.00)	($30.00)	($30.00)
Hearing Coverage				($10.00)	($20.00)	($20.00)
2009 Med - D Premium Cost	$35 / mo	$420.00	aarp prem	($30.00)	($60.00)	included
Cost of Yearly Deductible (2009)	Period I	$295.00	standard	($24.58)	($49.17)	included
Cost of Initail Coverage (2009)	Period II	$2,700.00	copays	parity	parity	included
Cost of Doughnut Hole (2009)	Period III	$3,453.75	$600/yr/person	($50.00)	($100.00)	($100.00)
Cost of Catastrophic Coverage	Period IV	5% or $ co-pay	catastrophic	parity	parity	included
Purchase Extended Care Coverage (ECC)	Pays $35.day to $10,000/yr			($20.00)	($40.00)	($40.00)
Life Insurance-Retire Only (Old $51,000 > New $25,000)			Est @ 65	($96.00)	($96.00)	($96.00)
2009 Total Monthly Benefit Replacement Cost					**($1,081)**	**($972)**
2009 Replacement Cost Less Cash Available to Recapture (For 2 People)					**($633)**	**($524)**
ANNUAL GAIN / (LOSS) TO RETIREE & SPOUSE					**($7,600)**	**($6,290)**

SPOUSE				
ESTIMATED AFTER-TAX PENSION	After Tax Pension @15% tax rate using	$36,000	$30,600	$30,600
2009 HC REPLACEMENT COST AS A % OF RETIREE AFTER-TAX PENSION			**-25%**	**-21%**

Economic Impact Survey:

The Washington Post reported on the Commonwealth Fund survey, released on 8/20/08. The Commonwealth Fund, a private foundation that supports independent research on health care, reported that health care costs are limiting expenditure on daily necessities.

The survey results show that of those facing mounting medical bills, 39% used all their savings, 30% incurred large credit card debt, and 29% said medical bills left them unable to pay for basic necessities.

"Health care costs are climbing much more rapidly than incomes or the growth in the overall economy," said Sara R. Collins, assistant vice president of the foundation and one of the authors of the study. "What is notable is how these problems are spreading up the income scale," Collins said.

What retirees don't like is companies that load premium and cost increases on them and yet claim they are suffering from the increased cost of health care. Recall that their liability is fixed by the cap. Congress should be aware of this problem and take it into consideration. When premiums rise 6% on a national level but specific company health care costs are flat to down, that company has shifted the load to retirees and maybe active employees.

Consumer Bankruptcy:

An August 28, 2008 article by the Associated Press reported that while the bankruptcy filing rate for those under 55 has fallen, people 65 and up became more than twice as likely to file for bankruptcy between 1991 and 2007.

The study data shows that in 1991, the 55-plus age group accounted for about 8% of bankruptcy filers, but in 2007 those at age 55-plus accounted for 22% of the filings; almost tripling the 1991 rate.

The filing rate per thousand people ages 55-64 was up 40 percent; among 65- to 74-year-olds it increased 125 percent; and among the 75-to-84-year-old set, it was up 433 percent.

Elizabeth Warren, a Harvard Law School professor and one of the authors of the Consumer Bankruptcy Project, which examined a sampling of noncommercial bankruptcies from 1991 to 2007 said "older Americans are hit by a one-two punch of jobs and medical problems and the two are often intertwined." She added, "They discover that they must work to keep some form of economic balance and when they can't, they get lost."

The author of the study noted that it would be wrong to assume that lives of luxury are bankrupting seniors; rather, they're incurring debts to meet needs such as medical treatment.

The NRLN proposes that Congress work as rapidly as possible to develop solutions that will prevent this meltdown of the over age 65 retirees' health care coverage and economic ability to survive,

We believe corporations should be asked to shoulder their fair share of the responsibility and should not be allowed to shift costs and the responsibility for promises they made to retirees. Nor should taxpayers be asked to pay the bill. Companies benefited from tax breaks and the bonding of employees for a long time. They should not be allowed to walk away.

Some say the EEOC overstepped its authority in overriding the protections in the Age Discrimination in Employment Act. If that is so, Congress should act to reverse the EEOC rule.

If a wave of health care plans are cancelled starting in 2009 and millions of people are harmed it will too late for retirees. The NRLN asks that Congress act now!

The NRLN offers the following three proposals that address safeguarding retiree healthcare benefits.

SAFEGUARDING RETIREE HEALTH CARE BENEFITS - NRLN PROPOALS

THE MAINTENANCE of COST PROTECTION (MCP) PROPOSAL:

The Maintenance of Cost Protection (MCP) protects retiree health-care benefits by assuring that all retirees will be able to purchase health care offered by company-sponsored plans or on the open market. The MCP establishes a limit or cap on the health-care cost liability for corporate plan sponsors. Cap payments will be tax deductible for retirees. Companies that continue to maintain sponsored plans may earn tax credits.

Cap payments begin the first month of retirement. Each company providing a defined health-care benefit plan that does not have caps in place, effective on the date of introduction of the bill, will be required to calculate and make available to all retirees a health care cap value determined by the cost experience in the year prior to this date. Cap payments will apply to all current retirees and those who retire on or after the date of introduction. Health care caps shall not be reduced for any reason, including a company action to reduce or cancel any or all health care benefits.

Plan sponsors will be granted tax credits equivalent to "X"% of the cap amount paid annually to retirees, providing they continue to make their group plans available to retirees as an alternate choice and maintain cap payments. Plan sponsors may earn additional tax credits by increasing cap values in "Y"% increments up to a maximum amount of "Z"% annually.

Retirees who have been assured of company health care cost underwriting by virtue of prior written understandings between companies and individual retirees, or as part of collective bargaining agreements, and, or court judgments, will not be eligible for the MCP unless and until such prior guarantees have expired.

THE PENSION ASSET AND HEALTH CARE RELIABILITY PROPOSAL

As part of this proposal, the NRLN proposes an amendment to ERISA that would declare that the only permissible use of pension assets would be for the 1) payment of monthly pensions, 2) transfers of surplus in excess of 120% of plan assets, in accordance with IRS Code Section 420, and 3) payment of COLA to all plan participants on an equitable basis.

The purpose of the amendment is to ensure that pension asset surplus is applied where it benefits plan participants only. Securing pension assets will promote the chance that surplus assets may be available for Sec 420 transfers and therefore, will help corporations fund retiree health-care caps and, or create opportunities to award COLA's to plan participants.

This amendment would narrow the definition of "ancillary" benefits and preclude certain past practices sanctioned by courts and future action proposed by corporations and financial institutions:

> The United States Supreme Court has held that payment of lump sum inducements to retire, in the form of layoff allowances and separation pay, funded from defined pension plan assets are ancillary benefits. These are restructuring or operating costs that should be paid by shareholders.
>
> Recently, the Wall Street Journal exposed ten or so companies that are paying executive non-qualified pensions and deferred compensation with defined pension plan assets.
>
> Even more recently companies have been lobbying strongly for the ability for finance companies and hedge funds to buyout pension plan assets.

The NRLN proposes that these current practices and any future proposals to use pension assets be prohibited by an ERISA amendment, striking the word "ancillary" and making it clear that such withdrawals are "reversions" not permitted by ERISA.

THE MEDICARE CATASTROPHIC COVERAGE PROPOSAL:

Congress passed the "Medicare Catastrophic Act of 1988" that provided catastrophic insurance that would protect fixed income seniors from devastating health care bills. But it was attacked by seniors who declared it prohibitively expensive at the time. The law was repealed in 1989.

The effects of higher costs today than in 1988 and our growing liability risk is going to be exacerbated as corporations hide behind the EEOC rule and dump retirees over age 65 totally onto the Medicare roll. There is a perfect storm in the making and the EEOC rule in combination with the existing state of financial stress may create a landslide of personal financial disasters.

CONCLUSION:

In 2008, the health care crisis is even more daunting in that a catastrophic illness today results in far higher economic liability than it did 20 years ago. Our present health care and personal financial crisis and rapidly expanding rate of bankruptcies in the United States justifies resurrection of the 1988 bill and passage of a contemporary equivalent that is acceptable.

The NRLN proposes that Congress take these matters up quickly.

<u>Appendix</u>

The Great Retirement Rip-offs

On October 23, 2005, TIME Magazine announced that its October 31st edition to hit the newsstands the next day would feature an in depth investigative report entitled "The Broken Promise." The TIME introduction accurately captured the dire situations millions of America's retirees are encountering and are destined to experience even worse circumstances in the future unless positive action is taken by Congress and our President to stem the tide of broken retirement promises. The announcement begins…

“A TIME investigation has concluded that long before today’s working Americans reach retirement age, policy decisions by Congress favoring corporate and special interests over workers will drive millions of older Americans—a majority of them women—into poverty, push millions more to the brink and turn retirement years into a time of want for everyone but the affluent. The transition is well under way, eroding efforts of the past three decades to eliminate poverty among the aging, TIME’s Pulitzer Prize-winning investigative team of Donald L. Barlett and James B. Steele report in this week’s cover story (on newsstands Monday, October 24).

“From taxes to health care to pensions, Congress has enacted legislation that adds to the cost of retirement and eats away at dollars once earmarked for food and shelter. That reversal of fortunes is staggering, and even those already retired or near retirement will be squeezed by changing economic rules, TIME reports.

“Congress’s role has been pivotal. Lawmakers wrote bankruptcy regulations to allow corporations to scrap the health insurance they promised employees who retired early—sometimes voluntarily, quite often not. They wrote pension rules that encouraged corporations to underfund their retirement plans or switch to plans less favorable to employees. They denied workers the right to sue to enforce retirement promises. They have refused to overhaul America’s health-care system, which has created the world’s most expensive medical care without any comparable benefit. One by one, lawmakers have undermined or destroyed policies that once afforded at least the possibility of a livable existence to many seniors, while at the same time encouraging corporations to repudiate lifetime benefit agreements. All this under the guise of ensuring workers that they are in charge of their own destiny—such as it is, TIME reports.

“Businesses in one industry after another are revoking long-standing commitments to their workers. It’s the equivalent of your bank telling you that it needs the money you put into your savings account more than you do—and then keeping it. Result: a wholesale downsizing of the American Dream. It began in the 1980s with the elimination of middle-class, entry-level jobs in lower-paying industries—apparel, textiles and shoes, among others. More recently it spread to jobs that pay solid middle-class wages, starting with the steel industry, then airlines and now autos—with no end in sight, TIME reports”

What follows is a number of specific examples from news report excerpts about what older Americans have suffered since 2005 in the erosion or total elimination of retirement benefits, such as healthcare and life insurance, and the resulting consequences.

Bankruptcies Soar For Retirees - While the bankruptcy filing rate for those under 55 has fallen, it has soared for older Americans, according to a new analysis from the Consumer Bankruptcy Project, which examined a sampling of noncommercial bankruptcies filed between 1991 and 2007.

The older the age group, the worse it got — people 65 and up became more than twice as likely to file during that period, and the filing rate for those 75 and older more than quadrupled.

"Older Americans are hit by a one-two punch of jobs and medical problems and the two are often intertwined," said Elizabeth Warren, a Harvard Law School professor who was one of the authors of the study. "They discover that they must work to keep some form of economic balance and when they can't, they're lost."

In 1991, the 55-plus age group accounted for about 8 percent of bankruptcy filers, according to the study, which looked at more than 6,000 cases filed in 1991, 2001 or 2007. By last year, filers 55 and over accounted for 22 percent.

Each age group under 55 saw double-digit percentage drops in their bankruptcy filing rates over the survey period, older Americans saw remarkable increases. The filing rate per thousand people ages 55-64 was up 40 percent; among 65- to 74-year-olds it increased 125 percent; and among the 75-to-84-year-old set, it was up 433 percent.

A number of factors are contributing to the increase. Higher prices for ordinary consumer goods have hit seniors on fixed budgets. For older Americans living below the poverty level, or not far above, a safety net likely doesn't exist for economic setbacks such as medical problems. And some fall prey to scams that cripple their finances.

Warren noted increasing numbers of Americans are entering their retirement years with significant debt and are still paying off mortgages. She said it was wrong to assume that lives of luxury are bankrupting seniors; rather, they're incurring debts to meet needs such as medical treatment.

Bankruptcy, tough no matter a person's age, is especially hard when you don't have many years left to recover. Warren said some seniors fear telling their families because they're afraid they'll be put in a nursing home if they're seen as unable to take care of their affairs. (**Associated Press – 8/27/08**)

Third Circuit Rules Lucent Retirees Death Benefits Not Protected Under ERISA - Former employees of AT&T Corp. and Lucent Technologies who claimed they were cheated out of death benefits have lost their bid to revive an ERISA suit now that the 3rd U.S. Circuit Court of Appeals has ruled that the benefits were unvested and therefore could be terminated by Lucent.

In its 17-page opinion, a unanimous three-judge panel upheld the dismissal of a proposed class action after concluding that the death benefit -- a lump sum payment [one year’s salary] made to a worker's surviving spouses -- was not a protected pension benefit, but an unprotected welfare benefit.

"ERISA provides elaborate requirements for the vesting of pension benefits, but it does not provide automatic vesting of welfare benefits," U.S. Circuit Judge Thomas L. Ambro wrote. Ambro found that while an accrued pension benefit is protected by ERISA's anti-cutback provision without any showing that it has vested, a welfare benefit is "protected from elimination only if the plaintiff proves by a preponderance of the evidence that the plan provider had intended the welfare benefit to have vested -- despite not being obliged to do so by ERISA."

Plaintiff attorney James R. Malone Jr. argued that the death benefit, established by AT&T prior to its spin-off of Lucent in 1996, was "designed and treated as a defined pension benefit for nearly 40 years," and that Lucent therefore had no right to eliminate it. "It provided retirement income," Malone said when the case was argued in April. "It was described in the plan ... in mandatory language. The plan said it 'shall be paid.'"

Ambro disagreed, saying the evidence showed that the Lucent death benefit does not meet ERISA's definition of a pension benefit. "The pensioner death benefit neither provides retirement income to employees nor results in a deferral of income by employees," Ambro wrote in an opinion joined by 3rd Circuit Judge D. Michael Fisher and visiting Federal Circuit Chief Judge Paul R. Michel.

"Moreover, it could not be an accrued pension benefit since it is not 'an annual benefit' and it does not 'commence at normal retirement age,'" Ambro wrote.

"The amount and calculation method of the pensioner death benefit, the identity of the recipient of payment, and the treatment of the pensioner death benefit for tax, accounting, and plan termination purposes, are relevant details for administrators of the plan, but they do not change the fundamental character of the benefit," Ambro wrote.

Instead, Ambro said, "the type of benefit provided, not other considerations, determines whether a plan is a pension plan or a welfare plan."

Ambro also found that it was irrelevant that some of the former workers may have relied on a belief that the death benefit was a pension benefit.

"The pensioners identify no authority stating that such detrimental reliance has significance under the facts of this case," Ambro wrote. (**Law.com 9/2/08**)

GM Eliminates Management Retirees' Healthcare - General Motors Corp.'s move to eliminate retiree health benefits for salaried workers is a sobering signal to the rest of the U.S. work force: Even those who are in or near retirement shouldn't count on keeping the company coverage they have built up.

Since the early 1990s, employers eager to get out from under the increasing burden of covering their retirees' health care have been whittling away at those benefits. At some companies, new or younger workers have been excluded from retiree health benefits. Older workers and existing retirees often got to keep the benefits, but had to pay a larger share of the overall costs.

But GM's announcement Tuesday that it would cease medical coverage for its salaried retirees age 65 and above signals that a new era of ever-shrinking benefits has arrived. Beginning in January, even former employees who are already in retirement will lose their benefits, which most of the company's retirees use to supplement gaps in their traditional Medicare coverage. The automaker will boost monthly pension payouts to help offset the cuts. The company's unionized workers aren't affected by the cut to retiree health benefits.

GM isn't the first company to do this, but its heft and influence could help usher in further cutbacks at other companies.

"Usually they did not do anything as draconian as this," says Karen Ferguson, director of the Pension Rights Center, a retiree advocacy group in Washington. "Usually they don't cancel the health insurance -- they'll increase the premium, they'll increase the deductibles."

Retirement-benefit experts have for some time been recommending that all workers -- even those close to retiring and who've "earned" full retiree benefits -- should assume that those benefits will likely be eliminated, either before or during their retirement, and start planning and saving for it.

Many people planning to retire early should consider working at least part-time to keep active employee health coverage until they're eligible for Medicare at age 65, says Rick McGill, head of retiree medical consulting for employee-benefits firm Hewitt Associates. That's because between 20% and 40% of people between 55 and 64 are either denied individual health coverage or forced to pay much higher premiums than the general population. Those 65 and older can save a lot by working a few years longer, he says. Even with Medicare, a 65-year-old couple's out-of-pocket health-care costs could reach $225,000 in their remaining years, according to Fidelity Investments.

The affected salaried GM retirees join a growing number of active or retired workers who lack such benefits. Overall, about one worker in five had access to employer-sponsored retiree health benefits in 2003, down from one in three in 1997, according to the Urban Institute, a research institute in Washington.

The affected salaried GM retirees join a growing number of active or retired workers who lack such benefits. Overall, about one worker in five had access to employer-sponsored retiree health benefits in 2003, down from one in three in 1997, according to the Urban Institute, a research institute in Washington.

Larger employers are much more likely to offer the benefit than smaller ones: About half of Fortune 100 companies offer it, and about a third of companies with more than 200 employees do as well, a number that has held roughly steady for more than a decade, according to separate tallies from Hewitt and the Kaiser Family Foundation.

Unlike just about every other kind of compensation, such as salary or pensions, retiree health benefits can be taken away even after workers have built them up. Indeed, unless a union contract prevents it, companies typically have a free hand to reduce or eliminate retiree health benefits for both active employees and retirees.

"Employers can pull the rug out from under their older workers and their retirees at any point -- there's no guarantee these benefits will continue," says Richard Johnson, a retirement researcher at the Urban Institute.

In recent years, many companies have done just that. Some have eliminated retiree health benefits entirely, while others -- including International Business Machines Corp., Delta Air Lines and Coca-Cola Enterprises -- have capped the amount the company will pay in premiums, leaving retirees to shoulder the impact of rising health-care costs.

Last year Ford Motor Co. also eliminated health benefits for Medicare-eligible salaried retirees and replaced it with an annual $1,800 stipend that may be used for Medicare and other health-care costs. (**Wall Street Journal – 7/16/08**)

Qwest Threatens To Eliminate Life Insurance Benefit - Qwest retirees are voicing concern over comments made in a brief filed by Qwest last week in a case surrounding their life-insurance benefits. The company said in the legal filing that should the retirees group succeed in its proposed class-action lawsuit, it could potentially wipe out life- insurance benefits for all retirees, a statement that the retirees group views as a threat.

The Association of U S West Retirees filed a lawsuit against Qwest in 2006 in U.S. District Court in Denver over a reduction in life-insurance benefits. The plan originally guaranteed a minimum of $20,000 to survivors of those who retired before 1996 and a minimum of $30,000 to survivors of those who retired thereafter. Qwest has lowered the benefit to $10,000.

With only seven plaintiffs originally named in the suit, the retirees group is looking to make it a class-action lawsuit.

But in a brief filed by Qwest opposing the class-action request, the company said that should the retirees prevail, it "would need to consider terminating the life plan benefits for eligible retirees altogether in an effort to recoup the amounts it would have saved." (**The Denver Post – 7/10/08**)

Spherion Corp. Uses ERISA Law To Deny Life Insurance Benefit - Dying of cancer, Thomas Amschwand did everything he was told to make sure his wife would collect on the life insurance policy he had through his employer.

But Spherion Corp., the temporary staffing company where Amschwand worked, told Amschwand-Bellinger she would not receive any of the $426,000 in benefits she believed she was due. When she went to court, Spherion succeeded in getting her lawsuit thrown out. The Supreme Court on June 27 refused to review the case.

Amschwand-Bellinger received a refund of the few thousand dollars in insurance premiums she and her husband dutifully had paid. The total, she said, would not cover the costs of his funeral.
The story has played out often under the federal Employee Retirement Income Security Act. Designed to protect employee benefits, the law has been used by employers as a shield against suits.

Federal appeals courts, interpreting Supreme Court decisions dating to 1993, consistently have said companies that offer health, life and retirement benefits under ERISA cannot be sued for large amounts of money, or damages. Instead, they can be sued only for typically smaller sums such as Amschwand's insurance premiums.

Several federal judges have bemoaned the unfairness even as they have felt constrained to rule in favor of employers.

"The facts ... scream out for a remedy beyond the simple return of premiums," Judge Fortunato Benavides of the New Orleans-based 5th U.S. Circuit Court of Appeals said in the Amschwand case. "Regrettably, under existing law it is not available."

The Bush administration has argued that the appeals courts are misreading the precedents and has asked the high court at least twice to clarify the earlier rulings. So far it has refused.

Congress, which could amend ERISA to make clear such suits are allowed, also has taken no action.

The result, in the view of ERISA experts, the administration and some lawmakers, is perverse.

"The beneficiary under the policy didn't get the promised benefit," said Colleen Medill, an expert on ERISA at the University of Nebraska-Lincoln. "To say we're just going to return your premiums, that's a total farce. That's not what they paid the premiums for. They paid them for the benefits."

Sen. Patrick Leahy, chairman of the Senate Judiciary Committee, said at a recent hearing that before ERISA became law, employees clearly could sue for benefits in state courts.

The court rulings, said Leahy, D-Vt., have left people "more vulnerable than they were before the law was passed." (**Associated Press – 7/5/08**)

Rise In Medicare Premiums To Cut Retirees' Spending - Medicare premiums may soon start crushing retiree spending power. I estimate that many long-lived couples may need to reduce their retirement spending on non-medical consumption by 13 percent to 26 percent to avoid sharp declines in purchasing power as they get older.

This is not an alarmist fantasy. My estimates come from projecting historical cost rates into the 30-year retirement of a couple retiring this year.

Here are the basic facts. Since 1965, the year Medicare was created, the consumer price index has risen at a 4.5 percent annual rate. But the Medicare premium has inflated at an 8.4 percent rate over the same period. Worse, the gap appears to be growing.

Between 2000 and 2008, the monthly Medicare premium grew from $45.40 to $96.40. That's a 9.9 percent annual rate of increase. During the same eight-year period, the consumer price index rose at only 2.8 percent a year. So Medicare costs are now rising 7 percent a year faster than the general inflation rate.

Since the growth of Medicare Part B premiums is likely to be paralleled by the growth of premiums for Medigap policies (which often cost about as much as the Part B premium), the lifetime loss of living standard over a long retirement is likely to be about 26 percent. (**The Dallas Morning News – 6/15/08**)

Lucent Breached Retirees' Healthcare - A US court said that Lucent Technologies, now part of Alcatel-Lucent, had breached benefit maintenance requirements for the year 2003 related to its retirees' benefits.

Attorneys for the retirees estimated that Lucent's liability for failing to follow the benefits maintenance rule for year 2003 was about $76.3 million ($81.2 million), before interest. Lucent said that the estimate was purely speculative.

Alan Sandals, lead attorney for the Lucent retirees said in a statement that the ruling was a significant win and that he believed that "further discovery and analysis will lead to findings of violations during other years as well."

Lucent retirees filed a lawsuit Oct. 24, 2005 charging that Lucent failed to meet its "benefit maintenance" obligations for 1999 through 2003 and its "cost maintenance" obligation for the years 2004 through 2006. (**Australian IT 6/13/08**)

A Spike In The Number Of 'Underinsured' Adults - The economic downturn is speeding up the unraveling of America's healthcare system.

In what experts call a "startling" development, the number of people who have health insurance but not enough to pay their medical costs has spiked from 16 million in 2003 to 25 million in 2007, according to a new analysis.

They're called the underinsured – working Americans whose employers don't provide health insurance so they have to buy it on their own, or who have jobs that offer only catastrophic plans with high copayments and deductibles in the thousands of dollars. An increasing number are solidly middle-class.

The study by nonprofit, nonpartisan Commonwealth Fund also found that underinsured Americans are now acting more like the nation's 47 million uninsured: They're more likely to forgo recommended medical care for fear they won't be able to pay for it. Such preventive intervention is the key to keeping healthcare costs down, medical experts say.

A total of 75 million working adults were either uninsured or underinsured in 2007, the study found. That's 42 percent of the US population ages 19 through 64, up sharply from one-third in 2003. (**The Christian Science Monitor – 6/11/08**)

Ford Cuts Salaried Costs 15 Percent - Ford Motor Co. salaried employees [and retirees] got the confirmation they dreaded Thursday, [June 5, 2008] as the company formally announced that it will cut salaried-related costs in North America by 15 percent by Aug. 1**.**

And the company is capping company-paid basic life insurance for salaried retirees at $25,000, effective Aug. 1. (**The Detroit News – 6/9/08**)

Medicare Drug Coverage Is Costing Most Seniors More - As if escalating prices for food and gas weren't enough of a worry, most seniors in Medicare's prescription-drug program are paying considerably higher monthly premiums for coverage this year, according to a study to be released today.

Those in the 10 largest plans -- which account for nearly three-fourths of seniors signed up for drug coverage -- are paying an average of $26.39 a month, or 16% more than last year, according to the analysis by Avalere Health, an information company serving the healthcare industry.

"A 16% increase is significant in and of itself, because premiums are rising rapidly at a time when Medicare beneficiaries are finding it harder to afford it," said Dan Mendelson, president of Avalere. "These are individuals on a fixed income who are facing rapidly rising prices elsewhere in the economy."

Of the top 10 plans, six raised their premiums, and four reduced them.

Average premiums for the most popular plan, AARP MedicareRx Preferred, rose by 15% to $32.08 a month, the study found. The plan, offered by UnitedHealth Group, has more than 2.7 million members.

Premiums also rose for the next two most popular plans, Humana PDP Standard and Humana PDP Enhanced, by 69% and 6%, respectively. (**Los Angeles Times – 6/5/08**)

Chrysler Eliminates Life Insurance For Management Retirees - The leader of the National Retiree Legislative Network (NRLN) today condemned Chrysler's decision to no longer extend company-sponsored group life insurance to its management retirees, effective June 1, 2008.

"Chrysler's action is a devastating blow to retirees who had counted on their life insurance to help their surviving spouses pay final medical bills, funeral expenses and hopefully have money remaining to make life a little more comfortable," said Bill Kadereit, NRLN president. "Congress needs to wake up and prevent former employers from stripping away the benefits that retirees earned through decades of dedicated labor."

Kadereit said that Chrysler sent its non-union retirees a "good news, bad news" letter. It announced a one-time lump sum pension payment up to $4,000 for retirees who had the longest service and had been retired 15 years or more. Then the company "sucker punched" the retirees with the news that it would eliminate the life insurance benefit.

"The one-time bonus pension payment won't offset what retirees in their 60s, 70s and older will have to shell out to continue their life insurance coverage, " Kadereit said.

He said the life insurance coverage is "the absolutely last benefit remaining" for Chrysler management retirees. He said that at the beginning of 2007 the company-sponsored health care benefit was eliminated for management retirees eligible for Medicare. In lieu of providing a medical insurance plan retirees age 65 and older were provided with an annual "Health Care Retirement Account" in the meager annual amount of $1,750 with which to try to replace their health care benefits. The annual cost for family healthcare is often more than $12,000. (**NRLN News Release – 4/4/08**)

Drugs For Elderly More Costly - Drugmakers increased prices by an average of 7.4 percent last year for the brand-name medicines most commonly prescribed to the elderly, according to the advocacy group AARP.

The increase far exceeded inflation, continuing a longtime trend.

AARP said prices charged to wholesalers have been slightly higher since the Medicare drug benefit started on Jan. 1, 2006. Since then, the outcry over prices has diminished, with the government picking up much of the tab.

"Unfortunately, many manufacturers have taken the absence of an outcry as a green light to go ahead and raise prices even more," said John Rother, AARP's policy director. (**The Washington Post – 3/5/08**)

Retiree Couple Needs $225K For Medical - A couple retiring this year will need about $225,000 in savings to cover medical costs in retirement, according to a study released Wednesday by Fidelity Investments.

The figure, calculated for a couple age 65, is up 4.7 percent from the $215,000 estimate for 2007, the Boston-based financial services company said. And it is similar to other projections for health care costs in retirement - daunting figures given that longer life spans also are requiring workers to increase retirement nest eggs.

A separate study released last month by the Center for Retirement Research at Boston College estimated that an individual needs to go into retirement with some $102,000 earmarked just for health care coverage, while a couple needs about $206,000.

Given current levels of retirement savings, the center said, six in 10 older workers are "at risk" of being unable to maintain their standard of living in retirement.

The Fidelity study, which has been conducted annually since 2002, assumes workers do not have employer-sponsored retiree health care coverage. It includes expenses associated with Medicare premium payments as well as co-payments and deductibles, plus out-of-pocket prescription drug costs. (**Associated Press – 3/5/08**)

Healthcare Spending Surge Seen In Next Decade - U.S. health-care spending will devour an expanding share of the U.S. economy during the next decade, almost doubling to about $4.3 trillion in 2017, government officials forecast on Tuesday.

Economists at the government's Centers for Medicare and Medicaid Services, known as CMS, forecast that health-care spending will account for 19.5 percent of the U.S. gross domestic product by 2017, up from 16.3 percent in 2007.

A key factor in the next decade will be the entry in 2011 of the leading edge of the post-World War baby boom generation into Medicare, the federal health insurance program for people 65 and up, CMS economist Sean Keehan said.

The projections come as runaway health-care spending and the lack of medical coverage for millions of Americans have emerged as central issues in this year's presidential campaign. An estimated 47 million people in a country of 300 million have no health insurance, either private or through the government.

The report pegged U.S. health-care spending in 2007 at $2.2 trillion, and forecast that this spending would grow annually by about 6.7 percent through 2017. That would far outpace GDP growth, expected to rise by 4.7 percent annually, and inflation, expected to rise 2.4 percent annually, the report said. Gross domestic product is the sum of all goods and services produced within U.S. borders. (**Reuters – 2/26/08**)

Senior Benefit Costs Rise 24% Since 2000 - The cost of government benefits for seniors soared to a record $27,289 per senior in 2007, according to a USA TODAY analysis.

That's a 24% increase above the inflation rate since 2000. Medical costs are the biggest reason. Last year, for the first time, health care and nursing homes cost the government more than Social Security payments for seniors age 65 and older. The average Social Security benefit per senior in 2007 was $13,184.

The federal government spent $952 billion in 2007 on elderly benefits, up from $601 billion in 2000. It's the biggest function of the federal government. States chipped in another $27 billion in 2007, mostly for nursing homes.

All three major senior programs — Social Security, Medicare and Medicaid — experienced dramatically escalating costs that outstripped inflation and the growth in the senior population.

Benefits per senior are soaring at a time when the senior population is not. The portion of the U.S. population age 65 and older has been constant at 12% since 2000.

The senior boom, however, starts big time in 2011 when the first baby boomers — 79 million people born between 1946 and 1964 — turn 65 and qualify for Medicare health insurance. The oldest baby boomers turn 62 this year and qualify for Social Security at reduced benefits. (**USA Today 2/14/08**)

Early Retirees Try To Fill Gap In Health Coverage - Denny Brown, a computer analyst in West Chester, Ohio, will turn 62 in August and hopes to retire by the end of the year. Financially, he's in good shape: He has a pension from a previous employer, profit-sharing through his current job and substantial savings. An amateur photographer, avid traveler and Civil War buff, he's eager to start the next chapter in his life.

"I have a lot of interests," he says, "and I'm tired of working."

There's just one obstacle on the road to Brown's retirement adventure: health insurance. Brown, along with 2.8 million of the oldest boomers, will be eligible for Social Security benefits this year, but he won't be eligible for Medicare until he turns 65.

Finding a way to bridge that gap -- eligible for Social Security but not for Medicare -- will be the hardest and costliest challenge for many of the boomers who want to retire early or are forced out of their jobs. For Brown and his wife, Judy, who's already retired, figuring out how to pay for medical coverage "is absolutely our biggest concern."

Americans are working longer, but most of them still retire before they're eligible for Medicare. In 2006, the median retirement age for men was 64, up from 63.1 in 2001, according to the American Academy of Actuaries. For women, the median age was 61.9 in 2006, up from 61.1 in 2001.

In the past, retirees could often count on their employers to provide health insurance until they were eligible for Medicare, or sometimes even after they were eligible. But in 2007, only a third of large employers offered retiree health insurance, down from 66% in 1988, according to a survey by the Kaiser Family Foundation and the Health Research & Education Trust. Only 5% of employers with fewer than 200 employees offered retiree health insurance last year.

Those companies that continue to provide retiree health insurance are reducing benefits or requiring retirees to pay more for their coverage. In July, a federal judge granted class-action status to lawsuits against Caterpillar by retired employees and spouses. AARP has joined the lawsuit on behalf of the retirees, who claim that Caterpillar reneged on a promise to provide free health coverage for them and their spouses for life.

The millions who will retire early without company-provided health insurance may need to buy a health care policy to last them until Medicare kicks in at age 65. Unfortunately, individual policies for people in their 60s can be hugely expensive, with premiums topping $900 a month for family coverage. And those in poor health might be unable to find a policy at any price.

Some early retirees who lack employer coverage "are just hanging on until they're eligible for Medicare," says David Certner, director of federal affairs for AARP. "Either they can't afford (health insurance), or they can't get it. They're hoping nothing happens before they hit age 65." About 16% of individuals 50 to 64 are uninsured, AARP says.

Mike Hermes, a mortgage lender in Springfield, Mo., who will turn 62 in October, would also like to retire this year. But because he won't have retiree health insurance, he might have to work longer. His wife, Susan, had a heart stent inserted last year, Hermes says, which means she's probably not eligible for an individual insurance policy. Even if they could get coverage, he adds, private insurance is "ridiculously expensive."

"I wish Congress would consider letting people buy into Medicare," he says. Most boomers, he believes, would like to retire at 62, "but insurance is keeping a lot of us from doing that." (**Red Orbit – 1/15/08**)

Health Care Crisis Demands a Movement for Solution - Of all the tens of millions of Americans worried about soaring health care costs, one group is even more vulnerable than the rest: Retirees under age 65 who don't have – or could lose – employer-paid health insurance and are years away from qualifying for Medicare.

They are the proverbial "canary in the coal mine" for the U.S. health care crisis, said Jeanne Lambrew, senior fellow at the Center for American Progress. (**Communications Workers of America Newsletter – 1/10/08**)

Retirees Battle Embarq Corp. To Restore Health And Life Insurance - Robert E. King, 77, is one of 10 named plaintiffs in the federal lawsuit against Embarq and Sprint Nextel for alleged violations of federal retirement law - specifically, the Employee Retirement Income Security Act of 1974.

The plaintiffs seek class-action status to sue on behalf of approximately 13,000 retirees of regional and local phone companies in 15 states. The retirees worked for various companies that Sprint Nextel acquired over the years and then made subsidiaries of Embarq in May 2006.

The suit focuses on Embarq's decision in July to cut off health insurance to all retirees who have reached age 65 and are Medicare-eligible. That change took effect Jan. 1. The company also is eliminating or reducing life insurance coverage for these older retirees. (**Ocala Star-Banner – 1/2/08**)

Health Care May Rise To 25 Percent Of U.S. Economy - Health-care spending in the U.S. is projected to rise to 25 percent of the economy by 2025, from 16 percent now, the Congressional Budget Office said.

The increase will be fueled mainly by rising costs, and only partly by aging of the population, said

Peter Orszag, director of the nonpartisan government agency, at a news conference today in Washington.

Finding ways to contain medical spending while ensuring high-quality care has become the subject of debate among lawmakers and presidential candidates. The budget office said in a report issued today that holding down costs may require better measurements of which treatments are most effective and new ways to pay doctors, hospitals and other providers.

“It's striking that we spend 16 percent'' of the U.S. economy on health “and we do so little to evaluate what we're getting for it,'' Orszag said.

U.S. spending on health care was almost $1.9 trillion in 2005, the latest year for which data was available, according to the report. About 18 percent, or $342 billion, was spent by Medicare, the U.S. program for the elderly and disabled, and 17 percent, or $311 billion, was spent by Medicaid, which provides coverage for the poor.

Medicare and Medicaid spending represent four percent of the U.S. economy and are projected to grow to seven percent by 2025, according to the budget office. (**Bloomberg.com ~ 11/13/07**)

Drug Costs Threaten To Crack American Nest Eggs - Medical and drug expenses threaten to shatter the retirement nest egg - scrambling even the best-laid financial plans - according to a new nationwide survey of retirees, many of whom concede that their under-estimation of the impact of escalating health care costs has significantly compromised their "golden years" lifestyle.

One in three retirees claim that they are spending far more on their health care and prescription drugs than they expected, and 55 percent of retirees admit completely overlooking their health care and prescription drug needs when they were planning for retirement expenses, according to new research released today by Medco Health Solutions, Inc.

Not only did a sizeable proportion of retirees fail to properly plan for health care and prescription drug costs, but nearly half of all retirees (49 percent) indicate they never assess the impact health care costs are having on their retirement savings or lifestyle.

The research was culled from "America's Unhealthy Nest Egg," a national survey of 1,000 Americans over age 65 conducted for Medco by Directive Analytics.

The Medco research revealed that for one in four middle-income retirees, $1 out of every $10 of their monthly retirement income goes to pay for medications alone. (**CNNMoney.com –11/13/07**)

Deere Changes Retirees’ Health Benefits - Deere & Co announced Wednesday [September 19, 2007] that it will change how some of its retired employees in the United States receive health insurance.

The retirees -- former salaried workers -- will have two options, depending on their eligibility for Medicare, according to a news release from the company.

Those eligible for Medicare will receive additional money in the form of a credit on their pension payments they can use to buy Medicare Advantage and prescription drug coverage plans through private companies, according to Deere.

Former employees who are not eligible for Medicare will choose from two plans already available to current salaried workers who use health savings accounts for current or future health-care expenses.

Deere would not discuss how much money the retirees would receive from the company, but said the benefits will be reviewed regularly based on current health-care costs and the health of the company. The change starts Jan. 1, 2008, he said. The change affects less than 5,000 retirees, most of who retired on or after July 1, 1993, Deere said. (**awatt.com – 9/19/07**)

Coverage Changed for Cincinnati Bell Retirees - Most of Cincinnati Bell Inc.'s 3,200 retirees will see changes in their health-care and life insurance coverage starting Jan. 1, 2008

Some 2,100 retirees who are Medicare eligible or who could become eligible for Medicare benefits will be affected by the changes. It includes management employees who retired on or after July 1, 1989, and hourly employees who retired on or after Jan. 1, 1992.

"Medical costs in the United States have been increasing for many years at a rate of about 10-12 percent a year," the company said in a letter recently mailed to retirees. "Cincinnati Bell is not immune to the mounting pressure of these continued cost increases. So it has become necessary to make some modifications. ... Our goal is to slow the rate of cost increases for you and the company."

For employees who are Medicare eligible, Bell will provide a monthly allowance of $200 for a single retiree and $400 a month for a couple. The allowance can be use to pay Medicare Part B premiums and buy supplemental medical and prescription drug coverage.

For those eligible for group life insurance and pension death benefit, the benefit level will be reduced from $30,000 to $15,000. (**Cincinnati.Com – 8/27/07**)

Health Program For Elderly May Be Difficult To Sustain - Conceived as the crown jewel of American public health care, the Medicare senior citizens health program is expected to swell by 80 million people in the coming decades, and some experts fear bankruptcy is inevitable.

According to U.S. Census projections, the number of Medicare-eligible seniors will double to almost 70 million by 2030 and reach almost 82 million by 2050.

Within four years the first wave of baby boomers will be Medicare eligible. There is concern for the sustainability of a program that, with the recent addition of a seniors prescription drug program, will spiral up from the nearly $420 billion cost last year.

"As health care rises faster than (state and federal) budgets can support and faster than people can afford to pay, it’s hard to see it (Medicare) being sustainable for anyone," said Larry Levitt, vice president of the Henry J. Kaiser Family Foundation.

In a report to Congress last year, the Medicare Board of Trustees said that based on current rates of spending growth, its hospital insurance fund could run out of money by 2018.

"The forecasted increase in costs is the single most important factor facing Medicare today," said Dr. Judith Lave, who heads the Department of Health Policy and Management at the University of Pittsburgh.

That's not the only worry.

"Fairly soon, Social Security will be decreased to cope with those (Medicare) increases in cost," said Lave, who also serves as director of the Pennsylvania Medicaid Policy Center.

That prediction, according to health economists, is fueled by a collapse of employer-based retirement funds, soaring health costs and a worker-to-retiree ratio that's estimated to drop from 3.9 to 2.4 by 2030. (**Reading Eagle – 7/13/07**)

Hanesbrands Inc. Dismantles Retirement Benefits - When it comes to preparing for retirement, there are few guarantees anymore. Just ask recent retirees of Hanesbrands Inc. under the age of 65.

On Feb. 1, 2007, Hanesbrands cut its contribution to retirees' health-insurance premiums from an average of 62 percent to no more than 35 percent. It will end its contributions entirely Dec. 1, 2007, but will continue to provide access to the group rate for retirees who can pay the full cost of the premium.

Some pre-65 retirees told the Winston-Salem Journal that they have gone from paying $60 to $130 a month to more than $450. When the subsidy ends, they said, their premiums will rise to more than $750 a month. For a retiree carrying a spouse on his or her policy, the cost could top $1,200 a month.

"I am 61 1/2 years old and have been paying $64 a month for my premium," said Frances Flinchum, who retired in May 1999 when Sara Lee Branded Apparel, the predecessor to Hanesbrands, eliminated her job.

"Now, I'm going to have to come up with $617 a month in December, and I don't know how I will pay this huge amount. I have a part-time job, but I also have a huge home-equity loan. I think they are doing me an injustice, since I worked for them 35 years."

The erosion of retiree benefits is happening across the country but the Triad's manufacturing heritage has made the region particularly vulnerable to it. For many years, furniture, textile and tobacco manufacturers - many of them no longer as prosperous as they once were - offered the benefits to attract skilled production workers. In more recent years, the benefit has been used to sweeten severance packages in company restructuring aimed at encouraging employees to retire early.

Now, many of those manufacturers say they can no longer afford to offer those benefits.

Hanesbrands said that its decision, disclosed in a Dec. 15, 2006 internal memo, was prompted by global competition and aggressive cost-cutting that began before the company's spinoff from Sara Lee Corp. in September 2006. The company said Feb. 1, 2007 that it expects to save at least $63.5 million this year alone by ending the retiree health benefits.

Kevin Oliver, the executive vice president of human resources for Hanesbrands, wrote in the memo that "the vast majority of large companies do not provide subsidized retiree medical plans, and most provide no retiree medical plans at all. Additionally, very few of our peers provide this type of benefit."

The state of retiree health benefits is not as dire as the Hanesbrands memo indicates, but that's not to say things aren't changing.

As the first wave of baby boomers nears retirement, benefits are being cut by corporations facing intense pressure to lower product costs and expenses, or by municipalities struggling with tight budgets.

A 2006 study by the Kaiser Family Foundation found that only 35 percent of companies with more than 200 employees offer retiree health benefits, down from 66 percent in 1988.

"It's scary to be retired and find out your former employer has pulled the plug on your retirement health benefits," said Michelle Strollo, a co-author of the study. "It really puts them between a rock and a hard place, especially if they retired to take care of an ailing spouse or parent, or because of their own health issues."

Locally, US Airways Group Inc., VF Corp., International Textile Group Inc., R.J. Reynolds Tobacco Co., and Lucent Technologies Inc. have either eliminated or reduced those benefits for current retirees or new hires. Media General Inc., the parent company of the Winston-Salem Journal, scaled back retiree health benefits for employees hired after Jan. 1, 1992.

"Across the private sector, retiree health benefits are a dying benefit," said Robert Clark, an economics professor at N.C. State University. (**Winston-Salem Journal, 2/11/07**)

Employers Chip Away At Retiree Health Benefits - Geraldine Picha knew that her pension would be modest, given her tenure of just 15 years at the phone company.

What she did not expect was that her retiree health premium would eat up every penny of that pension — and more.

"It's frightening," said Picha, 63, whose former employer has raised her medical insurance bill steadily since she retired in 1998. At $560 a month, it now eclipses the $514 pension check Picha earned from her years at what was then AT&T Corp. and a spinoff, Lucent Technologies Inc.

Picha, who lives near Chicago, remembers when a job at a big company meant "you were taken care of the rest of your life." But as retirees across the gamut of American industry are discovering, those days are ending.

Just as they are cutting back on pensions, employers are increasingly targeting health benefits as a way to save money, saddling older people with costs that companies used to accept as a routine part of business.

Over time, some maintain, growing legions of the elderly will find themselves with thousands of dollars in additional costs — posing difficult personal choices over care and new pressures on a federal government that already faces a vast, uncovered liability for the old-age needs of the baby boom generation.

"Across the board, retirement benefits are on the chopping block," said Daniel D. Doyle, an attorney for former Monsanto Co. employees whose benefits shrank after their division was spun off and filed for bankruptcy protection. "As companies try to restructure and squeeze out shareholder value, they are going to rely more and more on Medicare and other government programs to fill the breach."

Retiree health benefits first took a big hit more than a decade ago, when new accounting standards required companies to more clearly disclose those costs — prompting many employers to trim their offerings. More recently, the benefits are falling victim to rising healthcare expenses and corporate cost cutting.

On average, retirees account for 29% of the corporate medical bill for large employers that offer such benefits, according to Hewitt Associates, a benefits consulting firm. And like other medical costs, those for retirees have risen steadily — as much as 10.3% from 2004 to 2005, according to a survey of large private employers by the Kaiser Family Foundation and Hewitt.

Retiree medical benefits are now offered by just 1 in 3 large employers, down from 2 in 3 in the late 1980s, according to a study by the Kaiser foundation and the Health Research & Educational Trust.

"The double-digit cost pressures have been relentless," said Frank McArdle, head of the Washington research office of Hewitt Associates. "In many years, the annual increases for retiree healthcare have actually been greater than for active employee healthcare."

Such realities may provide little comfort to people who thought they earned the benefits when they were working and counted on them for security in old age.

"I thought I was going to live the good life," recalled Pete Wilson, 69, who took early retirement from Peoria, Ill.-based Caterpillar Inc. in 1992. He bought a 30-foot trailer and traveled the Southwest with his wife and friends. He even withdrew home equity, taking out a loan on his paid-off home, bolstered by a faith that his medical costs would never be a burden.

But last year, Caterpillar began charging Wilson $125 a month for his medical insurance premium. This year the bill jumped to $172. There is talk of future increases, Wilson said, although the company declined to confirm it. His medical bills continue to mount, most recently for a mysterious weight loss Wilson's doctors are trying to pin down.

Medicare covers most of the costs for Wilson and other Americans 65 and over. But patients are required to share Medicare costs for doctor visits, hospitals and prescription drugs, potentially exposing themselves to thousands of dollars in bills.

Private insurance helps, but it doesn't cover everything. Wilson recently had to pay $88 toward a magnetic resonance imaging procedure. His budget, meanwhile, has been strained by other expenses, such as a new furnace and air conditioner.

"We can't go to Arizona anymore," said Wilson, whose pension from his 33 years at the factory is about $1,000 a month.

He still speaks with pride of his former employer, a manufacturer of earthmoving equipment that reported a record $1.05 billion in profit for its most recent quarter. Still, he has some misgivings about how the company is sharing the riches.

"It looks to me like they could kind of take care of some of these people who were there at the beginning," he said. (**The Los Angeles Times – 9/26/06**)

The Complex Pain Of Cutting Retiree Health Benefits - As former employees struggle to pay bills they never expected, companies defend themselves by citing rising medical cost and obligations to shareholders. Directors can no longer duck this fraught issue.

John Devitto spent 39 years at Lucent Technologies' corporate predecessors, Western Electric and AT&T Network Systems. An engineer and supervisor, he moved his wife and children from Maryland to Pennsylvania and then to Ohio so he could serve the company where he was most needed. In 1995 he retired, half a year shy of 60, believing that he had full health benefits for himself, his wife, and his youngest child.

Three years later the benefit cuts began. Devitto, now 70, is paying over $700 a month in health-insurance premiums for his wife and teenage son. He's also carrying the cost of a $200-per-month life-insurance policy whose premiums the company stopped covering. "I'm paying $1,000 a month more than I expected," Devitto says. "I'm not on welfare. But my wife has gone to work, I've given up my golf membership, and we don't go away on vacations."

Had he known 11 years ago that the company would renege on its promises, "I would have worked longer," he says. "And my wife might have gone to work when she was younger and gotten a better job."

In 1988 two-thirds of all large employers offered health insurance to retirees, according to a survey by the Kaiser Family Foundation and the Health Research and Educational Trust. By 2005, according to the survey, the share had declined to one-third. Says Michelle Kitchman Strollo, principal policy analyst at the Kaiser foundation: "We have also found, among companies that still offer benefits, that they have been reducing their generosity. This comes in the form of higher copays at the point of service, increases in deductibles, and, most striking, between 2004 and 2005 seven companies out of 10 increased the amount the retiree must contribute to the insurance premiums."

Nevertheless, cutting retirees' health benefits is the corporate act that dare not speak its name, the issue board members and corporate officers will talk about only in whispers and in private. *Corporate Board Member*'s attempts to get more than 40 directors to discuss the issue yielded only six on-the-record interviews.

Directors emphasize companies' obligations to their several constituencies. "You have to look at it holistically," says Gordon R. Parker, 70, a former CEO of Newmont Mining Corp. and, at the time of this interview, in his last week as a director of Caterpillar. "I'm a retiree, and I'm totally opposed to cutting benefits." But he voted "with a pang of regret" for Caterpillar's reductions, which in 2000 capped retiree health benefits at their 1999 level and required everyone who had retired after January 1992 to pay a monthly premium making up the difference between the 1999 rates and the current costs. "You have to take a total approach to the success of the business. I think of it as a readjustment of wages and benefits so the business can survive. You have to do the right thing for your shareholders. You must look after your employees, your vendors, and your customers. And sometimes the balance is, you have to cut."

Retired steelworkers from Bethlehem Steel and LTV Steel know about getting nothing. After those companies closed their doors, 49% of retirees under 65 and therefore not eligible for Medicare said that they or their spouses had gone back to work because they had lost health benefits. Even among the Medicare-eligible, 10% reported that they had taken jobs to pay for insurance that covered some expenses not paid by Medicare.

Stephen Skvara, 59, is among them. After being badly injured in a 1997 automobile accident, Skvara retired on disability from LTV Steel in Indiana after three decades as an electrical repairman. He took with him full health benefits for himself and coverage at $138 a month for his wife and youngest son. In 2002 LTV Steel went bankrupt, and though pieces of the company were acquired, the obligations to retirees were not. As required by law, Skvara's pension was assumed by the federal Pension Benefits Guarantee Corp., but it was reduced from $1,900 a month to $1,200 and his $360-a-month special disability payment was eliminated. No law protected health benefits, so his and his family's vanished. Skvara managed to find insurance that would cover what his Medicare disability payments didn't, at $295 a month. His wife, a substitute teacher, and son, then 16 years old, were uninsured—and remain so. "I went into the steel industry right out of high school," Skvara says. "I thought I'd have a comfortable life and provide for my family**.** Health care is a basic necessity, and it really hurts that I can't provide it for them."

American companies that have fared badly in the global market have done so for reasons well beyond the burden of generous health care. But benefits are an easy target for cost-cutters, perhaps even a scapegoat. Among the reasons for reducing those benefits now, says Nell Minow, editor of the Corporate Library, a corporate governance watchdog based in Maine, is "a dirty little secret. Certainly benefits are getting very expensive, but we are aware of and interested in the juxtaposition between cuts in benefits and increases for top executives. They cut benefits to make the balance sheet look stronger. The executives then reap the benefit of the stronger balance sheet by paying themselves better." The cure for that, Minow says, "is that increases in executive compensation should be for operational growth rather than balance-sheet growth."

The median pay package for chief executives of the largest U.S. companies was $6.8 million in 2005, according to a study by Mercer Human Resource Consulting. Patricia Russo, chairman and CEO of Lucent Technologies, which cut Devitto's benefits, landed among the top 11 examples in a Corporate Library study, *Pay for Failure: The Compensation Committees Responsible*, which identified chief executives paid over $15 million despite negative returns to shareholders. (For more, see "Get Ready for the Next Spotlight on CEO Pay" in *Corporate Board Member*'s September/October issue.)

The discrepancy does not go unnoticed by retirees. "Those things bother me," says Devitto. "Executives who didn't do so well by the company left with big golden parachutes**.** Retirees who made a major contribution to the company were left holding the bag."

The golden parachutes and hefty executive salaries in the face of benefit cuts may be a tactical error. "Either they're seeing a more complex picture than I am, one that makes sense to them, or they're tone-deaf," says David W. Anderson of the Toronto-based consulting firm Anderson Governance Group. "What I would say to boards is, 'It may be a correct business decision to take a difficult and unpopular path, but you must communicate it clearly.' An inconsistent message is a real problem. For instance, they're saying, in effect, 'We must cut costs to survive, so we're cutting health benefits. But we need great executives, so we give big bonuses.' It may all be true, but it sounds inconsistent. Good leaders know they have to lead by example. When executives get perks and higher salaries, it looks like favoritism."

Thomas F. Donovan, 73, a retired bank executive who has served on at least eight boards, including Amerigas's, and is now a director of three private foundations, says, "I'm troubled whenever I see benefits reduced to people who gave good service in the past. I can't say categorically that I would never serve on such a board, but I would not sit by while benefits were reduced for retirees while executive compensation for the chair was increased."

For companies contemplating a cut, Lucent offers a cautionary corporate narrative. In her 2004 book, *Optical Illusions: Lucent and the Crash of Telecom*, Lisa Endlich writes: "This is the story of a financially sound company steeped in world-class talent, dominant in one of the world's fastest-growing industries, that in the space of two painful years [2000 to 2002] found itself branded with a junk-bond credit rating, under investigation by the SEC for its fraudulent accounting practices, fighting off rumors of insolvency, and, hat in hand, begging its bankers for a little more time.” Endlich traces hasty acquisitions, attempts at reinvention, and other corporate missteps. Lucent’s stock price dropped by 99%, and job losses came to more than half a million.

In 2003 Lucent eliminated death-benefit insurance for all management retirees and cut reimbursement to retirees and their spouses for the Medicare Part B supplement (outpatient care), leaving retirees with a cost of about $300 a quarter. In 2004 the company stopped paying dental-insurance premiums for retirees and eliminated the health-care-premium subsidy for dependents of management employees who had retired after March 1990 with a salary of $87,000 or more; in 2005 it lowered the salary minimum for this last cut to $65,000. Next, in January 2006, health-care premiums for management retirees were increased.

Lucent was compelled to make the cuts, says spokeswoman Mary Ward, because of the rising cost of health care and pressure from competitors. “We clearly recognize and acknowledge what retirees did for the company,” she says, “and we understand the impact this has on them. But it came down to what we could afford to do and remain a viable company.”

In September Lucent was on the verge of a merger with the French telecommunications company Alcatel, a deal that many regarded as an acquisition by Alcatel. If the merger closed, Russo, who became CEO in 2002, could collect at least $1.78 million in stock awards even if she remained chief executive at the merged company. Lucent spokeswoman Joan Campion cited the pending merger as the reason company officers and directors refused to discuss the cuts in benefits.

Lucent retirees were much more forthcoming. The Lucent Retirees Organization was chartered in 2003…The retirees’ organization has also provided documents and other support to the lawyers of three plaintiffs who are suing Lucent over the cancellation of their retiree health benefits. The lawsuits claim violations of the Internal Revenue Code and the implied contract of the pension and benefit plans described to employees in various letters and publications.

Should lawsuits like this one worry board members? So far the law is unclear. Katherine Stone, a labor-law specialist at UCLA School of Law, says the suits depend largely on the clarity of the contractual obligations to employees. “Was there an unambiguous promise to provide benefits for life?” she says. “The more usual situation is a plan that describes the benefits to employees and reserves the right to modify, alter, suspend, or terminate the benefits.” The basis of an unambiguous promise could be found in letters, booklets, or even speeches at employee meetings.

ERISA, the Employee Retirement Income Security Act of 1974, does not mandate benefits, says Georgeann Peters, a benefits attorney in the Columbus, Ohio, office of Baker & Hostetler. Still, in a lawsuit by retirees against Caterpillar, the complaint cites violations of sections of ERISA. Stone argues that there is liability under ERISA “if the plan administrators knowingly misrepresented the plan. For instance, if they promised lifetime coverage knowing that it was not forth-coming, and employees relied on that promise and took early retirement or neglected to get separate coverage of their own and later found themselves ineligible.”

The Caterpillar and Lucent suits do not name board members as defendants. But Stone notes that directors have a fiduciary duty to protect the company. “If the firm is taking steps that open it up to liability, the board member might have to examine what promises have been floating around,” she says. Directors must also be aware of the image problem: Cutting medical insurance for retirees can make a company seem like Darth Vader. (**Corporate Board Member Magazine – November/December 2006)**

Delphi Cuts Benefits - On Oct. 8, 2005, Delphi Corp, the largest U.S. auto-parts maker, filed for bankruptcy protection, seeking to cut off medical and life insurance benefits for its retirees. At the time, Elizabeth Warren, a Harvard law professor who specializes in bankruptcy, said this is just going to get worse, as ever more companies see the value to their bottom line of "scraping off" employee obligations. "There's no business in America that isn't going to figure out a way to get rid of (these benefit promises)," she said. (**TIME – 10/31/05**)

The Polaroid Debacle - In October 2001, Polaroid bankruptcy. Retirees learned a bitter lesson--that they had no say in the security of benefits they had worked all their lives to accumulate. While the federal Pension Benefit Guaranty Corp. (PBGC) agreed to make good on most of their basic pensions, the rest of their benefits including retirement healthcare were canceled. The retirees organized to try to win back some of what they had lost by petitioning bankruptcy court, which would decide how to divide the company's assets among creditors. The retirees did not prevail. Polaroid's management had already undercut the employees' effort. Rather than file for bankruptcy in Boston, near the corporate offices, the company took its petition to Wilmington, Del., and a bankruptcy court that had developed a reputation for favoring corporate managers. There, Polaroid's management contended that the company was in terrible financial shape and that the only option was to sell rather than reorganize. The retirees claimed that Polaroid executives were undervaluing the business so the company could ignore its obligations to retirees and sell out to private investors.

The bankruptcy judge ruled in favor of the company. In 2002 Polaroid was sold to One Equity Partners. Many retirees believed the purchase price of $255 million was only a fraction of the old Polaroid's value. Evidence supporting that view: the new owners financed their purchase, in part, with $138 million of Polaroid's own cash.

Under a new management team headed by Jacques Nasser, former chairman of Ford Motor Co., Polaroid returned to profitability almost overnight. Little more than two years after the company emerged from bankruptcy, One Equity sold it to a Minnesota entrepreneur for $426 million in cash. The new managers, who had received stock in the post bankruptcy Polaroid, walked away with millions of dollars. Nasser got $12.8 million for his 1 million shares. (**TIME – 10/31/05**)

Retirement Health Insurance Plunge - From 1988 to 2004, the share of employers with 200 or more workers offering retiree health insurance plunged, from 66% to 36%. The end result: a fresh and additional burden on retirees. (**TIME – 10/31/05**)

Retirees File Healthcare Lawsuit Against Lucent - Retirees of Lucent Technologies filed suit, saying the company illegally overcharged an estimated 120,000 management retirees for their health coverage and terminated coverage for many retirees' spouses.

The lawsuit, filed by three retirees in U.S. District Court in Newark, N.J., maintains that Lucent, of Murray Hill, N.J., violated Internal Revenue Service rules when it cut the retirees' health coverage. The rules state that when employers use the assets from the employees' pension plan to pay the employer's share of their retiree health-care costs, the employer can't subsequently cut the retirees' health benefits for five years.

While these "maintenance of benefits" rules allow employers to make some modest reductions to coverage during the five-year moratorium, the suit alleges that Lucent exceeded the reductions allowed when it made a series of more than 10 benefits cuts from 2001 to the present, including increasing co-payments and premiums, and eliminating company-paid coverage for dependents.

*Lucent transferred a total of $881 million from the management pension plan between 1999 and 2001, according to the suit. These types of transfers, called "Section 420 transfers" after the section of the IRS code that pertains to them, have been implemented by other large employers, including DuPont Co., which withdrew more than $1 billion from its U.S. pension plans for retiree medical costs between 1997 and 2000, and SBC Communications Inc., which withdrew $286 million from pension-plan assets in 2001 to pay for retiree health costs. (**Wall Street Journal – 10/25/05**)*

Lucent Retirees face Higher Healthcare Costs - *Thousands of Lucent Technologies management retirees have been receiving notices this week that monthly health-care premiums for dependents in 2006 could increase as much as 39 percent.*

Retirees have been at odds with Lucent officials for the last few years as the global telecommunications equipment maker continued to slice benefits while turning a profit. At the same time, health-care costs nationwide have soared.

Lucent said it is increasing premiums for dependents of retirees, not the retirees themselves, who had retired on or after March 1, 1990, and made more than $65,000 when they retired. About 9,000 are affected, said Lucent spokeswoman Mary Ward.

“We are no longer able to subsidize the cost of their dependents’ health care. However, they can choose to buy it from us at group rates,” said Ward. (**Chicago Daily Herald – 10/21/05**)

Companies Cut Spousal Death Benefit For Retirees - Margaret Jelly's husband, William, was dying of cancer in January 2003 when the couple received a letter telling them that the death benefit an employer promised him decades ago would be canceled -- in one month. "I guess I'm going to have to die before then," Mr. Jelly, 79, told his wife of 50 years.

He wasn't joking. Both of them knew that Mrs. Jelly would need the money when her husband's leukemia overtook him. His pension would be cut in half upon his death, and six months later, Mrs. Jelly's spousal retiree health coverage would end. The Middletown, N.J., couple planned to use the death benefit of $39,000 for medical and burial costs.

It's no secret that companies have been cutting benefits for retirees. But the hardships are magnified for their widows because of various practices adopted by large employers over the past two decades. The surprising result is that many women -- the last generation of stay-at-home wives, married to men with generous retirement benefits -- are ending up with little or no benefits other than Social Security.

Nowhere is this more clearly illustrated than among telephone industry retirees, who enjoyed some of the best benefits packages in the country.

Mrs. Jelly should have had a secure retirement. Mr. Jelly had fought in Italy in World War II, and then began a career as an electrician at Western Electric, then a unit of AT&T Corp. There were millions like him: ex-servicemen and others swelling the post-war workforce. Although companies were growing rapidly and competing for workers, they couldn't afford high wages, so employers offered deferred compensation in the form of pensions, and health care in retirement.

Pay was low but so were living costs. He and Margaret married in 1950, and by 1954, when the first of their three children was born, Mr. Jelly was making just $64 a week, but building up retirement benefits.

When Mr. Jelly retired in 1980, he had a pension from Western Electric and options about how he wanted to receive it: he could elect a pension in monthly payments over his lifetime only, or he could elect a "survivor's option" -- a smaller monthly pension, which would drop by half when he died, but last over his widow's lifetime. Mr. Jelly chose the survivor's option.

But as the millions of people who entered the workforce after WWII began moving into retirement and drawing on the trillion dollars of deferred benefits, companies began looking for ways to cut benefits and hang onto the money. Meanwhile, by the early 1990s, changes in accounting rules gave employers an additional incentive to cut retiree benefits: doing so reduced liabilities they had recorded, which generated gains that boosted income.

Many employers began cutting pensions for future retirees. AT&T, for example, converted traditional pensions to a type called a "cash-balance" plan in 1998. By calculating pensions in a different way, with the result that the pensions its employees earned in their last years didn't mount as fast as before, AT&T was able to reduce future pension payouts to retirees and their widows by more than $1 billion.

Employers also began to cut retiree medical and death benefits for current or future retirees. These typically provide a surviving spouse a payment equal to one-times the retiree's annual salary at the time of retirement. And they began cutting retiree group life insurance, which may also provide an amount equal to a year's salary, but often expires when the retiree reaches age 65.

Companies that have eliminated life insurance for certain retirees in recent years include Qwest Communications International Inc., Pathmark Stores Inc., St. Paul Travelers Cos Inc., and Solutia Inc. This year, CNA Financial Corp. reduced the benefit to a maximum of $10,000 per retiree. Phelps Dodge Corp. has announced it will eliminate coverage for people who don't retire by the end of this year.

Cutting retiree life insurance and death benefits also boosts income. In 2003, when NCR Corp. eliminated retiree life insurance for future retirees, the move added $12 million in gains to income in the third quarter that year.

The Jellys weren't affected by AT&T's pension move. (Federal law doesn't permit a company to alter a pension once a person has retired.) But the couple's other benefits weren't as secure.

In 1996, AT&T spun would have been paid out in the future to tens of thousands of widows (and widowers). Last year, the company made more cuts in retiree health benefits.

Thanks in large part to benefit cuts, Lucent's retiree benefits plans have added a net total of $1.1 billion to income since the company started, including $868 million in the fiscal year ended Sept. 30, according to its annual report filed in December.

In a statement, Lucent said, "Eliminating the death benefit was one of the very difficult decisions we had to make over the past few years," and added that "It is also important to note that the death benefit was a benefit provided at Lucent's discretion, and funded from Lucent's pension plan, but it was not an accrued, vested or protected benefit."

Recently retired workers are finding themselves grappling with the benefits reductions -- especially those whose pensions were reduced by the pension conversion. But retirees who made irrevocable pension decisions decades ago -- and then found their other retirement benefits cut -- have been slammed the hardest.

George Sharpe worked for Bell Laboratories for 34 years, setting up missile programs in places like Cape Canaveral, Fla. and White Sands, N.M. When he retired in 1975 at age 59, he elected a single-life pension, which was $34,080 a year. AT&T spun off certain operations, including Bell Laboratories and what remained of Western Electric, into a new company, Lucent Technologies Inc. Lucent, of Murray Hill, N.J., imposed a series of changes. First, it told management employees that if they retired on or after Jan. 1, 1998, they wouldn't get a death benefit. Then in 2003 it told existing retirees who had been managers, including Mr. Jelly, that their death benefits were no more. By eliminating the death benefit, Lucent was able to keep more than $464 million that

When Mr. Sharpe, who suffered from Alzheimer's disease, died in December of 2003, his pension check ended. Although his widow, Connie, could have kept her health coverage if she paid 100% of the costs, she can't afford what Lucent was charging -- $280 a month, as of Jan 1, 2005; so she pays $133 a month for a plan from AARP.

Mrs. Sharpe, who is 80 and lives in Las Cruces, N.M., is cashing in CDs and living on Social Security of $915 a month. "If I don't live too long, I won't have to go on welfare," she says. Late last year, Mrs. Sharpe, who has no children, adopted a six-year old Australian shepherd, Keno, despite her worries about paying for his food and veterinary care. "I have nobody," she says.

The benefits cuts have led many retirees to regret the decisions they made about their pensions long ago. When Lew Coppes, 66, retired from AT&T in 1989 after 33 years, he and his wife, Joanne, elected to get a pension over his life only (rather than a reduced pension over both their lives), because they had ample savings in his company savings plan, invested in AT&T stock, group life insurance and a death benefit of $60,000.

After the spinoff, however, his AT&T shares converted automatically to Lucent shares, and their value plummeted to $20,000 from $250,000, though he says he has no one but himself to blame for not diversifying the money. His health premiums have risen, he's lost dental benefits, and his death benefit is gone. He had a serious heart attack in 2001, and in October last year he had a cardiac defibrillator implanted, "and couldn't afford life insurance even if I could get it," he says.

Mr. Coppes, who lives in Tucson, is working six days a week from his home buying and selling electronic equipment. "I figure I'm good for another three to four years," he says. "I'm trying to build up a nest egg for my wife, because my pension dies when I do."

In early January 2003, when Mr. Jelly, the Western Electric retiree with leukemia, got Lucent's letter informing him the death benefit would be paid only if the retirees died before Feb. 3, he figured the odds were good that he'd make the cut. After five years of fighting cancer, he was failing, and he went back into the hospital Jan. 14 for what he and his wife knew would be the last time. He told her sardonically, "I have a deadline."

He didn't make it. He celebrated his 80th birthday in the hospital on Feb. 14, which was also his and Margaret's 50th Valentine's Day together. The nurses had a small party for him. He died on Feb. 24, 2003. Lucent saved $39,000. (**Wall Street Journal – 6/25/05**)

Health Benefits From Firms Shrink For Retirees - Employers are offering health insurance to a shrinking number of retired workers, particularly early retirees, and the trend is expected to continue, the nonpartisan Employee Benefit Research Institute said.

Examining the latest data from the Census Bureau and the Department of Health and Human Services, the institute estimates that 29% of early retirees, defined as those who retire before age 65 and thus generally ineligible for Medicare, had employer-sponsored health insurance in 2002, down from 39% in 1997.

For retirees older than 65, who generally are eligible for Medicare, the percentage that were offered employer-sponsored health benefits declined to 25% from 28% in 1997.

The institute said it expects the declines to continue and that more future retirees will have to rely exclusively on the Medicare and Medicaid government health-insurance programs or purchase private supplemental policies, known as Medigap.

Paul Fronstin, the senior research associate at the institute who conducted the survey, said the percentage of all retirees covered by employer-sponsored plans probably peaked at around 45% in the late 1980s.

"The lucky few who had it to begin with are losing coverage," he said.

About 13% of private employers offered health benefits to early retirees in 2002, down from 22% in 1997, the institute said. It also said that 13% of employers offered health benefits to retirees over age 65, down from 20% in 1997.

While an aging population and rising health-care costs partly explain employers' reluctance to offer health insurance, the institute's report singled out a 1990 Federal Accounting Standards Board rule that forced employers to report retiree health-benefit liabilities on their financial statements.

James Klein, president of the American Benefits Council, a group that represents large employers who offer health plans, said the rule change forced companies to switch from unlimited promises to specified contributions. "They said, 'We're going to give retirees $3,000 or $1,000 per year, but at least we know what the expense is going to be,' " Mr. Klein said.

Messrs. Klein and Fronstin agree that today's workers should lower expectations for employer-based health coverage in retirement and begin saving to pay for future health expenses. A survey by the EBRI last year found that 35% of current workers expected their employers to provide health benefits when they retire; another found that health-care costs are five times higher than individuals tend to estimate.

"Unless Congress acts quickly, the future for retiree health care is going to be very bleak," Mr. Klein said. His group is lobbying to increase the limits on contributions to tax-favored Health Savings Accounts and to establish a new category of tax-deferred investment accounts, akin to 401(k) retirement accounts, to provide for future health-care expenses.

John Rother, chief lobbyist for the lobbying group AARP, said the EBRI report offered further evidence of "employers abandoning benefits for retirees" and carrying out a "cost shift to people who have no way to protect themselves from it." (**Wall Street Journal – 3/23/05**)

Retirees Face More Benefit Cuts - Employees of International Business Machines Corp. who retire on or after Jan. 1, 2005 won't be able to enroll new dependents in the company's health plan beyond the dependents covered on their retirement date. Similarly, Boeing Co. has told its nonunion employees who retire on or after Jan. 1 that they won't be able to seek medical coverage for new dependents after their retirement date.

Other companies are going further and making retirees pay for much of their dependents' health coverage. As of Jan. 1, for example, Lucent Technologies Inc. stopped paying for the cost of medical coverage for dependents of management retirees who retired on or after March 1, 1990, and whose annual salaries were at least $65,000. The salary limit, first effective in 2004, was previously $87,000.

According to a survey on retiree health benefits released in December by the Kaiser Family Foundation and consulting firm Hewitt Associates, 79% of surveyed large employers reported having increased retiree contributions to premiums in the past year and 68% reported increasing contributions for dependent coverage.

Typically, many large companies cover employees who retire before age 65 when people qualify for Medicare, and then later help pay for what Medicare doesn't cover. But with costs rising -- and retirees living longer -- a growing number of employers are considering the potential costs of covering retirees' dependents, which until now generally has been routine. (**Wall Street Journal - 3/3/05**)

Retirement Turns Into A Rest Stop As Benefits Dwindle - As numerous companies across the country withdraw retiree medical and dental benefits while others switch to less generous retirement plans, many aging workers who had expected to ease comfortably out of the labor force in their 50's and early 60's are discovering that they do not have the financial resources to support themselves in retirement. As a result, a lot more of them are returning to work.

Since the mid-1990's, older people have become the fastest-growing portion of the work force. The Labor Department projects that workers over 55 will make up 19.1 percent of the labor force by 2012, up from 14.3 percent in 2002.

Until recently, most economists said that older people were being lured back into the labor force largely because of opportunities growing out of the vibrant economy of the 1990's. But these days, they say, many such Americans are being drawn to work out of necessity rather than choice.

As the nation gears up for a fundamental debate over the future of Social Security, these circumstances hint at potential changes in the federal program that supports more than 40 million elderly Americans.

Just as companies are seeking ways to reduce their roles in financing former employees in retirement, many economists say that the Social Security program should also scale back in response to the aging of the population.

Some have pointed out that continuing to raise the official retirement age in step with increases in Americans' average longevity could probably guarantee Social Security's solvency forever. (**The New York Times – 2/9/05**)

Employers Can Get Medicare Subsidies For Lower Benefits - The Bush administration has touched off a furious debate with new rules allowing employers to collect billions of dollars in federal subsidies for prescription drug benefits less generous than what many retirees were expecting under the new Medicare law.

In theory, those retiree benefits should be at least equal in value to the new Medicare drug benefit. But that will not always be the case, according to Medicare officials, labor unions and specialists in employee benefits.

In comparing retiree benefits with Medicare, the administration said, many employers will be able to ignore Medicare's catastrophic coverage, which helps people with high drug costs and accounts for about one-fourth of the annual value of the standard Medicare drug benefit, $300 out of $1,220.

Final rules for the new program were published Friday in the Federal Register. The new drug benefit becomes available next January.

In issuing the rules, Dr. Mark B. McClellan, administrator of the Centers for Medicare and Medicaid Services, said the federal subsidies would reverse the erosion of retiree health benefits and enable employers to "offer high-quality retiree coverage at a much lower cost." To qualify, Dr. McClellan said, employers must provide coverage "as good as or better than" the standard Medicare drug benefit.

But JoAnn C. Volk, a health policy analyst at the A.F.L.-C.I.O., said, "The rules allow an employer to get the subsidy for a benefit that is less valuable to retirees than what they would receive if they signed up for the Medicare drug benefit and the employer dropped coverage altogether."

Retirees can sign up for Medicare drug coverage if they think it is better than an employer's plan. Employers get no subsidy for such retirees. But it may be difficult for beneficiaries to compare the options available to them, which are likely to have different premiums and co-payments and to cover different medicines.

Also at issue are the standards for use of subsidies and the pivotal role that actuaries will play.

Congress defined the standard Medicare drug benefit. But not wanting to dictate the details, lawmakers will let employers and insurers offer different benefits if an actuary certifies that their value is at least equal to that of the standard coverage.

Under the law, Medicare officials said, they have broad discretion to specify how the value of drug benefits will be measured. Medicare is defining "equivalence" in a way that differs from what many retirees had expected, based on a layman's understanding of the term. Dr. McClellan said that in many cases it would not be a close call, because employers had better drug benefits than Medicare, and in any event, he added, retirees would be better off because the subsidies would enable employers to continue providing coverage.

The Congressional Budget Office estimates that the average cost of providing the Medicare drug benefit will be $1,640 for each person who signs up in 2006. Beneficiaries will pay about one-fourth of the cost in premiums, expected to average $35 a month or $420 a year, and the government will pay the remainder, $1,220.

Kathryn L. Bakich, vice president of the Segal Company, an employee benefits consulting firm, said, "The government share of the Medicare drug benefit is approximately $1,200 a year, but under the new rules, some employers can qualify for the subsidy if they provide a retiree drug benefit worth $900 to $1,000."

About 11.4 million retirees have drug coverage from former employers. In issuing rules for the new subsidy, administration officials said, they wanted to encourage employers to continue providing coverage without allowing them to obtain a windfall at taxpayers' expense.

Under the rules, employers cannot shift all costs to retirees. But Ms. Volk said employers could reduce retiree coverage so it would, in some cases, be less attractive than the Medicare benefit.

Under the new law, the federal government will pay a tax-free subsidy to employers who provide retirees with drug benefits that meet federal standards. The subsidy payable to an employer will be 28 percent of a retiree's drug costs from $250 to $5,000 in 2006.

To qualify for the subsidy, an employer must meet two criteria: the overall value of its retiree drug coverage - the expected amount of claims paid - must be at least equal to that of the standard Medicare drug coverage. In addition, the net value of retiree drug coverage, after subtracting premiums, must equal or exceed the net value of the standard Medicare drug benefit.

In making these calculations, the government said, many employers can "disregard the value of catastrophic coverage" that will be provided by Medicare.

The catastrophic coverage kicks in after beneficiaries have spent $3,600 of their own money. Costs covered by a former employer do not count toward that limit. Under the rules, many employers can assume that retirees have supplemental coverage. Such coverage lowers out-of-pocket costs, reducing the retirees' reliance on Medicare.

If, for example, an employer had a $3,000 limit on out-of-pocket costs, retirees would not have to use Medicare's catastrophic coverage, so the Medicare benefit would be worth less to them.

The administration said this "innovative approach" to analyzing the value of the standard Medicare drug benefit was recommended by several business groups that commented on an earlier version of the rules. The test adopted by the Bush administration is almost identical to one proposed by the American Benefits Council and the United States Chamber of Commerce.

Medicare officials, acknowledging that these calculations could be enormously complicated, said they would issue guidelines to help employers and actuaries understand the "actuarial equivalence test." (**The New York Times – 1/30/05**)

Ways Employers Benefit From Benefits Plans - Employers love to complain about benefits plans -- ailing pensions, rising health-care costs and burdensome retirees.

But for all the bellyaching, there's another side to this story: Employers have been among the biggest beneficiaries of benefits plans.

The plans are a source of income, as well as cash for various expenses, and they can be used as alimony in downsizings and bargaining chips with unions. Even when the plans don't provide big payoffs, they're often much cheaper than they look, thanks to tax deductions and subsidies.

Low-Cost Retiree Health Coverage:

About 66% of companies in the S&P 500 provide retirees with health benefits, which typically continue coverage until age 65, when Medicare kicks in. After that, employers may provide a supplement to Medicare to pay some of the costs of prescription drugs, which haven't been covered by the government program.

These benefits aren't as costly as many people think. In fact, when used to encourage early retirement in a downsizing, the benefits don't raise a company's health-care costs at all.

The employer is simply continuing to pay to cover the employee who has retired; the actual cost hasn't changed. And since the company is downsizing, the employee either won't be replaced -- meaning no new health-care costs -- or he or she will be replaced by a less-expensive worker.

Meanwhile, employers can protect themselves from health-care inflation for the retirees. More than half of companies establish annual limits on what they'll pay per retiree, and once the limit is hit, all the additional costs are passed to the retirees. In fact, rising prices can benefit employers because retirees who can't afford the rising premiums drop the coverage. The employer can also then reduce the liability it has projected for the retiree, which boosts income.

Savings From Medicare:

The new Medicare prescription-drug act will further reduce employers' cost for Medicare-eligible retirees. Starting next year, the U.S. will reimburse employers for 28% of the cost of retiree prescription-drug spending over $250, up to a subsidy of $1,330 per retiree per year.

Under accounting rules, employers can estimate what this reimbursement will be worth to them over the lives of the retirees, and can deduct it from their liabilities. These one-time reductions in liabilities generate accounting gains that boost earnings.

General Motors Corp. estimated that the Medicare prescription-drug plan cut its liability for retiree health care by 6%, to $63 billion at the end of 2003. Other companies with large reported reductions in liabilities include $1.3 billion at Verizon Communications Inc., $600 million at Lucent, $575 million a BellSouth Corp., $415 million at AMR Corp. and $280 million at UAL Corp.

Meanwhile, employers don't pay taxes on the subsidy they receive, thanks to another provision of the new Medicare law. And the law doesn't require employers to keep benefits constant. So employers could eventually shift all the cost of coverage to retirees, and still qualify for the subsidy payments, according to the federal Centers for Medicare and Medicaid Services.

Cheaper Than Salaries:

One of the oldest reasons companies have offered benefits is that they're cheaper than salaries. After World War II, cash-strapped employers promised pensions and health care in retirement in lieu of higher current salaries. The arrangements were particularly lucrative for utilities, which could pass the costs along in their rates, and defense contractors, which could build them into their government contracts, along with other compensation. In recent years, the automobile and telecom industries, among others, have leaned heavily on this strategy.

Benefits also give companies flexibility when negotiating with unions: They're a way of offering increased compensation without increasing wages.

Benefits Plans as Profit Centers:

Retiree health plans can generate income when liabilities shrink rather than grow. Sears, Roebuck & Co.'s retiree medical plan has added $383 million to earnings since 1997, thanks in large part to cuts in benefits and cost-shifting to retirees.

Meanwhile, about one-third of large companies set aside money for retiree health benefits in a trust. This means that the expected return on those assets gets added to the income calculation -- making it more likely that the benefits plan will boost the company's earnings. Procter & Gamble Inc.'s $2.8 billion retiree health trust added $141 million to income in 2004, and more than $1.9 billion since 1994.

<u>Payroll Savings From Pretax Plans:</u>

"Cafeteria plans," which let employees use pretax dollars to pay for their share of medical, dental disability and life insurance premiums, offer an appealing deal to employers, as well.

Employees benefit from the arrangement, because the amounts they defer aren't subject to income tax, and are exempt from withholding for Social Security. But employers don't have to pay their share of Social Security and Medicare taxes on that money, either -- which comes to a combined 7.65% on salary up to $90,000. This can save companies a bundle, and makes it cheaper to provide compensation in the form of benefits than salary.

Employees like 401(k)s because they can contribute pretax money, enjoy tax-deferred investing and maybe get a matching contribution from their employer. (**Wall Street Journal 1/24/05**)

False Spin On Retiree - To the Editor:

Re "Agency to Allow Insurance Cuts for the Retired" (front page, April 23):

In the aftermath of our 3-to-1 vote to allow employers to reduce or eliminate health benefits for retirees when they become eligible for Medicare at age 65 (I was the dissenter), my colleagues are trying to paint a rosy scenario that does not ring true.

Having voted to allow age discrimination against older retirees, my colleagues now claim that the Equal Employment Opportunity Commission somehow acted to safeguard and preserve retiree health benefits.

Nothing could be further from the truth.

The E.E.O.C. acted to allow discrimination, adding to the likely accelerated cutbacks of retiree health benefits. We have done a profound disservice to millions of older Americans who counted on the government to protect them from discrimination.

STUART J. ISHIMARU

Washington, April 26, 2004

The writer is a commissioner of the Equal Employment Opportunity Commission. (**New York Times - 4/30/04**)

Retirees' Anecdotal Experiences With Health Care Coverage

<u>Emails From Lucent Technologies Retirees</u>

I worked in the Human Resources arena for Western Electric, A.T&T, and Lucent for 33 years before I accepted an early retirement offer from Lucent in March 1999. At that time Lucent was making retirement offers at the rate of about ever .5 to 1.5 years. At retirement, I paid $0/mo for my medical/drug coverage. As of 12/2007 was paying $459/mo for coverage and dental coverage was no longer included. I did not like this course of events but with my background and knowledge of what other people outside of Lucent were paying I accepted it. Now, effective 1/01/2008, my medical insurance premium dropped to $422/mo but the prescription drug plan is changed to the point were instead of paying the $1500 max. out of pocket amount for the year as I have been paying for the last several years, I now estimate that I will pay over $4600 out of pocket due to the ludicrous changes in the pre-65 Prescription Drug plan. As you are aware my pension has not changed since I retired. With the insurance premium charge, the elimination of dental coverage, and now the change in drug coverage my pension is now approximately 70% of what it was when I first retired not taking inflation in to consideration. **Louie** – Shreveport, LA - 2/29/08

I am confused that insurance premiums are going up. I am paying more for health coverage since I became eligible for Medicare. I pay for Medicare each month out of my social security check. Before Medicare I was paying $140.00 a month for coverage with UnitedHealthcare, now I am paying $183.00 to United Healthcare plus $93.00 to Medicare, and UnitedHealthcare has paid out less than approximately $200.00 for our health care last year while Medicare has paid several thousands. Since I pay $93.00 and my wife pays $93.00 for Medicare, I think UnitedHealthcare or Alcatel-Lucent should reimburse our Medicare monthly premium. **W.H.** – Jackson, TN – 2/27/08

I took a look at my Benefits package from Lucent and almost fainted away. For years my wife and I have been getting our health care through an HMO - Group Health Coop - and I knew the copay would be going up to $20 in 2008; but my monthly contribution now goes from $79 to $279 a leap of $200 per month. I doubt if that number is a typo. Do you know of any changes in our pension and medical benefits that allow Lucent to make this big jump in our costs? I would appreciate any light you can throw on the subject, and what if anything we can do about it. **Clyde** – Bellview, WA - 10/31/07

Lucent's proposed benefit changes appear to be financially catastrophic. My wife and myself are presently 81 years of age, and are in reasonably good health thanks to our presently available medical care. It would be easier to list the medications that we do not take daily. If I calculated the daily cost of our medications it would probably bring on another heart attack, which would probably please the Lucent benefits organization which would help reduce their ongoing pension costs. **Ralph** – New Bern, NC - 10/31/07

My premiums are up 33% and I find that hard to believe. **George** – North Arlington, NJ – 10/25/07

I retired from Lucent 10/18/2001 as an installer and was 61 years old at the time. I took social security May of 2002 when I turned 62. I had hired on with Western Electric in Feb of 1964 and have been an installer for all of my 37 + years. I paid nothing for my Kaiser HMO heath plan until I turned 65. Lucent deducted $75.30 / month for the rest of 2005; $103.54/month for 2006; $203.34/month for 2007. I have just received the 2008 enrollment which is coverage category for 2 individuals with 1 on Medicare for $279.27 / month. Boy, turning 65 sucks! **Albert** - Larkspur, CA – 10/22/07

I am one of the many who is suffering from a company's *broken promises*. My wife and I moved to Arizona about 9 years ago from NJ when after working 30 years for Bell Labs, AT&T, and Lucent I took an early retirement from my HR Manager's position at Lucent Technologies. A <u>large</u> part of our financial plan was the promise of subsidized health care insurance. When we moved here we were paying -0- for our insurance. Today we pay $863/month, cannot afford dental insurance and we are working 3 part time jobs to try and make it to the magic age (i.e. 65) of universal health insurance, a.k.a. Medicare. **Don** – SaddleBrooke, AZ – 9/6/07

Lucent has raised my deduction for health care over 100% for next year! I have gone from $69.64 to $169.12. That is 17% of my pension! How can that be? How do they expect people to live on what they have leftover? This is hitting us very hard and I am so disappointed with Lucent. We all thought we were retiring from a great and honorable company only to get worked over by them over and over again. When does it end? **Linda** - Clifton Park, NY – 11/15/06

My healthcare expenses (Aetna POS and Dental) now consume 34.4% of my pre-tax retirement paycheck. Lucent raised my Medical payments 23.5% this year. I can find no evidence on the Internet to substantiate that health care costs have risen by that amount. **George** – Eatontown, NJ 11/13/06

The following information is for myself and my wife [for cost of Lucent retirees healthcare plan – no dental and no vision coverage.]

year	amount
2000	$ 00
2001	$ 35 best guess
2002	$ 54.25
2003	$ 140.83

2004	$ 221.00
2005	$ 515.87
2006	$ 689.58
2007	$ 860.00

Victor Noble - Bonner Springs, KS – 11/10/06

It is with great sadness and anger that I report that over the last 6 years of early retirement our health insurance costs as a % of my pension has
gone from:
0% in 2000 & 2001
2.7% in 2002
6.96% in 2003
10.95% in 2004, 2005 and 2006
22.23% in 2007
***Gary** - Winston-Salem, NC – 11/10/06*

My medical insurance almost tripled from 2006. If I keep the same coverage in '07, it will cost almost 25% of my retirement. Not bad unless I want to eat and continue to live in my home. I am another retiree becoming more and more dissatisfied with a company that I spent over 30 years with in Columbus. **Lewie** - Johnstown, OH – 11-8/06

Status: Surviving Spouse, non-Medicare, age 56

Spouse hire date Dec 1969

Spouse retired Oct 24, 2003 due to illness.

Spouse died Oct 29, 2003

Previous: COBRA POS ended 10/31/06. Cost was **$366.80**, including dental/vision.
Current: 11/1/06-12/31/06 was forced into US Healthcare Indemnity costing **$688.30**. No more dental/vision. **Sylvia** – Long Island, NY – 11/8/06

I just received my 2007 benefits package. With the increase in costs for medical and dental insurance for my husband and me, those costs in 2007 will consume 63.4% of my monthly pension check. I am the family insurance provider because my husband is self-employed. He has had some catastrophic health problems over the past two years which continue to the present time, so he is basically uninsurable through any source other than Lucent. **Yvonne** - Oak Brook, IL – 11/8/06

Our premiums for health and dental coverage went from 11.22% of my retirement check to 22.40%. In dollars, the health premiums jumped from $156.07 per month to $384.14 per month. This is an increase of 146.13%. **Manny** - Atlanta, GA – 11/8/06

Here is a summary of my Health Cost increases since October 2006 when I became Medicare eligible up to the 2007 rates that I received during Lucent's open enrollment period. Please feel free to share this with other LRO members and the press.

Remember this a plan for me and my wife who is not 65 until 2007.

2006 Two person coverage--------$169.42 per month

2006 Two person-one Medicare----$544.93 per month

2007 Two person-one Medicare----$638.71 per month

Net result is 23% of my monthly pension before taxes will go towards paying for Health care through Lucent. **John** - Hatboro, PA – 11/7/06

I am one of those being greatly affected by Lucent reneging on their promises of medical coverage. My current monthly pension check is for $2007.97 a month, I now pay $704.92 for medical and dental my 2007 medical coverage will now be $1004.15. After taxes and medical that leaves me with

$818.82 a month pension, I was receiving $1118.05. As a result of the increases in medical I had to look for employment and at almost seventy years old not to many opportunities were available, the only work I could find was an evening custodian job at the local school which I have accepted. It now looks like I am descendent to work till the day I die, thanks to Lucent. - **Ed** – Stroudsburg, PA. – 11/7/08

Lucent Technologies Retirees in News Articles

Lucent retirees have been especially vocal. "We feel that Lucent has really broken its commitment to retirees," said Edward Beltram, a retired human-resources manager who is a spokesman for the Lucent Retirees Organization. His health-care premiums have jumped to $516 a month this year for him and his wife from $42 a month when he retired in 2001. **Wall Street Journal** – 10/29/04

…Examination of Lucent's government filings shows that having a disproportionately high number of retirees hasn't been a problem for Lucent. In the first place, thanks to three benefit and pension funds that Lucent was born with when spun off from AT&T Corp. eight years ago, the big provider of telecom gear never had to dig into its own pocket to pay benefits for U.S. retirees. The funds paid every cent, both of pensions and of retirees' health care.

In addition, Lucent has been able to use assets in these funds to help it pay for repeated rounds of downsizing.

Moreover, the benefit plans -- thanks to accounting rules -- have fed Lucent hundreds of millions of dollars of income. And through a separate accounting maneuver, the cuts that Lucent made in the benefit plans last fall will contribute hundreds of millions of dollars more in income over future years.

In short, in most years the pension and retiree benefit plans have enhanced Lucent's earnings, not burdened them. But now that the surplus in the biggest fund is essentially gone, Lucent is faced with using some of its own cash to pay retiree benefits, and it is cutting those benefits.

The Lucent story is a case study of the often-bewildering world of retiree benefits. Contrary to a common perception, having a high ratio of retirees to employees doesn't necessarily raise a company's benefits burden. Lucent also shows the sundry ways companies can actually profit from their retiree plans, both to relieve demands on their cash and to produce new income that burnishes the bottom line.

For many retirees, the impact is painful. "This is like getting an enormous pay cut -- in retirement," says Howard O'Neil, 90 years old, who began work in 1939 for Lucent predecessor Western Electric in the radar group, and then was a pricing specialist for AT&T Technologies. "We're going to have a really tough time this year," says the Wall, N.J., resident, now faced with paying for Medicare "part B" coverage and dental benefits that Lucent used to cover for him and his wife, Mabel, 79. Their total increase is $183 a month.

Lucent also eliminated a death benefit it had told Mr. O'Neil he would have. The benefit was to equal his $16,600 pay in his last year, 1973, and he intended it for his burial costs. "They punish you for being old," Mr. O'Neil says. **Wall Street Journal** – 3/29/04

The ABC Evening News segment opened with Peter Jennings stating: " We are going to take a look tonight at some Americans who retired believing that their retirement health benefits would carry them through their later years. In 1993, 46 percent of large U.S. companies offered health care coverage to their retirees. By last year only 28 percent did so. And, most of the companies that still provide benefits are charging employees increasingly more. A lot of retired employees are bitter, and angry, and frightened."

Following Mr. Jennings introduction, Dean Reynolds, ABC News Chicago reporter, profiled the increased costs of health care coverage to two retirees—one from Lucent Technologies and the other from Johns-Manville.

Narrator's voice over video of Mr. and Mrs. Bob Jerich in their home: "Sixty-one-year-old Bob Jerich once thought he was set for life. Even though his wife has Parkinson's disease, he felt secure enough to take early retirement from Lucent Technologies back in 2001, confident that his company's health insurance would be there to protect them financially. Big mistake!"

Interview with Bob Jerich: "I would have never retired if I had known what I know today."

Narrator: "Because today he picks up the bill for most of his health insurance instead of his old employer."

Continuing Bob Jerich's Interview: "Two and a half years ago, my monthly medical deduction was $32. Today, it is $577. And God knows were it is going.

Narrator: "And Lucent declined to answer that question, but said in the statement 'we simply do not have the money to continue our historic levels of subsidies'. In fact, of 408 large companies surveyed last year by the Kaiser Family Foundation, 71 percent said they have forced retirees to pay a bigger share of insurance premiums."

David Messick, a Northwestern University professor, stated in a sound bite: "To say that the economic situation is a rough one is not an excuse for (companies) lying or breaking promises."

The story concluded with a voice over by the reporter: "To some the obvious answer is a government supported plan, but that could be expensive, require new taxes and be politically risky. And yet politicians searching for solutions may want to keep in mind an important statistic. The older you get, the more likely you are to vote." **ABC Evening News** – 2/5/04

When Ed Beltram retired in 2001 after more than 30 years as a manager at Lucent Technologies, paying for health care was the least of his worries. But then Lucent announced in September that it was slashing retiree health coverage, a move that means his monthly premiums will soar from $140 to $515. For Beltram, 58, it brought home a painful reality: "Lucent could eliminate all my health-care benefits," he says.

In time Lucent, along with the rest of corporate America, probably will. With health costs rising at their fastest rate in a decade, companies are taking an ax to retiree medical coverage. That's because seniors, who tend to have chronic health problems and are big consumers of prescription drugs, are simply more costly to cover than active workers.

The statistics are bleak. The percentage of large firms covering retired employees fell to 38% this year, from 66% in 1988, according to the Kaiser Family Foundation, a nonprofit research group. And large employers will pay just 10% of retirees' medical costs by 2031, according to Watson Wyatt, a consultant. That's down from more than 50% of total retiree medical expenses they pay for today.
Fortune – 10/27/03

They have already watched their 401(k) savings evaporate, have stood by as offices were closed, and have seen countless jobs disappear. But now, tens of thousands of Lucent Technologies retirees sense that the pain is not over yet.

As Lucent struggles to cut costs and meet its obligations, the next thing that they fear will be lost is retirement medical coverage, a valuable benefit that more than 100,000 retirees now receive from the company.

Lucent's travails capture an untold story: the misery that corporate financial distress can wreak on retirees. Lucent's efforts to restore profitability are touching thousands of older people who do not come to work anymore, cannot be laid off and will not show up in the unemployment statistics.

"What can you do?" asked James Fitzgerald, 65, a Lucent retiree who recently needed eye surgery. His wife, Margaret, has lupus, a chronic disease. Their medical bills will not stop coming just because their coverage may end, he said.

It would not take a bankruptcy to deprive retirees of their health coverage. Companies are required to set aside assets to cover pension promises, but there are no such requirements for retiree health.
The New York Times – 11/20/02

Aetna Inc.

In January last year, Aetna Inc. said it would phase out health-care benefits for workers who retire starting this year. "Health-care costs have increased," says a spokesman for the company. Yet federal filings show Aetna's spending on its retirees' health benefits had not been rising substantially, thanks to ceilings Aetna imposed a decade ago. From 1998 through 2002, its annual spending for retiree health benefits ranged between $35 million and $39 million.

Aetna says it made the January 2002 benefit cut to strengthen its business. "Wherever it makes sense, we've been trying to reduce expenses in order to be competitive," says its spokesman, adding that Aetna's overall benefits remain "very competitive." Aetna recorded losses early this decade but has turned around, reporting fourth-quarter profits double those of a year earlier. **Wall Street Journal -** 3/16/04

AT&T

Tommy Johnson remembers the day when he opened the letter from his former employer.

"It was a year ago that I got the letter from AT&T," the retired computer engineer recalled. "It was nice. Just before Christmas."

The letter informed Johnson that the company-paid health insurance benefits he and his wife had been guaranteed when he retired after 34 years with the company were being cancelled. The company informed Johnson, then 60, that continued coverage would cost him $411 a month.

"The only choice I've got is to pay the $411, or else there would be no insurance for me and my wife," he said. **Chicago Tribune** – 2/24/04

My monthly pension that has already been reduced by approx. 40% (due to the forced cash balance plan) it's now steadily eroding every year due to higher monthly medical Insurance payments, not to mention higher co-pays and deductibles that have to be met. When do we get a break? **Paul** – Roslindal, MA

I delay or just don't get some prescribed medication due to the outrageous cost of the medication and high deductible of the insurance. I, also, hesitate to see a healthcare professional some times due to the high cost of medical services and high deductible of the insurance. **Lytton** - Senoia, GA

The AT&T healthcare plan itself is a detriment to the health of the retirees. Many of the retirees are barely making ends meet with the pension and Social Security payment they receive each month and the fact that they have to shell out $1100.00 for a single person plan and $2200.00 for a married person plan before any coverage is provided by that pathetic health care plan is negatively affecting their decisions in obtaining health care. They cut pills they need in half (or smaller), postpone doctor visits and delay seeking medical care until the symptoms are so intense that they cannot wait any longer. Both my wife and I have made decisions to postpone health care because of the high deductible. **George** – Lawrenceburg, IN

Bank of America Corp.

Rather than focusing on health-care liability, which companies have so much latitude to adjust, shareholders might want to look at what a company actually spends year-to-year for retiree medical benefits. At Bank of America Corp., for example, the liability for retiree health benefits rose by $69 million, to $1.1 billion, in 2003. But federal filings show that what the bank actually spent for these benefits in 2003 declined to $63 million from $84 million the year before, a 25% drop. Retirees' portion rose 27% to $62 million. **Wall Street Journal** – 3/16/04

Caterpillar

"I thought I was going to live the good life," recalled Pete Wilson, 69, who took early retirement from Peoria, Ill.-based Caterpillar Inc. in 1992. He bought a 30-foot trailer and traveled the Southwest with his wife and friends. He even withdrew home equity, taking out a loan on his paid-off home, bolstered by a faith that his medical costs would never be a burden.

But last year, Caterpillar began charging Wilson $125 a month for his medical insurance premium. This year the bill jumped to $172. There is talk of future increases, Wilson said, although the company declined to confirm it.

"We can't go to Arizona anymore," said Wilson, whose pension from his 33 years at the factory is about $1,000 a month.

He still speaks with pride of his former employer, a manufacturer of earthmoving equipment that reported a record $1.05 billion in profit for its most recent quarter. Still, he has some misgivings about how the company is sharing the riches.

"It looks to me like they could kind of take care of some of these people who were there at the beginning," he said. **The Los Angeles Times** – 9/26/06

Caterpillar Inc. in 2002 added $75 million to income -- 9.4% of pretax earnings -- with the accounting gain it got from boosting the health-care premiums its retirees had to pay and making other changes to retiree benefits. The move will lift pretax earnings about $45 million a year for several more years. Caterpillar confirms the information but says it didn't cut benefits to boost earnings; rather, it did it to help retirees -- by keeping the plan more affordable for the company. "The best way to protect the health care for the long term was to make some of these changes now," says a spokeswoman. **Wall Street Journal** – 3/16/04

John Deere

Years ago, Bill Gabbard said, he and his fellow John Deere employees bled green.

Now, Gabbard says, he's just being bled.

And he blames changes Deere has made in its health-benefit program for its retirees.

On Wednesday, the Flex Retiree Organization, a group of retired Deere workers that Gabbard started last year, filed a class-action lawsuit against Moline-based Deere, trying to restore the old benefit system they had.

The complaint stems from a move Deere made Jan. 1, when the farm machinery manufacturer cut health, dental and vision insurance benefits for the approximately 5,000 Flex retirees, Gabbard said.

He added that Deere had broken its word to salaried employees, who qualified for retirement benefits or who took early retirement options, that they would be entitled to receive the same health benefits throughout retirement that they had as active employees. **WCF Courier** – 9/11/08

Embarq Corp.

Robert E. King, 77, is one of 10 named plaintiffs in the federal lawsuit against Embarq and Sprint Nextel for alleged violations of federal retirement law - specifically, the Employee Retirement Income Security Act of 1974.

The plaintiffs seek class-action status to sue on behalf of approximately 13,000 retirees of regional and local phone companies in 15 states. The retirees worked for various companies that Sprint Nextel acquired over the years and then made subsidiaries of Embarq in May 2006.

The suit focuses on Embarq's decision in July to cut off health insurance to all retirees who have reached age 65 and are Medicare-eligible. That change took effect Jan. 1. The company also is eliminating or reducing life insurance coverage for these older retirees. **Ocala Star-Banner –** 1/2/08

Ford Motor Company

I retired from Ford Motor Company in 1971. My retirement income is very low $392 per month pension and $1,022 per month Social Security, and that’s it. Between health care cost of Medicare at $96.40, BlueCross at $386.90 and Humana at $23.30 and expensive medications I need, I barely have enough money left to stay alive. I’m also in the ‘donut hole” for prescription drug cost and have had to pay full price for meds for three months now. **June** – Boca Raton, FL

GenCorp Inc.

In Jeannette, Pa., in early January, about 100 retirees of GenCorp Inc., formerly called General Tire & Rubber, met in a union hall to discuss the latest rise in their health-care premiums. The new cost of coverage for a couple was $568 a month. For most, this exceeded their company pensions. Because of the higher cost, many of the retirees at the meeting, whose ages hovered around 80, said they were dropping their employer's coverage.

Mabel Kramer began working at the company in 1944 making gas masks for World War II soldiers, and met her husband there. Now a widow, she collects a pension of $179 a month based on his 34 years with the company. Her GenCorp retiree medical benefits cost her $284 a month, consuming the pension and part of her $810 Social Security check. "If they raise it any more, I'll drop it," says Mrs. Kramer, 78. "It's enough to make you sick."

Others don't dare drop it. Edward Peksa, who spent 24 years in GenCorp's tennis-ball department, said he needs the coverage to help pay for five drugs his wife, Anna, takes for arthritis, hypertension and thyroid and cholesterol problems. The couple's premium more than erases his GenCorp pension of $320 a month. To make ends meet, Mr. Peksa, 75, works 30 hours a week as a greeter at Wal-Mart Stores.

These retirees were paying nothing for their health-care coverage until 2000, when the company began charging them. Their premiums have risen steadily since then. GenCorp says the reason is the ceilings it placed in 1995 and 1997 on its own spending on retirees' health care.

GenCorp's spending on the retiree health-care benefit has fallen over the past six years, its filings to the Securities and Exchange Commission show. It paid $30 million for the benefit in 1997 but just $25 million in 2003, according to its annual report. The liability on its books for retiree health care is down 40% since 1995. **Wall Street Journal** – 3/16/04

General Motors

I have a very hard time digesting all of this. I worked for GM, 32 years in Lordstown Ohio. Now at 68 years old, and already have had one shoulder replacement. A cost of 54 thousand dollars. My other shoulder is also going bad. The Doctor said it was due to hard work. When I look back and remember how I used my shoulders, on the line, lifting front end of cars, so we could make the numbers necessary. God forbid that GM would scrap all or even one car. I did it out of being loyal. We wouldn't want them to lose any money. Going to work, no matter what, rain, snow and during sickness.

What about all the times I wouldn't take off, putting GM first. Not being a part of the memories of my four children and grandchildren. I thought and was taught that it would be all taken care of later in life, this is what I was led to believe. General Motors would always be there to take care of us. Is this the thanks that we get? Can we apologize enough to our family and bring back those lost memories? I don't think so, I have the photos of parties, little leagues, family reunions, now I time all past.

Why did we trust that what we did for General Motors would help us in our retirement?

Could it be that we might be able to sleep a little better. Is it because we know that it is all of our responsibly do the right and moral thing, because after all, it will come back to each of every one of us in the end.   Really?

I plan on taking this to the media, to the people, and to everyone and anyone that wants to listen.

We should not be dropped because some College graduate made these decisions. I would like to tell and share this with many of my buddies, however most of them are no longer here due to working and breathing harmful toxins into their body. They have died, and many of them thinking that their spouses would be taken care of.

We are a generation that worked hard and should be rewarded so that our children and grandchildren learn from us. It is not a very good example to have our younger generation have the attitude, that maybe it doesn't matter. That if you work hard all your life, no one really cares. *What kind of message is this sending in the history of life?*

I worked on the line, and in Supervision, as well as being a spokesperson many times for General Motors. Its just I didn't think this large giant, was so general and out for only themselves. **Phil** - New Port Richey, FL – 7/16/08

When Jim Stelma woke up Tuesday, he already sensed he might be losing ground.

Stelma, a 65-year-old accountant supervisor who retired from General Motors Corp. in 2005, knew his career-long employer was in deep pain. When he logged onto the Internet in the morning, he saw he would be sharing that pain along with all of GM's over-65 retired white-collar workers.

"I wasn't surprised," Stelma said. "With the stock price going down and gas prices going up, you just kind of expect something is going to happen here."

GM said it will stop paying its share of supplemental insurance premiums, instead adding $300 to the monthly pension amount to offset some of the new expense. Retirees already pay part of that premium, and two years ago GM froze its share at current levels.

The change to eliminate the benefit, among a handful of cost-cutting efforts detailed Tuesday, will end GM's share of supplemental insurance premiums for its retirees who also qualify for Medicare. - **The Grand Rapids (MI) Press** 7/16/08

International Business Machines (IBM)

Retiree health-care coverage, which is easier to eliminate than pensions, is disappearing even faster. Unlike pensions, which are accrued and funded over time, retiree health care is paid for out of current cash accounts, so any cuts immediately bolster the bottom line. Estimates are that as many as half of the companies offering retiree health care 10 years ago have now dropped the benefit entirely. Many of those that have not yet slammed the door are requiring their former workers to bear more of the cost.

It's not just struggling companies, either. IBM, which is already fighting with retirees in court over changes made to its pension plan in the 1990s, is now getting an earful from angry retirees about health-care costs. In 1999, IBM capped how much retiree health care it would pay per year at $7,500 of each employee's annual medical-insurance costs. Although IBM is certainly in no financial distress -- the company earned $7.6 billion on $89 billion in sales last year -- Big Blue says its medical costs have been rising faster than revenue. Last year the company says it spent $335 million on retiree health care.

This year, for the first time, many IBM retirees are beginning to hit the $7,500 limit. Sandy Anderson, who worked as a manager at IBM's semiconductor business for 32 years, and today is the acting president of a group of 2,000 retirees called Benefits Restoration Inc., saw his own insurance bill triple this year. He suspects that the company is trying to make the perk so expensive that retirees drop it, a cumulative savings calculated by the group at $100,000 per dropout.

But more than that, Anderson is angry that as a manager, IBM encouraged him to talk to his staff about retirement benefits as part of their overall compensation. The job market was tight, and IBM's message was our salaries aren't the highest, but we will take care of you when you stop working, he says. Now he feels the company is reneging. "I feel I've misled a lot of people, that I've lied to people," says Anderson. "It does not sit well with me at all." IBM says its opt-out levels are low and that it often sees retirees return to the plan after opting out for a period of time. The company also argues that it has not changed its approach to retiree medical benefits for more than a decade and that the rising cost of health care is the real issue.

Even with the reductions, Anderson and his generation of retirees are better off than many. In 2003 the giant computer maker said it would pay nothing toward health insurance for future hires when they retire. **Business Week** – 7/19/04

When Robert Eggleston retired from International Business Machines Corp. 12 years ago, he was paying $40 a month toward health-care premiums for himself and his wife, LaRue, with IBM paying the rest. In 1993, IBM set ceilings on its own health-care spending for retirees. For those on Medicare, which provides basic hospital and doctor-visit coverage, the cap was $3,000 or $3,500, depending on when they retired. For those younger than 65, the cap was $7,000 or $7,500. Spending hit the caps for the older retirees in 2001, the company says, pushing future health-cost increases onto retirees' shoulders.

Mr. Eggleston, 66 years old, has seen his premiums jump more to $365 a month for the couple. Deductibles and copayments for drugs and doctor visits added $663 a month last year. "It just eats up all the pension," which is $850 a month, Mrs. Eggleston says. Her husband has brain cancer. Though he gets free supplies of a tumor-fighting drug through a program for low-income families, he has cashed in his 401(k) account, and he and LaRue have taken out a second mortgage on their Lake Dallas, Texas, home.

IBM retirees as a group saw their health-care premiums rise nearly 29% in 2003, on the heels of a 67%-plus increase in 2002. For IBM, with its caps in place, spending on retiree health care declined nearly 5%, after a drop of 18% the year before.

IBM confirms that retirees' spending has risen as its own has fallen. It describes the retirees' increased cost in 2003 as not very dramatic, averaging $158 a year, or $13.15 a month, for each of the 190,000 retirees and dependents who participate in the plan. IBM says its costs are down because more retirees are older and eligible for Medicare, so the company's contribution is lower. It says that this year it established a "zero premium" plan for retirees, although this plan carries deductibles double those of other plans. **Wall Street Journal** – 3/16/04

International Paper Co.

International Paper Co. capped its spending soon after it adopted the retiree health-care liability required by the accounting rule, Financial Accounting Standard 106, in 1991. This cap reversed much of the liability. It generated a pool of accounting gains that trickled into the company's financial statements -- to the tune of $17.7 million a year -- until 2000.

Then the stockpile was used up. International Paper again cut benefits in 2000, 2001 and 2002, primarily by capping the benefits of retirees of newly acquired companies. This generated a new batch of accounting gains. They have added a total of $65 million to International Paper's income so far. **Wall Street Journal** – 3/16/04

Johns Manville (Email from widow of retiree)

I did finally hear from JM on their Hardship Waiver Program and they sent me an application. However, to no avail. I do not see how anyone can qualify for this waiver at $15K or less.

Ever since JM escalated the cost of health insurance a year ago I had to opt out and find my own coverage. I am currently paying $160/Mo plus co-pays plus Medicare, which adds to over $3000/Yr. My "pension" from JM (as Widow) is $259.97/Mo or $3120/Yr
which just barely pays the premiums.

Other than Social Security, I have no other income. My husband worked devotedly for JM (Holophane Division) for over 26 years but he passed away 2 weeks too soon, shy of 50 years old.

I know that JM Retirees have lobbied hard for the health benefits for Retirees but the costs of the coverages offered are still too high. It is so unfair. I want to thank you again for your concern/help in connecting me with the program - and thanks for "listening".
Carolyn Fattibene – Delaware - 9/30/07

Kodak

After 33 years at Eastman Kodak Co., Don Herring left pretty satisfied. He had climbed fairly high on the job ladder before health problems made him retire from his process engineering job. He had made good money and he was leaving with some guarantees about his future.

Then he and tens of thousands of other Kodak retirees received a letter earlier this month informing them that those guarantees about health care and life insurance were gone.

"They changed the deal," said Herring, 61, of Greece. "I earned it. I worked for it. That was the deal. I don't like feeling powerless."

Former Kodakers like Herring are part of an increasingly large club of the nation's retirees who find themselves without the post-retirement health-care benefits that their employers had previously promised. Kodak, which has provided such benefits since 1954, is eliminating dental coverage and its life insurance plan, phasing out dependent coverage and shifting future health care cost increases to retirees. **Rochester Democrat and Chronicle** – 8/16/08

Hanesbrands Inc.

When it comes to preparing for retirement, there are few guarantees anymore. Just ask recent retirees of Hanesbrands Inc. under the age of 65.

On Feb. 1, 2007, Hanesbrands cut its contribution to retirees' health-insurance premiums from an average of 62 percent to no more than 35 percent. It will end its contributions entirely Dec. 1, 2007, but will continue to provide access to the group rate for retirees who can pay the full cost of the premium.

Some pre-65 retirees told the Winston-Salem Journal that they have gone from paying $60 to $130 a month to more than $450. When the subsidy ends, they said, their premiums will rise to more than $750 a month. For a retiree carrying a spouse on his or her policy, the cost could top $1,200 a month.

"I am 61 1/2 years old and have been paying $64 a month for my premium," said Frances Flinchum, who retired in May 1999 when Sara Lee Branded Apparel, the predecessor to Hanesbrands, eliminated her job.

"Now, I'm going to have to come up with $617 a month in December, and I don't know how I will pay this huge amount. I have a part-time job, but I also have a huge home-equity loan. I think they are doing me an injustice, since I worked for them 35 years." **The Los Angeles Times –** 9/26/06

LTV Steel

Retired steelworkers from LTV Steel know about getting nothing. After those companies closed their doors, 49% of retirees under 65 and therefore not eligible for Medicare said that they or their spouses had gone back to work because they had lost health benefits. Even among the Medicare-eligible, 10% reported that they had taken jobs to pay for insurance that covered some expenses not paid by Medicare**.**

Stephen Skvara, 59, is among them. Having been badly injured in a 1997 automobile accident, Skvara retired on disability from LTV Steel in Indiana after three decades as an electrical repairman. He took with him full health benefits for himself and coverage at $138 a month for his wife and youngest son. In 2002 LTV Steel went bankrupt, and though pieces of the company were acquired, the obligations to retirees were not. As required by law, Skvara's pension was assumed by the federal Pension Benefits Guarantee Corp., but it was reduced from $1,900 a month to $1,200 and his $360-a-month special disability payment was eliminated. No law protected health benefits, so his and his family's vanished. Skvara managed to find insurance that would cover what his Medicare disability payments didn't, at $295 a month. His wife, a substitute teacher, and son, then 16 years old, were uninsured—and remain so. "I went into the steel industry right out of high school," Skvara says. "I thought I'd have a comfortable life and provide for my family**.** Health care is a basic necessity, and it really hurts that I can't provide it for them." **Corporate Board Member Magazine –** November/December 2006

Workers bear the brunt of it. Bill Luoma, head of the Mahoning Valley Steelworkers Retirees Council, which counts bankrupt LTV retirees among its members, says that with their health insurance gone, many have stopped visiting doctors other than for emergencies. For companies struggling to compete in the global economy, carrying those burdens themselves is like strapping on a 200-pound weight to run a 40-yard dash. But to shed them is to leave decades of workers devastated. In the end, someone will have to pay. The only question is who. **Business Week** – 7/16/04

National Steel Corp. / U.S. Steel

Ed Stish is not living the carefree life he envisioned when he retired from a taconite mine in Keewatin, Minn., three years ago. He has no time for lounging in a La-Z-Boy, golfing or fishing for pleasure.

Instead, Stish rises early and sets about growing vegetables, trapping beaver for pelts and harvesting wild rice on a lake near his home in Bovey. His wife, Sue, sells the bounty at farmers' markets four days a week.

They do this to survive. Just a few months after he retired at age 50 from National Steel Corp., his employer of 30 years went bankrupt, taking with it longtime promises to provide a livable pension and cheap health insurance for life.

Even though the U.S. Pension Benefit Guaranty Corp. stepped in to protect workers' pensions, Stish's monthly payment was cut almost in half to $1,350. And the buyer of the mine, U.S. Steel, never made good on the old promise to provide retiree health insurance.

That left Stish in the same predicament as countless retirees caught in an unaffordable health insurance trap they never expected. Company-paid health insurance for retirees is becoming extinct as companies try to slash costs and increase profits. **Knight Ridder** – 5/30/04

Sears Roebuck & Co.

When employers cap or cut retiree medical programs, the companies don't benefit just by spending less and reaping accounting gains. They also can benefit from a spiral of dropouts.

As retirees see their out-of-pocket costs rising, some of the healthier retirees quit the company program. Their good health lets them buy cheaper coverage elsewhere. But their departures concentrate the remaining pool with sicker people, costs go up, more dropouts ensue, and the pool gets more concentrated again, in what the industry sometimes calls a death spiral.

Each dropout reduces a company's immediate outlays, since it no longer has to pay even a capped benefit for that person. Dropouts also generate accounting gains for the company, since the concern gets to reverse the liability it had booked for covering those retirees for life.

A company in this situation -- with its own expenses capped -- has little incentive to negotiate the lowest possible prices with medical providers. In fact, it has an incentive not to: Rising expenses not only won't hurt the company but will tend to drive more retirees from the program.

At Sears Roebuck & Co., thousands of retirees have dropped out of a retiree health-benefit plan in recent years, at a time when retirees' share of costs was going up. While no one is saying Sears sought this dropout spiral, the dropouts follow a series of caps Sears established in the 1990s to limit its own expenses. The number of retirees taking part in its health plan has fallen 18% since 2000, to 51,500. Sears has 115,000 retirees in all. It can't say how many are eligible.

Sears says that while cost may prompt some retirees to drop out of the health plan, a more significant factor is that older retirees are dying and fewer people are eligible. Benefits Vice President Liz Rossman says Sears works hard to keep its plan affordable for retirees.

Sears has fed $383 million into earnings since 1997 from accounting gains that arose when the company capped its spending and retirees dropped the increasingly costly coverage.

In January, Sears announced it was further tightening the cap on its spending on retirees' health care, and also eliminating future retiree health benefits for most current employees. Sears says the steps will make it more competitive but declines to say how much they will generate in accounting gains.
Wall Street Journal – 3/16/04

Spherion Corp.

Dying of cancer, Thomas Amschwand did everything he was told to make sure his wife would collect on the life insurance policy he had through his employer.

But Spherion Corp., the temporary staffing company where Amschwand worked, told Amschwand-Bellinger she would not receive any of the $426,000 in benefits she believed she was due. When she went to court, Spherion succeeded in getting her lawsuit thrown out. The Supreme Court on June 27 refused to review the case.

Amschwand-Bellinger received a refund of the few thousand dollars in insurance premiums she and her husband dutifully had paid. The total, she said, would not cover the costs of his funeral.

The story has played out often under the federal Employee Retirement Income Security Act. Designed to protect employee benefits, the law has been used by employers as a shield against suits.

Federal appeals courts, interpreting Supreme Court decisions dating to 1993, consistently have said companies that offer health, life and retirement benefits under ERISA cannot be sued for large amounts of money, or damages. Instead, they can be sued only for typically smaller sums such as Amschwand's insurance premiums. **Associated Press –** 7/5/08

Whirlpool Corp.

Whirlpool Corp. picked up $13.5 million in earnings, or 19 cents a share, in last year's second quarter from accounting gains, after imposing both caps and cuts in health care for its retirees. This gain more than offset charges of 16 cents a share primarily for a recall of microwave-oven products. Whirlpool then just beat consensus estimates of $1.31 in second-quarter earnings. Whirlpool confirms the information but says it didn't cut retiree benefits to help it meet earnings targets. **Wall Street Journal** – 3/16/04

Xerox Corporation

Xerox Corp. in 2003 made changes to its retiree benefits, including a freeze of the company contribution.

The changes are causing widespread concern in Rochester and across the country.

"Historically, Rochester was one of the very, very best areas for not only medical costs, which were managed largely by the corporations since they were paying the bill, but you had people like Joe Wilson (at Xerox), the people driving Kodak. These people had a commitment to the community and they provided benefits to their workers that were second to none in the United States," said David Coriale of Webster, a Xerox retiree and chairman of the Association of Retired Xerox Employees.

"We've watched Rochester drift from absolute best and world class for benefits and employee relations to being mediocre. A lot of it has to do with the business climate. A lot of it has to do with the leadership of these companies is no longer local; it's been brought in from the outside." **Rochester Democrat and Chronicle** – 8/16/08