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PAGE ONE


A Turning Point for Health Care

 By **CHAD TERHUNE** and **LAURA MECKLER**
September 27, 2007; Page A1

The labor agreement reached by **General Motors Corp.** is the most striking example of a bigger trend sweeping U.S. health-care: employers renouncing their decades-old role as chief health-care buyer.

The auto maker's iconic status in American industry, and the example it sets as one of the biggest U.S. employers, is likely to speed this shift -- and drive discussion in the presidential campaign about overhauling the health system. Polls find health care is the top domestic issue for voters, as more Americans are on the hook for getting their own coverage.

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Maneuvers such as GM's are "driving greater insecurity among the middle class, who are employed but feeling like their health care is not secure," said John Rother, policy director for the seniors group AARP, which favors government action to secure universal health coverage.

The portion of firms offering health benefits fell to 60% this year from 69% in 2000 because of small employers' retreat from providing coverage, according to a survey released this month by the Kaiser Family Foundation. Benefits packages are getting stingier, too. Last year, 38% of workers had deductibles of \$500 or more, up from 14% in 2000, the foundation says.

The shift isn't only about dropping coverage or making workers pay more of the bill. Like GM, many employers want to immunize themselves from the risk of rising health costs. In many cases, especially for retirees, this means shifting to plans in which the employer provides a lump sum for health coverage and employees have to figure out how to spend it. That way, the employer knows ahead of time exactly how much it is spending.

In GM's case, an independent trust will assume the task

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of providing health coverage to the company's unionized retirees and spouses. GM will put money in the trust -- as much as \$35 billion, according to people familiar with the deal -- to get it going. But it's up to the trust to set and manage the benefits.

Offloading Health Care

Companies have several ways to offload responsibility for health care. **Kellogg** Co. this month informed about 1,000 Medicare-eligible retirees from its Keebler unit that their group coverage will cease at year end. Instead, they will receive money under a health-reimbursement arrangement, or HRA, that they can put

toward health coverage to supplement Medicare.

The concept resembles 401(k) pension plans, in which employers put a fixed amount of tax-deferred dollars into employees' retirement accounts but it is up to the employees to manage the money.

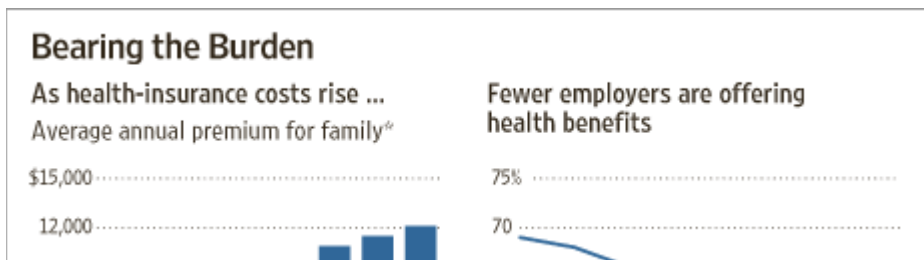
Ford Motor Co. also will stop providing group insurance in January to about 57,000 salaried retirees and their spouses who are over 65 years old. Each person will receive \$1,800 annually in an HRA to help cover insurance premiums and other medical expenses. Chrysler LLC began a similar plan this year for more than 14,000 salaried retirees over 65.

Bill Haller, a 65-year-old Ford retiree, says the changes come as a shock in part because the company fostered the belief that it would take care of workers' health care when they retired. He wonders whether the company contributions will still be there in years to come. "The money could go away if times get tough," he says.

Shopping for Coverage

Some active workers also face the prospect of shopping for their own coverage, partly using money supplied by their employer, as federal and state officials grant employers more latitude. Missouri passed a law earlier this year making it easier for small employers to give workers money toward individual health policies. The Internal Revenue Service has also endorsed the idea of employers reimbursing workers for individual health premiums, lifting a regulatory cloud.

Such trends explain why health care has become a big issue in the presidential campaign. President Bush and the leading Republican presidential candidates generally embrace the idea of individuals shouldering more responsibility and risk for their health care, albeit with help from employers or the government where needed. Mr. Bush sees individual health accounts as one pillar of an "ownership society."



However, such notions have proved a tough sell in Congress. Mr. Bush's tax proposals to encourage a shift away from the employer-based market never got

off the ground.

Currently, people don't get a tax break when they use their own money to buy insurance, and the federal tax system encourages employer-based coverage.

Shifting people to the individual market is problematic for other reasons, at least under the current set-up. It is difficult for people to understand what they're buying, and those with existing illnesses have trouble finding any coverage.

The top Democratic presidential candidates have built their health-care plans around bolstering employer-based insurance, but they also envision more government action to help the uninsured or underinsured. For example, several would impose some kind of requirement on insurers to cover all comers.

In an interview last week, Sen. Hillary Rodham Clinton said people aren't ready to cross employers out of the equation. "We looked at every permutation of how you get to universal health care," said the Democratic presidential candidate. "There's great attachment to the employer-based system, even though it is eroding."

Middle Ground

One question now is whether GM's move may spark consideration of a more radical break with the current reliance on job-based insurance. Cutting off health benefits entirely is still unfathomable to most large employers that need to compete for talent. Instead, more are embracing the middle ground of offering a fixed contribution toward individual coverage.

The new trust for UAW retiree health benefits is likely to hear pitches from consultants about such ideas. By disbursing fixed amounts, and limiting increases, administrators of health-care trusts can avoid running out of money.

Extend Health Inc., partly owned by America Online founder Steve Case's Revolution Health Group, has built a team of 180 insurance agents and a sophisticated Web site to serve retirees at Fortune 500 companies with individual health accounts. Extend has signed six large clients, including Ford and Chrysler, that will be offering retiree health accounts next year. It aims to triple that number by 2009.

The chief executive at Extend Health, Bryce Williams, argues that the paternalistic group model is broken and that companies can't sustain a health-care safety net. "This is about making corporate America competitive again," Mr. Williams says.

Ford estimates its change for salaried retirees will save the auto maker about \$80 million annually, and even more in future accounting liabilities on its balance sheet. In 2006, Ford spent \$1.8 billion on retiree health care for hourly and salaried workers, more than half its total \$3.1 billion health-care tab. Ford has estimated its U.S. health-care costs will increase 6% this year and could level off to 5% growth by 2011 with some of the changes it is making now.

Marcey Evans, a Ford spokeswoman, said the new health-reimbursement accounts for salaried retirees maintain high-quality benefits in line with the company's competitors, while providing a way to control costs.

Ford's Salaried Retirees

When asked about the health-care changes at an August meeting with Ford salaried retirees, Ford Chief Executive Alan Mulally noted that health costs averaged about \$1,200 for each vehicle the company manufactured last year. "We simply cannot add that amount to a vehicle and remain competitive," Mr. Mulally told retirees, according to internal company documents.

Jay Savan, a principal at Towers Perrin in St. Louis, says he is working with a foreign-owned company with 17,000 U.S. employees that is adopting an account-based plan. He says there will be winners and losers depending on workers' annual health-care bill but over time most people should be better off because they can save up health-care dollars when they're healthy. "There is a lot of activity going on with large employers in this area," Mr. Savan says.

Tricia Neuman, director of the Medicare Policy Project at the Kaiser Family Foundation, says this represents a "big change in structure" for retiree health care. "While companies limit their own financial liability, they may end up shifting costs to retirees who may not be able to find comparable coverage on their own," she says. That is particularly true when retirees receive a one-time lump sum that they must stretch out over many years, rather than an annual contribution from the company.

Advocates of this individual-market approach argue that many employers overspend on one-size-fits-all health plans featuring bells and whistles most workers don't need or want. They contend workers then indulge in unnecessary medical care because they are paying only a fraction of the total cost.

But turning individuals loose in the market carries risks. Older consumers will pay considerably more for coverage and many won't even qualify for a policy because of their medical history. The individual market is also still plagued by deceptive marketing of coverage limits, steep rate increases after low introductory prices, insurers' efforts to deny expensive claims and lax regulation in some states.

That is why retiree health care is the primary testing ground for individual accounts, because Medicare shields most retirees from crippling medical bills.

Ford estimates the average salaried retiree and spouse spend about \$2,900 in premiums now for Medicare and Ford's group medical and dental plan. The auto maker says the average couple should save about \$500 on average under the new plan that gives them \$3,600 -- \$1,800 per person -- in a health-reimbursement account.

Some retirees aren't so sure. Nunzio Curcuru, a 77-year-old retired personnel supervisor at Ford's Dearborn, Mich., framing plant, begins radiation treatment for prostate cancer next week and worries about keeping his current doctors when he has to switch Jan. 1 from the Ford group plan to a private Medicare supplement.

"Having \$1,800 doesn't seem like much. A few hospital visits can wipe that out," Mr. Curcuru says. "It is a very anxious moment at my age."

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