

# Retirees' health-care benefits at risk, study warns

August 18 2009

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A nearly two-decade trend that is stripping away employer-provided health-care benefits for retirees in private business will likely continue and could soon hit an even deeper pool of government retirees, new research by a University of Illinois elder law expert warns.

Richard L. Kaplan says the steady erosion of private sector benefits stems largely from a 1992 change in accounting standards that requires employers to project future coverage costs, rather than just booking expenses when payouts are made years down the road.

This year, the same accounting requirements take effect for state and local governments, he said, adding hefty new financial obligations to balance sheets already out of whack amid the nation's worst [economic downturn](#) since the Great Depression.

"When those future costs are disclosed, the pattern has been that stakeholders - in this case taxpayers - say, 'This is too much,' " Kaplan said. "There could be a big pushback from ordinary taxpayers who used to get these benefits and had them taken away or who never got them at all."

Private companies have increasingly scaled back retiree health-care benefits or eliminated coverage entirely to shore up bruised bottom lines and investor confidence, said Kaplan, whose research appears in the current issue of the *Yale Journal of [Health Policy](#), Law and Ethics*.

Among U.S. companies with at least 200 employees, only 35 percent provided any retiree health-care benefits in 2006, compared with 66 percent in 1988. Kaplan says similar tough choices lie ahead for government, where retiree health-care benefits are more common, offered by 48 of 50 states and most local governments.

"Health-care benefits for government retirees are going to face considerable scrutiny, probably for the first time, because the accounting standards will make balance sheets look terrible," he said. "And unlike with pensions, which are at least partially funded, most governments have set aside little or no money for retiree health-care coverage."

Courts have almost universally backed businesses in lawsuits over reduced or eliminated benefits, said Kaplan, a law professor and member of the National Academy of Social Insurance. Employee benefit plans typically include provisions that give employers the right to amend key terms - even after workers have retired - despite objections that such moves amount to breaking a promise with retirees.

Kaplan says early retirees face the greatest risk when benefits are scaled back because they are too young to qualify for Medicare, but old enough to face high premiums for private policies - if they can get coverage at all.

"The peril for them is that they took a reduced pension to retire early and now they have this serious financial exposure for health care," he said. "A major health problem could mean economic ruin."

To plug the coverage gap, Congress should revisit extending Medicare eligibility to age 55, an idea first floated by the Clinton administration in 1998, according to the study, co-written by Nicholas J. Powers, an independent scholar with a law degree and doctorate in economics, and Jordan Zucker, now an associate with the law firm of DLA Piper in

Chicago. Both studied under Kaplan at the U. of I. College of Law.

Kaplan says early retirees might be protected under health-care reform sought by the Obama administration that would cover the uninsured, but that proposal faces uncertain prospects.

Without change, the erosion of retiree [health-care](#) benefits could ultimately throw the U.S. job market out of balance, he said.

"This isn't just an issue for older people. If older workers do not retire, there may be fewer opportunities for young people entering the workforce," Kaplan said. "Our study examined every reported court decision dealing with this issue and found that the message to employees was pretty clear: You rely on your employer's promises of retiree health benefits at your own risk."

More information: The study, "Retirees at Risk: The Precarious Promise of Post-Employment Health Benefits," is available online at [papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1445583](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1445583)

Source: University of Illinois at Urbana-Champaign ([news](#) : [web](#))

Citation: Retirees' health-care benefits at risk, study warns (2009, August 18) retrieved 6 May 2024 from <https://medicalxpress.com/news/2009-08-retirees-health-care-benefits.html>

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