Retiree Benefits - A Hybrid Approach

AmWINS Group Benefits

How a hybrid strategy can help employers and municipalities navigate their retiree benefits challenges.

White Paper

INSIDE

A perfect storm of pressures has put many employers into a tight financial corner with few options. Costly health insurance premiums, accounting regulations and the administrative burden all divert time and money from an organization's core mission. The right answer may not be in one particular plan. It may require a blend of two plans.

Several years ago, auto companies knew they had to do something when the cost of retiree health care added more to the price of each car than the steel that went into manufacturing it. The benefits system for this major U.S. industry was so skewed by providing health coverage for those who had long ago left the factories that the companies could no longer churn out cost-competitive products.

One chose a quick financial fix, shunting its retirees off to a confusing substitute despite the fact that these former salaried employees had been a loyal workforce that contributed to the company's long-time success and profitability. The result was chaos. Another company found a more nuanced solution that tackled the cost problem while still honoring the moral obligation owed to these once-energetic workers.

Today, many other companies face these types of decisions – and they have a choice, just as the auto companies did. By working with a knowledgeable benefits broker, they can make a decision that contains costs while at the same time giving retirees the helping hand they need to make sensible choices about health insurance. The answer is a hybrid strategy that combines the best of group and individual options to give both employers and retirees what they need.

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THE MOUNTING PRESSURES

A perfect storm of pressures has put many employers into a tight financial corner with few practical options. Health insurance premiums continue to soar, outstripping inflation and showing no signs of the leveling off once promised by politicians as they embraced federal reform. Accounting regulations require future obligations, such as retiree health care, to be carried on the books as current liabilities. The administrative burden of complying with government mandates and making complex benefit plans work well for those covered, diverts time and money from an employer's core mission.

Finding a way out from under all of this is made more difficult by collective bargaining, contractual agreements, a sense of fairness – and often the awareness by employers that someday they, too, will be retirees and will want to be treated well.

At the same time, retirees are facing an avalanche of information, some of it helpful, much of it needlessly scary, and all of it murkily interwoven with inaccuracies that make good decision-making difficult. If they shop by cost, they may find out that certain benefits are not provided until they are in the position of needing coverage and it is too late. If they select a high-priced plan, they may be getting coverage they will never need and should not waste resources on.

Can they keep the doctors they have relationships with? Will their current medications be covered – and what if those prescriptions change over time? When do policy limits apply and what level of deductibles or co-payments makes sense for their situation? These and many more questions make finding the right health insurance coverage much more difficult than the complexity of selecting a telephone plan or buying a new car – and because it involves health, the implications for making the wrong choice are much more worrisome.

START WITH THE DESIRED OUTCOME

If having an equitable, affordable and effective health option for retirees is the end goal, what would that option look like and how would an employer get there? If employers were making a wish list of how such a plan would work for them, it would look something like this:

- Control the long-term liability (and the current impact on their balance sheet) of providing health care coverage for retirees who are eligible for Medicare.

- Eliminate the procedural headaches and costs of complying with federal ERISA regulations that come into play with group health plan offerings.

- Reduce the Human Resources workload that comes with the role of retiree benefit administrator, including answering questions and resolving problems for covered members.

- Retain the reputation of the company and the good will of the retired workforce by finding a solution that is socially responsible and transparently beneficial for those covered.

A list from the retirees about what would work for them might include:

- Keep the same level of coverage they currently have, with the opportunity to choose among options if they are interested in something more or different than their current benefit.
- Receive information that is reliable, easy to understand, and comprehensive enough to avoid unpleasant surprises.
- Have access to a source for timely answers when they have questions, preferably with options they are comfortable with (online for some, telephone for others, and face-to-face meetings as needed).
- Feel respected and honored as a valued group that at one time made important contributions to their employer's success.

While the lists may read differently, they are not mutually exclusive. A solution can be created that meets the needs of both interest groups.

EARLY EFFORTS FELL SHORT

The dilemma of what to do about retiree health care is hardly new. Employers have experimented with different options, such as carving out retirees from their active workforce to arrange coverage customized to an older population's needs. In some cases for very large companies with unionized workforces, trust funds have been established to set aside financing for health care and turn over the administrative function to a body that is independent from the employer. While these are effective alternatives for some employers, they are not broad-based solutions that fit everyone's needs.

More recently, the phrase "Medicare Exchange" has come into frequent usage. (This should not be confused with the health care exchanges that states are now setting up under 2010's federal health insurance reform act.) The Medicare Exchange concept involves the employer defining a stipend that each retiree will receive and then leaving the retiree to make selections from an "exchange" that lists multiple individual plan options for a variety of Medicare products including Medicare Advantage, Medicare Supplement and PDP plans.

The advantage for employers is cost certainty (a set amount multiplied by the number of retirees). In addition, they are no longer subject to the group-plan restrictions and requirements of ERISA.

The drawbacks for retirees, however, are significant. Tossed into the marketplace, they must make difficult decisions with no clear indication of how to compare available choices with current benefits. The typical promised technical support, whether in the form of meetings, phone calls or online resources, may be overwhelmed by the number of retirees trying to access assistance. Dependent now on individual policies, the retirees may be caught up in pricing variability that quickly outstrips what they experienced with group premiums.

What started out as an attractive option for employers often degenerates into the type of mess they were trying to avoid, with emotions running high, escalating demands on HR resources, and negative reactions that may spread from the dissatisfied retirees into the current workforce's morale and attitudes about the employer.

Employers can structure an alternative that gives their former employees the option of an individual plan or a group plan similar to their current coverage.

A BETTER ALTERNATIVE

We can return to the auto industry for both an analogy and an example of a better solution.

First the analogy. Auto makers were stuck in neutral for years, trying to produce a vehicle that could use an alternative fuel. Electric-powered cars barely got off the drawing board, suffering from high battery costs and a low traveling range between recharges. Gasoline engines gave consumers coverage for long distances but continued our addiction to oil and contributed to pollution.

It was the introduction of the hybrid that finally put alternative-fuel cars on the road in a big way. Drivers now had a car that used electrical power for their trips around town, while retaining the gasoline engine's capability to go the distance without running out of power.

Similarly, a hybrid strategy can give both employers and retirees the outcomes they are looking for when it comes to health care benefits. Instead of a pure Medicare Exchange approach, employers can structure an alternative that gives their former employees the option of going to the free market to pick an individual plan or selecting a custom-designed group plan that is similar to their current coverage.

One of the major auto makers did just that, contracting with separate companies to give their salaried retirees the choice. The result was a well-ordered transition, with some retirees self-selecting to keep their coverage similar to the group plan they were used to. Others enjoyed the new freedom of selecting coverage that could be individualized to suit their needs. The company escaped the requirements of ERISA, brought certainty to this portion of retiree health care costs, and was comfortable that retirees had been treated fairly.

DOES IT WORK FOR SMALLER COMPANIES?

The auto manufacturers are some the largest businesses in the world. Can other companies, most of which are smaller and have less leverage with health insurers, manage the same hybrid strategy?

Of course they can. Whether dealing with multiple insurance brokers to set up different portions of the hybrid or working with a single benefits expert that can offer the combination in one package, an employer can find a partner who will help them deliver the key elements of the hybrid approach:

- Carve out the retiree population and drop their group health plan (eliminating ERISA constraints).
- Provide an annual subsidy for retirees to purchase health insurance (bringing cost certainty to the employer’s balance sheet while continuing the employer’s commitment to take care of retirees).
- Guarantee that one of the options retirees have provides comparable coverage to their current benefit coverage, typically on a group platform (avoiding disruption for retirees who have no interest in shopping for new insurance).
- Require the broker or carrier to support retirees with adequate resources to evaluate choices (freeing up HR staff while ensuring that retiree problems and questions are addressed).

Employers looking for a responsible solution to their retiree health care dilemma can adopt a hybrid strategy knowing they have kept faith with retirees and served their company’s best interests at the same time.