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## Technical Bulletins: Medical Benefits for Retirees

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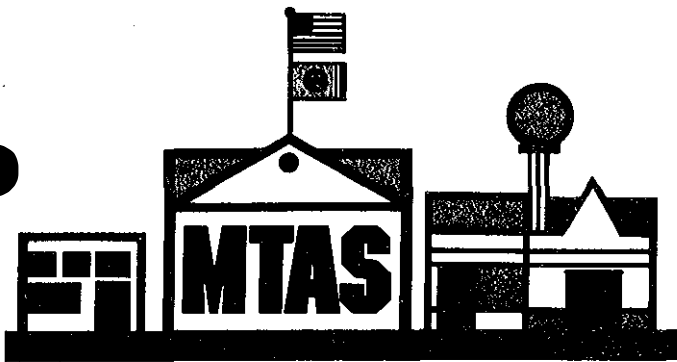
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# TECHNICAL BULLETIN

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## MEDICAL BENEFITS FOR RETIREES

by

M. Michael Tallent, MTAS Management Consultant

Some Tennessee cities already may offer medical insurance benefits to their retirees. Other cities may be considering offering such benefits. If so, possibly the greatest factor to consider is cost. This is a two-fold problem for retiree medical benefits: it is affected by the increasing cost of medical care, which rises even more rapidly for people 65 and over; and it is affected by reduction of Medicare participation as the primary or secondary source of coverage. Medicare's past reductions and highly possible future reductions result in the other provider, i.e., the city and its insurer, having to assume a larger percentage of the costs.

Cities which currently provide retiree coverage or may be considering providing such coverage, should conduct an analysis of costs that looks well into the future, perhaps as much as 20 years. Such an analysis might consider life expectancies, medical cost inflation, Medicare benefits, plan of benefits, and changes in the utilization of health care (as the retired workforce grows older, utilization will increase.)

An example in Texas Town and City utilized current life expectancies, an annual medical cost inflation rate of six per cent, **stable Medicare benefits**, and annual utilization increases of five per cent. The result was a 616 per cent increase from 1983 to 2000 in what the employer-sponsored plan paid per retiree.

If an analysis is conducted and the result is a cost that the city wishes to avoid, the city might consider capping its participation in retiree premiums or modifying its plan as it pertains to retirees.

Even if cities do not review their benefits program or conduct a cost analysis, they should be aware of what they are providing and how it might be interpreted. A 1984 federal case, involving Bethlehem Steel Company, found a federal court agreeing with the company's retirees that:

- a. Employee handbooks did not specify that health and life benefits were not guaranteed,
- b. Employee literature implied that benefits were permanent, and

- c. Some personnel officers had told retirees that they would have the benefits for life.

This case stemmed from the company's modification of its health benefits for retirees as an attempt to offset the continual increases in health insurance. These modifications included the standard lowering of benefits or the increasing of retirees' premium costs.

Even though this case probably will be appealed and may even go to the Supreme Court, it should be noted.

Cities providing or anticipating providing medical benefits to retirees, and perhaps even to active employees, should review their handbooks and other printed material to be sure there is not an implication of permanence or guarantee. Furthermore, administrative personnel should be cautioned against statements that imply a permanent or guaranteed medical benefit is provided.

If medical costs and the insurance to cover those costs continue to grow at the pace established in the past five to ten years, cities will have to be more cautious regarding the enhancement or extension of benefits, especially to retirees.

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