# Minimizing Retiree Health-Care Benefits

## *Can medical trusts be the answer to the shrinking retiree health-care benefit?*

Jessica B. Mulholland | August 2010

As government budget shortfalls continue, retiree health-care coverage could be the next item to see pressure for cutbacks. Traditionally many employers, both public and private, offered continuing health coverage after retirement, but this benefit is draining government coffers and could be reduced if not altogether dropped.

Courtney Coile, a research associate at the Center for Retirement Research at Boston College, told MSN's Bankrate.com that companies with 200 or more workers that offer retiree health insurance fell from 66 percent in 1988 to 33 percent in 2005. "Future retirees are less likely to have retiree health insurance," she says, "and those who [do] are likely ... to pay more for it."

And the picture gets worse: According to a Center for Retirement Research report, a typical married couple age 65 will spend about $197,000 on insurance premiums and out-of-pocket health-care costs for the remainder of their lifetime.

But a solution is on the horizon. One state -- New Hampshire -- is implementing a "retiree medical trust" to help workers cope with rising health-care costs after retirement. State Sen. Harold Janeway, who led a commission on retiree health-care benefits, has called the trust a "supercharged health savings" because it escapes all taxes. "It accumulates tax-free," he says, "and then when it comes out to pay for medical costs, it isn't taxable."

The state is still working out the logistics, but a retiree medical trust is a fairly straightforward concept: Employers either transfer employee money or make their own contribution, and this combination of funds is deposited into one big pool, says Shana Saichek, a California attorney who created the concept 20 years ago. It operates similarly to a defined benefit pension, but the money -- which can be used solely for health-related expenses -- is pooled, and the trustees maintain an actuary who looks at the income, demographics, investment and returns, and then projects the payout benefit to retirees with varying years of service.

The payout amount is graduated, so a career employee of 20, 25 or 30 years may receive a benefit of $600 per month; however, the benefit isn't vested. "So this year, the trustee set the benefit for $600 a month for a career employee," Saichek says. "If there's a drop in the market, the benefit might go down next year to $550. And the following year it could go up. It's variable."

The retiree medical trust is more beneficial than an individual health savings because once the individual retires, he's no longer investing in an account. "You're going to get very conservative with it to save the principle, whereas if you stay in this pool that has money continually being contributed into it, the trustees continue investing in a balanced account," she says. "That means you're going to have better long-term returns, which is more money for benefits. It's a very important distinction from an individual account."

Local unions representing firefighters and police officers in California, Oregon and Washington state, to name a few, have used this approach for many years. But in mid-May, the New Hampshire Legislature made the state the first in the nation to formally support this strategy; however, individual state agencies, cities and counties must negotiate terms with their unions.

And the unions and employees' associations see this strategy as the way to go, says Gary Smith, president of New Hampshire's State Employees' Association (SEA). Smith says SEA is working to open its members' eyes to the fact that public employers are under a lot of pressure to jettison the liability -- to dump the benefits, so to speak. "That would be devastating to retirees," he says. "They're already making meager pensions that aren't keeping up with the cost of living. If the cost of their health care got shifted onto them abruptly because the public employers dropped that commitment, then we're going to be in a world of hurt." SEA is currently looking at ways to address that, and is working with the state on providing a sustainable benefit for retirees while simultaneously working to address the liability of it.

"This is an evolving conversation," Smith says. "But with respect to this environment as it's unfolding, I think we're being responsible and proactive. And the state is not relieved of this burden; we're saying, 'Let's work on this jointly, productively and proactively.'"

Saichek says she wouldn't be surprised if this concept expands to more state and local governments. "Everybody's facing a budget crunch, and retiree health-care cost is a growing problem," she says. "It's an approach -- [and] one solution -- to that problem."