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TODAY'S ISSUE: HEALTH CARE

Cost of health care coverage for retirees is national crisis in the making

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The tremendous cost of providing health care coverage to its 1.1 million employees, retirees and their dependents is hitting General Motors Corp. hard.

The automaker recently suffered its largest quarterly loss in more than a decade, and it placed the blame squarely on its mounting health care obligation. GM estimates that this massive fixed-cost burden — which could increase to nearly \$6 billion this year — adds \$1,400 to the sticker price of every car and truck built in the United States, putting GM at a significant disadvantage with foreign competitors.

GM is hardly alone. Ford estimates its costs at \$4 billion. Truth is, the

deterioration of employer-provided health plans covering millions of retirees at countless companies is a national crisis in the making. Even more than their cousins, the pension plans, these woefully underfunded health programs have piled up promises to retirees that they can no longer keep unless dramatic steps are taken now.

How did we get into this mess? A major cause is the fact that companies are not legally required to set aside funds to match their retiree health care obligations. Nor are they barred from changing medical benefit coverage in midstream for retirees, since these benefits are not considered “earned,” or vested, in the same way pensions are under the Employee Retirement Income Security Act (ERISA).

Protecting retiree health benefits through some type of minimum funding and vesting requirements act, modeled after ERISA, would be a huge step in the right direction. But this much-needed “stick” would need to be accompanied by a “carrot” of compelling funding vehicles and tax incentives to help companies adjust to the new requirements. At the very least, tax advantages should be equalized for both pension and retiree health plans.

Policymakers might want to consider funding health obligations, but only on a forward-looking basis (i.e., for current employees, rather than for current retirees) to minimize the employer burden. They should also consider providing some form of tax exemption to ease the plight of employers.

Any new legislation should also address the issue of vesting. Retiree health benefits are typically “all or nothing” propositions: If an employee leaves the company before retirement age, he or she forfeits all benefits. This practice runs counter to the view of many experts in the field that employees “earn” these benefits through the time they’ve put in, just as with pension accounts.

Ultimately, the government may have to create a Health Care Benefit Guaranty Corp. similar to the Pension Benefit Guaranty Corp., which guards some 44 million Americans against losing their retirement incomes in the event their companies go out of business or default on their pension obligations.

For now, public policymakers must focus on fixing a system that threat-

ens to come apart at the seams. In light of the parlous condition of the nation’s pension system, medical benefits are a problem they are not eager to deal with. But as a nation, we can no longer ignore the reality that the private sector has run up retiree medical commitments on which it is struggling to make good under existing law. We need to correct that inequity before it turns into a national crisis, one in which retirees will suffer the most.

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