IBM latest company to shift retirees to private health exchange

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IBM plans to shift many of its retired workers from its company-administered health care plan to a privately run health care exchange. The move is part of a growing trend by employers to dump their workers off traditional company plans as health care costs rise.

Though not directly connected, IBM's decision mirrors a provision of the Obama-backed health reform, which will require those without insurance through their employers or other source to purchase private insurance on government-run exchanges or face a penalty.

About 110,000 IBM retirees who are eligible for Medicare will be affected by the IBM move, beginning January 1, 2014. IBM will provide annual contributions to health retirement accounts, which retirees must then use to buy Medicare Advantage or supplemental Medigap policies through Extend Health, the country's largest private Medicare exchange. The change will affect medical, prescription drug, dental and vision coverage.

A growing number of companies are moving to shift health care costs onto the backs of retirees. "Health care costs under IBM's current plan options for Medicare eligible retirees will nearly triple by 2020, significantly impacting your premium and out of pocket costs," IBM informed its retirees in a notice obtained by the *Wall Street Journal*. In other words, the company has no intention of footing the bill for these increased costs, which are due in large part to private insurers hiking their premiums.

New York-based Time Warner, the multinational media company, will also move its retirees to a private exchange, effective January 1, 2014.

Exchanges such as Extend Health offer policies from a range of private insurers, with differing coverage, deductibles, co-pays, etc. While this is presented as offering retirees and others a "choice" in coverage, the reality is that the cheaper policies will provide inferior coverage with more out-of-pocket expenses. IBM retirees will only have the option of purchasing insurance through Extend Health, and those who choose not to participate will not receive the company contribution to their health retirement account.

Utah-based Extend Health, owned by Towers Watson & Co., has seen a huge surge in business since it was founded in 2004, as more companies shift retirees to the private insurance exchange. The company, which had only three corporate customers at the end of 2007, now has around 300 companies signed up to its operations.

Extend Health saw $67 million in fiscal year 2012 revenues, a 31 percent year-on-year increase. The company has nearly 50 clients in the Fortune 500, including Caterpillar Inc. and DuPont Co. Dupont moved about 80,000 retirees to the private exchange beginning in January of this year.

While enrollment in the private exchanges currently accounts for only 10 percent of corporate retirees, this figure is expected to explode in the coming year—both for retired and current employees. Last year, Sears Holdings Corp., owner of nearly 2,500 retail stores in the US and Canada, shifted active employees to Extend Health. Darden Restaurants, which operates chains such at Red Lobster, Olive Garden and Capital Grille, also moved its more than 200,000 workers to Extend last year.

CNBC reports that health consultant Accenture predicts that the number of people enrolled in private health exchanges will mushroom from 1 million this year to 40 million by 2018. This would mean that nearly a quarter of the estimated 170 million people presently enrolled in company-sponsored health plans

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would be dumped by companies onto the private exchanges by that date.

In similar fashion to companies shifting workers from "defined benefit" pensions to 401(k) plans, a growing number of companies are moving to renege on longstanding unwritten agreements to provide health care coverage to their employees. As with the move to 401(k)s, the resulting benefits are inferior, with workers assuming the monetary burden.

As will be the case on the Obama-sponsored health care exchanges, those workers, retirees and their families who cannot afford to purchase decent coverage on the private exchanges could face massive out-of-pocket costs, or may have to forgo vitally needed services and treatments if they cannot afford to pay for them.

In all likelihood, the cut-rate policies obtained through the private exchanges will be deemed "affordable" and adequate under the Affordable Care Act, and individuals offered them through their employer will not be entitled to government subsidies to purchase insurance through the ACA-run exchanges.

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