Blue Cross retirees in Michigan to protest health benefit cuts

E. Galen
25 October 2016

Thousands of retirees from Blue Cross Blue Shield of Michigan (BCBSM) face huge increases in their health care costs after the company decided to end employer group coverage on December 31, replacing it with individual health care coverage through a private exchange administered by Towers Watson, a business consulting firm.

BCBSM announced the change from group to individual coverage in June, but gave retirees no information on the costs of the health plans they would be offered. At the start of October, Medicare-eligible retirees could view the plans online, and they were shocked and angry at the company's effort to shift the burden of health care costs onto them.

A group of retirees have organized a rally at the BCBSM corporate headquarters in Detroit on Thursday, October 27, from 2:00 p.m. to 4:30 p.m., to protest the proposed changes. Some 3,200 nonunion retirees are affected by the change this year. Thousands more union retirees will lose group coverage at the end of 2017.

The Blue Cross retirees are especially outraged over the role of BCBSM CEO Dan Loepp, who is believed to be preparing the company, once the health insurer of last resort in Michigan, to go for-profit, or merge it with one of the half-dozen largest nationwide health insurers. Loepp is looking to push his own pay package, already $9.0 million in 2015—at a nominally not-for-profit company—up from $7.4 million in 2014, to an eight-figure bonanza.

Blue Cross mouthed the usual corporate platitudes about giving retirees more choices to buy a plan that meets their individual needs. The shift from group to individual coverage, however, is like dynamiting a comfortable apartment building so that the residents each have the "freedom" to build their own individual shack.

With employer group coverage, companies buy health insurance and offer it to employees. The health plan provides defined benefits. For example, a plan may provide doctor office visits, diagnostic X-rays and lab services, and exclude chiropractic services. Employees pay a portion of the premium, as well as a deductible and copayments, also called out-of-pocket costs, which vary depending on the health plan.

With individual coverage, the employee or retiree must buy the insurance, paying the premium, plus out-of-pocket costs. The new health plans are defined contribution plans. Blue Cross contributes a small subsidy toward health care costs, in what is called a health reimbursement arrangement, leaving the balance of the costs being paid by retirees. As health care costs continue to soar, the higher costs will fall on the individual to pay. Many of the drug plans have a $400 deductible, which is Medicare's maximum amount.

One Blue Cross employee described his current group plan and compared it to individual plans being offered on the private exchange for next year. "I retired after 20 years with Blue Cross. With the group coverage Blue Cross offered retirees, I paid a little over $200 a month for *three* people—me and my wife, who are eligible for Medicare, and one dependent. Our plans were great, with no deductible, $10 doctor visit copays and most other things 100 percent covered. The plans also included drug coverage.

"When I looked at the Medicare Advantage plans Blue Cross is offering through the exchange, I couldn't believe it. The web site estimates the total you'd pay in a year for each plan based on premium, drugs and medical costs. I'm in good health and the estimated cost for me under the new plan ranged from $6,000 to $11,000 per year—just for me. Additionally, I'd also have to pay the Medicare Part B premium, which is another $1,400 a year. You know what Blue Cross is giving me per year toward my costs? $2,000! No wonder people were furious."

Many corporations are sending Medicare-eligible retirees to large companies such as Aon Hewitt, Towers Watson and Mercer, which offer health care exchanges, to administer benefits. These include giants like IBM, Time Warner, Starbucks, Walgreens, Hallmark Cards and Darden Restaurants (Olive Garden and other chains). Bruce Richards, from Mercer, said a private exchange can save companies about 10 percent to 20 percent on their older-retiree coverage.

Aon Hewitt surveyed public and private entities in November 2015. The survey results were published this year in Aon's 2016 Retiree Health Care Survey, titled "Retiree Health Care Design and Strategy in a Post-Reform Environment: Continued Growth of Exchange-Based Strategies."

The survey focused on plan sponsors that offer health care benefits to retirees and their families, and on their strategies related to the retiree health care aspects of federal health care reform. Sixty-six percent of those who responded either already have made retiree strategy changes as a result of Obamacare or expect to do so in the near future.

Aon noted that under the Obama administration's Affordable Care Act (ACA), employer-sponsored group health plans that cover actives and retirees are subject to certain insurance market reforms, such as the extension of dependent coverage to age 26 and no lifetime dollar limits on essential health benefits. More employers are splitting their active and retiree health plans in order to exempt retiree-only plans from any ACA requirements that may occur in the future.

In 2013, the ACA ended the tax-favored status of the Retiree Drug Subsidy (RDS) program. In response, a majority of employers (61 percent) expect to change their strategy for managing either health benefits or drug benefits (Medicare Part D) or both. The Centers for Medicare & Medicaid Services (CMS) started the RDS in 2005 to encourage health plan sponsors to provide good drug coverage to their retirees by providing a tax-free subsidy to help cover the cost of drug coverage.

The Aon survey asked health plan sponsors: "Are the changes under federal health care reform impacting your long-term retiree health care benefits strategy?" Sixty-two percent answered yes.

It is very clear that the ACA is giving incentives to health plan sponsors to reduce their costs and destroy the right to good affordable health care for retirees. The strategies being used today to cut health care coverage for retirees will increasingly be used against active employees.

The Society for Human Resource Management published a report this year called "Strategic Moves: The Exchange Option for Retirees" that noted that more and more companies are dropping their retiree group coverage in the post-Obamacare world.

An additional factor is that the cuts in benefits are tending to feed on themselves. As many companies cut retiree benefits for new hires, their pool of covered beneficiaries grows older and sicker on average, driving up costs and the premiums on their group insurance. Then the firm cuts health care benefits just when people need them the most. BCBSM, for example, stopped providing retiree health benefits for new hires in 2009.