IBM to Move Retirees Off Health Plan

Big Blue's Health-Exchange Move Ends Once-Common Benefit

By Spencer E. Ante

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[International Business Machines](http://quotes.wsj.com/IBM) Corp. [IBM +0.60%](http://quotes.wsj.com/IBM) [**IBM**](http://quotes.wsj.com/IBM) **in** Your Value Your Change Short position plans to move about 110,000 retirees off its company-sponsored health plan and instead give them a payment to buy coverage on a health-insurance exchange, in a sign that even big, well-capitalized employers aren't likely to keep providing the once-common benefits as medical costs continue to rise.

The move, which will affect all IBM retirees once they become eligible for Medicare, will relieve the technology company of the responsibility of managing retirement health-care benefits. IBM said the growing cost of care makes its current plan unsustainable without big premium increases.

IBM's shift is an indication that health-insurance marketplaces, similar to the public exchanges proposed under President [Barack Obama](http://topics.wsj.com/person/O/Barack-Obama/4328)'s health-care overhaul, will play a bigger role as companies move coverage down the path taken by many pensions, paying employees and retirees a fixed sum to manage their own care.

In notices signed by Chief Health Director Kyu Rhee, IBM has told retirees in recent weeks that to keep receiving coverage, they will need to pick a plan offered through Extend Health, a large private Medicare exchange run by New York-based Towers Watson & Co.

Medicare is the federally administered system of health insurance for people age 65 and over, and the disabled. Some people buy Medicare Advantage plans, administered by private insurers, and others buy policies to cover gaps in Medicare coverage.

IBM told retirees that its current retiree coverage will end for Medicare-eligible retirees after Dec. 31, 2013, according to documents reviewed by The Wall Street Journal and confirmed by IBM.

"Cost increases under our current retirement group health care plan are no longer sustainable for you," IBM said in the notices. "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," the notice said.

Exchanges such as Extend Health generally present policies from a range of insurers and let participants choose what best meets their needs and budgets. The aim is to create competition that keeps costs down.

Instead of subsidizing retiree health premiums directly, IBM will give retirees an annual contribution via a health retirement account that they can use to buy Medicare Advantage plans and supplemental Medicare policies on the exchange, as well as pay for other medical expenses. Retirees who don't enroll in a plan through Extend Health won't receive the subsidy.

Some companies began experimenting with exchanges around eight years ago after accounting changes forced public corporations to disclose future health-care obligations.

The pace has picked up recently, with IBM among a growing number of large, successful companies that are moving retirees to exchanges. Extend Health said it has signed up about 300 companies, including large corporations such as [DuPont](http://quotes.wsj.com/DD) Co. [DD +0.11%](http://quotes.wsj.com/DD) [**DD**](http://quotes.wsj.com/DD) **in** Your Value Your Change Short position and [Caterpillar](http://quotes.wsj.com/CAT) Inc. [CAT -0.06%](http://quotes.wsj.com/CAT) .**[CAT](http://quotes.wsj.com/CAT) in** Your Value Your Change Short position

Privately run insurance exchanges are starting to find interest from companies looking to control health-care costs for active employees as well. The approach was adopted last year by Sears Holdings Corp. and Darden Restaurants Inc. Many insurers and benefits-consulting firms are setting up such exchanges.

The moves are independent of President Obama's health-care overhaul, which calls for publicly administered insurance exchanges that will go live next month.

"I think employers are slowly but surely trying to put some distance between themselves and these programs," said Gary Claxton, vice president of Kaiser Family Foundation and former Deputy Assistant Secretary for Health Policy at the U.S. Department of Health and Human Services. "They don't have to be the person that takes away the coverage."

IBM's Mr. Rhee said in an interview that IBM isn't making the change to cut costs, but to provide retirees with more-sustainable coverage. He also said the exchange can provide retirees with a broader range of plans and more control over how IBM's contribution to their health coverage is spent.

IBM executives said the company capped health contributions to retirees around two decades ago and more recently stopped contributing to retiree health care for employees hired after the end of 2003.

Bryce Williams, managing director of Towers Watson Exchange Solutions, which runs Extend Health, said the exchange is becoming popular because it gives companies a way to continue offering health care to retirees as medical costs for that population explode.

"Companies were turning off plans," he said. "We've given them a proven way to subsidize. At some point every single retiree will join a Medicare exchange."

DuPont began using the Extend Health exchange for Medicare-eligible retirees in January. The move was done to stabilize costs and simplify administration of retiree-health benefits, said a DuPont spokeswoman. A Caterpillar spokeswoman said the company has been an Extend Health client since 2009.

Few employees can now count on big companies to provide retirement health care. Only 28% of large companies that offer health benefits to employees offered retiree coverage in 2013, down from 34% in 2006 and 66% in 1988, according to a 2013 survey by the Kaiser Family Foundation.

IBM said it would tell retirees what the subsidy is around Oct. 1. IBM and Extend Health said nearly all retirees will be able to enroll in plans that will be of equal or better value than plans IBM currently offers.

Some union-affiliated groups and retirees weren't convinced. Lee Conrad, national coordinator for the IBM Global Union Alliance, said the worker group "sees this as just another take-away of retiree and employee benefits."

Donald Parry, an engineer who retired in 1992 after nearly 32 years at IBM, said he is concerned he may have to pay more. "The worst thing right now is not knowing what's going on," said Mr. Parry, who lives in Fruit Cove, Fla.

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