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Q *What's the single most important issue, or investment, HR executives should be considering in the year 2005?*

Balancing the health needs of retirees with the company's bottom line has become an increasing challenge for many organizations. With the recent passage of the Medicare Modernization Act, human resource executives should begin developing a long-term strategy for their retiree health-benefits program that leverages the latest cost-savings opportunities while continuing to offer value to retirees.

Since the introduction of FAS 106, fewer companies are offering retiree health benefits. Those companies that have continued to offer benefits are seeking ways to lower their future liability and shift more of the financial responsibility onto retirees. Increasing retiree premiums, co-pays, deductibles and out-of-pocket maximums are some of the strategies that are being deployed. Stronger measures include providing access only to group-plan rates or eliminating benefits for employees who retire after a certain date. The introduction of a Medicare Prescription Drug Benefit in 2006 will only accelerate these trends.

There is now a broad range of

self-funded and fully-funded benefit options in the marketplace that can dramatically lower liability through innovative plan design and defined-contribution approaches. For companies that have imposed liability caps on retiree health spending, offering additional plan options and access to discounted health services gives retirees greater choice in how to spend their health dollar.

Care management should be a major component of any retiree benefit package. A care-management program specifically tailored to retirees can help drive better health outcomes and significant savings. On occasion, as few as 3 percent to 5 percent of retirees can be responsible for up to 50 percent of overall health spending for a given population. These high-cost retirees typically suffer from multiple chronic conditions and require intensive-care management techniques and behavior modification to improve health and lower costs.

To achieve a truly comprehensive solution that will last over the long-term, HR executives should not limit their focus to current retirees. The solutions put in place need to not only address the needs of the 76-year-old executive who retired 15 years ago, but also the 50-year-old manager who is contemplating

retirement in the next five years as well as the 25-year-old administrative assistant just hired yesterday. New funding vehicles such as Health Savings Accounts (HSA) could eventually become the health equivalent of 401(k) plans and provide for future retiree health costs with minimal up-front investment by employers.

If changes are made to your retiree medical benefit, proactive and concise communication is essential. Most retirees will respond to changes better if given enough advance notice and the reasons behind the decision. A client we recently worked with that had increased the retiree premium was able to temper retirees' criticism by holding a series of meetings about the plan changes at various locations around the country. They also provided comparison information on what was available in the individual insurance market, demonstrating that the company plan, even after the changes, still provided great value.

Ultimately, the goals of a retiree health benefit program should be to reward former employees with enhanced security during retirement while providing your organization a competitive edge in recruiting new talent. With the right strategy and solutions, these goals are achievable and can be sustained without impairing the bottom line.