

research dialogue

EXECUTIVE SUMMARY

THE OUTLOOK OF RETIREE HEALTH BENEFITS

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The outlook for continued employer sponsorship of retiree health benefits has not been very positive for some time. This discussion looks at what employers have done in regard to sponsoring these benefits generally and then looks at what employers in higher education are doing for retired faculty. Highlights of the article include:

Employers stumbled into offering these benefits in the 1950s and 1960s

- There were not many retirees so costs were relatively low
- The cost of health care generally was not all that significant
- The implementation of Medicare further reduced costs

In the mid-1980s, accounting and financing of these benefits became troublesome

- The Financial Accounting Standards Board (FASB) required that costs and liabilities be reported
- Federal legislation limited for-profit companies' ability to fund the benefits as they accrued
- The net result was large unfunded obligations leading many firms to curtail benefits

In higher education, parallel trends are now having an effect

- The Government Accounting Standards Board is applying to government entities rules that are similar to FASB rules
- The cost and implications of benefits will now be understood
- Pattern of curtailment of benefits has been less severe than in the private sector so far
- The reality of health cost pressures, tighter budgets and growing retiree populations will create new pressures to further restrict these benefits and shift costs to retirees
- The Medicare drug benefit may give many institutions of higher learning the cover to get out of the retiree health benefit business

