

## Retiree health concerns present opportunities for advisers

*It's not too late to dive into retiree health. Experts say Medicare Part D and new accounting standards make 2006 the perfect time for advisers to start...*

by Robert L. Whiddon

January 1, 2006 - It's not too late to dive into retiree health. Experts say Medicare Part D and new accounting standards make 2006 the perfect time for advisers to start a conversation with their clients about what to do with costly retiree medical benefits. Opportunities abound, regardless of whether the goal is to preserve existing revenue or help the client shave some costs from the active employee case.

For too long, advisers have ignored the issue and abandoned revenue, according to Sam Fleet, president of Warwick, R.I.-based administrator National Employee Benefit Companies (aka NEBCO), which specializes in retiree medical and pharmacy benefits. "Medicare D is a perfect opportunity for benefit consultants," he says.

Some advisers are jumping on that chance. Fleet notes that he is quoting 20 times the number of companies he was a year ago. Many of these opportunities come through referrals from brokers and advisers. Fleet attributes the increase in business not only to Medicare Part D but also to concerns over hitting a retiree medical cost cap.

The cap is a result of accounting standards changes made in the mid-1990s that required businesses to report their current and projected retiree medical costs. Companies each matched a projected retiree medical cap with an estimate for when they would hit it—a 10-year horizon was a common choice. Next year, many firms will have to decide what they want to do, if they have not already done so. Terminating or cutting retiree benefits are the most popular options, according to Fleet.

"[Employers] are setting a line in the sand," he says.

### **Adviser reluctance**

Clients are ready to take action to limit costs, but advisers often are not. Fleet says that many brokers are both uninformed and ill equipped to deal with a client's desire to dump their retiree health plans. The result? Lost revenue. Without a plan, the employer may simply cut the benefit and leave the employees to search the individual market for coverage, skirting the group adviser entirely.

"Many [advisers] don't seem to see the opportunity in retiree medical benefits," says Bruce Bayuk, a partner in the Providence, R.I.-based firm National Retiree Health Benefits. Bayuk, with NEBCO's help, does, and he expects the market to "explode."

Revenue preservation is predicated on participation protection. The trick is to wean retirees off an employer-sponsored benefit. A five-to-eight-year exit strategy works for many employers. Retiree contributions are phased in over that time. When the benefit finally becomes 100% voluntary, retirees by then are used to paying for it.

"The ideal scenario is to ease them into it, obviously," says Fleet, who notes that NEBCO sometimes has to handle immediate terminations. "We're able to get anywhere from an 80% to 97% participation rate."

The key, whether the change is gradual or sudden, is communication. NEBCO, for instance, spent years helping salaried employees retain their benefits through bankruptcies and

therefore has experience in putting a positive spin on benefit cuts.

It is essential, Fleet says, that the employer not be conflicted about the decision. He cannot undercut the effort. Doing so only sets up a one-two punch for the employees. First, they lose employer-sponsored coverage. Second, if only a handful make the transition from the employer-sponsored program to the separate voluntary benefit, adverse selection can result.

"At renewal time, you get a huge rate increase and so now the retirees that participated in that voluntary plan are getting whacked with double-digit rate increases," Fleet says.

Despite the fact that firms like NEBCO prove there is money to be made or salvaged from retiree medical, some advisers just don't want to fuss with that population. Still, it is advantageous for them to broach the issue with their clients.

### **Taking advantage**

"If you have a way to separate [the retirees], that can cause some positive results for the active population in terms of that risk being looked at more favorably," says Dana Dallara, vice president of group benefits for Plymouth Meeting, Pa.-based Dietrich & Associates. There may even be some money to be made by going this route. Dallara says his firm will occasionally work out a revenue split for referred business, but stresses that advisers who are committed to their clients should just be happy they've found a potential solution to the retiree health problem.

Dietrich & Associates President Kurt Dietrich contends that voluntary employee benefits associations, or VEBAs, will become more popular as more employers look to move retiree health obligations off their books. The structures, which are created to pay life, sick, accident and similar benefits to members or their dependents, received attention recently when General Motors said it would create a VEBA to mitigate its decision to cut retiree health benefits.

VEBAs are not perfect, though. Dietrich says the fact that they are usually dry funded is a concern. His firm uses annuity products to allay concerns about funding pay-as-you-go arrangements.

"Even if a company agrees to set up a VEBA, they can always stop funding it," Dietrich explains. With an annuity-funded agreement, the funds will be available to pay for the retirees' benefits.

There are several opportunities that exist, regardless what approach an adviser takes with retiree health, and administrators stress that it is time for more firms to take advantage of the opening created by Med D and the looming retiree health caps.

"No one is calling that CFO saying, Let me solve your retiree medical problem," Fleet says. It's a shame too, because employers are receptive right now. If the broker gets a chance and finds the right fix, then he is well positioned to take a shot at all the traditional business - group health, life and disability, Fleet says.