

Kaiser Report

21 Dec 05

Coverage & Access | New Accounting Rule Likely To Prompt U.S. Companies To Reduce Retiree Health Benefits

[Dec 21, 2005]

[Newhouse/Newark Star-Ledger](#) on Tuesday examined how U.S. companies have "promised workers hundreds of billions of dollars' worth of retiree health care, while setting aside little money to pay these costs." In 2006, companies for the first time will have to include future retiree health care liabilities on their balance sheets as a result of a [Financial Accounting Standards Board](#) decision last week. According to *Newhouse/Star-Ledger*, some analysts predict that the new accounting rule "will pressure companies to cut retiree health benefits further -- or see their stock prices fall." The laws that "force companies to follow through on pension promises don't apply to health care," and, as a result, companies have "more flexibility to renege on retiree medical benefits," *Newhouse/Star-Ledger* reports. According to a [Standard & Poor's](#) report released on Tuesday, the companies in the S&P 500 Index have funded 22% of future retiree health care liabilities, compared with 88% of pension liabilities. In addition, although companies with union employees have to negotiate with unions to reduce retiree health benefits, those without union employees can reduce benefits unilaterally. Dallas Salisbury, president of the [Employee Benefit Research Institute](#), said that many companies have not funded future retiree health care liabilities because the practice provides no tax benefit. Michelle Stollo, a senior policy analyst at the [Kaiser Family Foundation](#), said that the trend of reduced retiree health benefits likely will continue and might accelerate in the future (Reynolds Lewis, *Newhouse/Newark Star-Ledger*, 12/20).