NRLN

NATIONAL RETIREE
LEGISLATIVE NETWORK

Retiree Health Maintenance of Cost Protection (MCP)

Maintain Contributions to Retiree Health Coverage

2/1/2017

Talking Points:

Retired employees were offered repeated assurances after 20 or 30 or 40 years of service that their health, disability and death benefits would be there when needed. They never suspected that courts would uphold “Reservation of Rights (ROR)” clauses buried in the fine print of plan documents that trumped years of promises. Companies lost their moral compass.

Since 2003 the share of companies maintaining supplemental coverage for Medicare-eligible retirees has tumbled. Most of that decline came soon after the Equal Employment Opportunity Commission’s 2007 ruling which allows companies to cancel coverage for Medicare-eligible retirees 65 and older, while maintaining coverage for early retirees.

The cost of health care continues to rise at double the rate of inflation and without corporate oversight, health care insurers continue to raise premiums, deductibles, co-payments and coinsurance at a rate higher than inflation, proving their inability to control health care costs.

The NRLN proposes a Maintenance of Cost (MCP) tax credit, analogous to the 28 percent subsidy paid under Medicare Part D to companies that agree to maintain equivalent or better prescription drug coverage for retirees. The 28% subsidy benefits millions of retirees while reducing Medicare costs:

- Plan sponsors (including VEBAs) would be eligible for a tax credit equal to 50% of actual expenditures on retiree health (not including retiree payments). Retiree payments would remain non-deductible except over 7.5% of AGI.

- An employer (or VEBA) electing the subsidy would be obligated to maintain their current nominal level of contribution (a maintenance of effort as defined in the tax code with respect to Section 420 transfers).

- Employers could claim the credit for retirees 55 and older. The minimum required contribution (MCP) in each year would be equal to its nominal contribution to the cost of an individual retiree’s health benefit at the date of enactment, or at the date of retirement (for future retirees), whichever is later. **The firm’s MCP remains fixed in subsequent years, annually reducing the cost to employers and the government in real terms.**

- As early retirees enroll in Medicare, they would be entitled to a reduced MCP sufficient to purchase supplemental insurance in an amount that would maintain parity with their coverage in effect on the date of enactment, or date of retirement, whichever is later.

- Employers could elect to contribute the Maintenance Cost Protection toward the cost of full or supplemental coverage under a plan purchased through a state health care Exchange, or selected by the retiree from another provider, with retirees paying the difference. The firm’s eligibility for a federal subsidy based on its actual MCP contribution would continue.

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