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IN THE LEAD

By CAROL HYMOWITZ



Benefits: I'll Have What He's Having

What Riles Employees Most Is Big Divide Separating Their Coverage From the CEO's

More than wages and even job security, the big battle now between executives and employees is over benefits.

Employees feel increasingly vulnerable as companies pare or eliminate their two most valuable benefits -- medical insurance and retirement accounts -- at the same time their savings have shriveled and their salaries have frozen or fallen.

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As health-care costs soar, companies are boosting worker payroll contributions to insurance premiums and co-payments to doctors, hospitals and pharmacies, just as coverage for medical procedures and drugs is shrinking. Only 43% of 434 large companies recently surveyed by Watson

Wyatt Worldwide say they are "very confident" they will still offer health-care benefits 10 years from now. Many younger large employers such as **Wal-Mart Stores Inc.** don't give health benefits to retirees, while those that traditionally have are dropping those policies for new hires.

Companies also are cutting contributions to 401(k) savings plans,

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ABOUT CAROL HYMOWITZ

Carol Hymowitz writes about leadership challenges and conflicts three Tuesdays a month in In The Lead. Carol conceived the column partly out of her experiences as a manager at the Journal, as bureau chief in Pittsburgh and now as a senior editor in New York, where she supervises a group of reporters in several cities. In her 20 years with the Journal as a reporter and editor, she has covered many industries -- including steel, retail, banking, and manufacturing -- as well as management and workplace issues.

"Given the technological and global complexity of business today, managers must make decisions at an ever faster pace while motivating others in new ways," she says. "Yet management and leadership remain an art rather than a science, dependent as ever on relationships among people. I try to illustrate that through the experiences of myself and others."

forcing employees to rely entirely on their own savings for retirement. At least a dozen major corporations, including **Charles Schwab Corp.**, **Goodyear Tire & Rubber Co.**, **Ford Motor Co.** and **Textron Inc.** have cut or temporarily suspended contributions to their 401(k)s since the start of last year.

Carol says she sees the column as a conversation with readers. To contribute your perceptions and opinions, e-mail Carol at inthelead@wsj.com⁸.

These cutbacks signal a drastic shift in what companies believe they must do to attract talent and ensure productivity, and are causing friction in the workplace. Medical insurance and retirement benefits, which came into vogue during World War II, have been an expected part of worker compensation for half a century, and have kept many employees loyal to companies with generous benefit packages. As executives now seek to pass more of the buck on these costs, some workers are going on strike, while white-collar employees are likely to demand higher salaries to make up the cost difference, or job hop in search of higher pay.

What most riles employees is the growing gap in retirement and health benefits for them versus their top bosses. The recent disclosures that **AMR Corp.**, **Delta Air Lines Inc.** and **UAL Corp.** poured millions into special pension trusts for executives while worker pension plans were ravaged by weak stock markets has deepened distrust and labor strife in the beleaguered airline industry.

Other companies that have special pension trusts for executives include **Motorola Inc.**, **Owens-Illinois Inc.** and **Abbott Laboratories**. Last year, Motorola contributed \$38 million to a special pension fund with assets of \$135 million for an undisclosed number of executives. Meanwhile, its pension plan for more than 70,000 employees and retirees was underfunded by \$1.4 billion, and Motorola didn't help bridge that gap. The company has said it will add \$200 million to the fund this year.

These special deals fuel suspicion among employees that executives aren't telling the whole truth when they claim they can't afford health care for all job holders. While 87% of 1,000 employees surveyed at large companies agree that health-care costs are outpacing inflation, only 46% believe that employers are unable to absorb the increase, according to a recent poll by Towers Perrin.

Critics of the new policies want a broader look at health-care costs. They point out that 15% of employees with chronic or catastrophic illnesses, such as diabetes, cancer and heart disease, drive 85% of medical costs.

The biggest conflict is occurring at companies with older unionized work forces and large numbers of retirees. Last year, workers at **Hershey Foods Corp.** struck for 44 days to stop a plan that would have raised their health-care payouts. Ultimately, union members accepted lower pay increases instead of the higher costs.

The fight over health care is also taking center stage in labor talks: those just starting at **General Electric Co.** and others taking place later this year at the Big Three auto makers, Goodyear and other tire makers, **Verizon Communications Inc.** and **Qwest Communications International Inc.**

The Big Three auto makers spent \$8.8 billion on health care last year for 2.2 million workers, retirees and dependents, up from \$7.2 billion in 2000. Benefits typically represent about 27% of labor costs, according to government statistics and are an even bigger percentage at older manufacturing companies that still provide pensions and health care for retirees.

Why aren't more companies putting pressure on insurance carriers to lower their costs rather than slashing what they offer employees? Tom Wamberg, chief executive of Clark Consulting, a human-resources consultant, thinks consolidation in the insurance industry has made that difficult. "Fifteen years ago there were 200 companies writing health-insurance policies, but now it's down to a few big companies, so they are less susceptible to hearing that you'll move your business if they don't lower costs," he says.

Not all employers think the solution is cutbacks. Some believe they are obligated to provide solid medical insurance and retirement benefits to their ranks to keep them productive, loyal and able to age with dignity.

Cisco Systems Inc. hasn't cut health insurance and has increased contributions to employee 401(k) plans. Last year, the company gave employees a one-time extra \$500 contribution to 401(k)s over its standard \$1,500, and this year agreed to match 50% of up to 6% of employees' salaries. "Despite the downturn and our focus on reducing expenses, we believe it's important for employees to save for their retirement and are partnering with them to encourage that," says Kate DCamp, senior vice president of human resources.

At Clark Consulting, Mr. Wamberg says his company spends an average \$5,000 to \$6,000 on health and retirement benefits for each of its 1,050 employees, or about 5% to 6% of their salaries. The cost of company contributions to 401(k) plans are easy to predict and plan for "and something I'd never cut," says Mr. Wamberg. He and others predict spiraling health-benefit costs will require significant changes in public policy.

Craig Nichols, vice president of human resources at **Republic Services Inc.**, a waste-management company in Florida, believes employees and companies should forge an alliance to contain costs. His staff publishes a benefits newsletter with cost-savings suggestions, such as ordering generic drugs through a mail-order plan.

Republic Services doesn't offer medical insurance to retirees but it covers its 12,500 active employees and contributes to 401(k) accounts. "If you have people worried about how they are going to pay for a doctor or get help for a sick child, you won't have a committed work force," Mr. Nichols says. As for special perks for executives, "when it comes to potentially getting sick, I'm no different from the next guy," he says, "so why should I have special treatment?"

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