

Drug Benefits to Retirees to be Taxed in 2011

March 26, 2010 - With last week's passage of the health care reform bill, corporate America is starting to speak up about its costs. And this week alone, some the country's largest companies have started to tell their shareholders about profit write-downs that they are going to have to take as a result of the bill. The reason? Well, under the new law companies that offer drug benefits to their retirees will have to begin paying a tax on those benefits. In the short term, these costs will have to be covered by investors. But in the long term, it is likely that companies will simply drop this type of plan and that the elderly will be left holding the bag.

It's only been a few days since health care reform was signed into law by President Obama. Many economists have been warning that the true costs of the bill would lead to stifled job growth and a reduction in benefits for current employees. There is already evidence that both predictions are about to come true.

The message boards on LinkedIn, a social networking platform for business, are already full of postings from corporate executives and small business owners who say they will not hire any new employees. Many of them are investigating the possibility of turning their existing employees into independent contractors with no benefits. Others are talking about shifting production and servicing facilities to outsourced operations which may be overseas. They are looking at ways to reduce the number of employees on their payrolls and to reduce their exposure to the new taxes associated with health care.

Now a number of companies are reporting that because the law contains new taxes on certain benefits that their shareholders will pay the price in the form of reduced profits. Today, AT&T announced that it would have to write down its profits by \$1 billion due to a tax on drug benefits for retirees. Other large companies including John Deere, Caterpillar and Honeywell have all announced additional costs of \$100 Million or more.

The likely outcome of this will be that eventually these companies and others like them will dump these plans and their retirees will be stuck with Medicare, which will cost them more. It will also mean that taxpayers will get stuck paying the bill because Medicare is funded by taxpayer dollars. To some degree, this scenario is already playing out in other areas.

