

Bankruptcy and Pension Plan Termination Health Care Options

All,

During EA's bankruptcy and pension plan termination in 1989-91 we employees had little advance warning, knowledge or time (and no Internet) to consider and select alternate health-care options. Many suffered needless hardships from that ignorance. I don't want that to happen to anybody today, especially as there is more worker protection and public information available.

Recent developments at US and UA have prompted this me to compose this information sheet for you on bankruptcy-related health care planning. As the new year and tax season have begun, you might consider consulting a tax and/or financial professional now to see which of these options might work best for you and your situation.

Please feel free to share this document with other former, current and retired DL employees. It may be helpful to many right now and serve as a practical educational tool for others' future well being. Knowledge is power, and good information should be shared.

Regards,

Barbara

The following quotes appeared in a SAT/08JAN05 *Pittsburgh Post-Gazette* article on recent developments in US Airways' bankruptcy case:

U.S. Bankruptcy Judge Stephen Mitchell on Thursday (06JAN)...canceled pension plans covering about 50,000 current and former employees. The federal Pension Benefit Guaranty Corp will assume those pension programs.

US Airways expects the bankruptcy judge to rule Monday (10JAN) on separate agreements the airline reached this past week (WED/05JAN) with retiree committees that would allow the airline to terminate medical and dental coverage for certain retirees, excluding retired pilots. They would be able to buy into group coverage allowed by COBRA, a federal law, and may qualify for a new tax credit.

Health Care Tax Credit (HCTC)

This is the "tax credit" for older workers referred to above. First created in 2002 legislation, the HCTC allows people who are at least 55 years old, who receive benefits from the Pension Benefit Guaranty Corporation (PBGC), and who are not eligible for Medicare or Medicaid, to defray 65%

of the cost of their qualified health insurance premium. This program is administered through the IRS.

Retirees who are already covered under Medicare or Medicaid are not eligible for the HCTC. Also, once you no longer qualify for this credit, additional family members including spouses are not covered under it either.

For more specific information, resources and document downloads click on:

<http://www.irs.gov/individuals/article/0,,id=109960,00.html>

http://www.pbgc.gov/trade_adjustment_act_FAQ.htm

Consolidated Omnibus Budget Reconciliation Act (COBRA)

Probably the best-known health protection plan for dislocated workers, COBRA gives them and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances. These include voluntary or involuntary job loss, reduction in the hours worked, transition between jobs, death, divorce, and other life events.

The down side: COBRA can be expensive. Qualified individuals may be required to pay the entire premium for coverage up to 102 percent of the cost to the plan.

For general information on COBRA and topical links to downloadable fact sheets, click on:

<http://www.dol.gov/dol/topic/health-plans/cobra.htm>

http://www.dol.gov/ebsa/publications/dislocated_workers_brochure.html

<http://www.dol.gov/ebsa/newsroom/fsbankruptcy.html>

NOTE: Be sure to obtain private health-care coverage before your COBRA coverage ends, or you may find that pre-existing medical conditions will not be covered for a period of time. Read the following section for more information about this provision.

The Health Insurance Portability and Accountability Act (HIPAA)

This program wasn't mentioned in the article quotes, but it's important to know about. Created in 1996, HIPAA offers protections that improve the portability and continuity of health insurance coverage. It provides new rights that allow people to enroll for health coverage when they lose other coverage. It also provides protection for pre-existing medical conditions, but it may not completely eliminate a waiting period required by a recently obtained new policy.

For more information and specifics about this program, click on:

<http://www.dol.gov/dol/topic/health-plans/portability.htm>

<http://www.dol.gov/ebsa/newsroom/fshipaa.html>

Health Savings Account (HSA)

Some people may benefit from obtaining one of the newly available high-deductible health-care plans (HDHPs) and starting a Health Savings Account. HSAs operate something like IRAs only better: contributions, investment growth and withdrawals for health-related expenses are all free from taxation; the money you deposit belongs to you and can roll over year to year; and contributions may be made for the previous year through April 15. This is quite different from a Flexible Spending Account (FSA), where the limited health-care funds that you don't use by year's end disappear forever.

As defined in the new Medicare legislation, a high-deductible policy is \$1,000 for individual coverage, \$2,000 for a family. The law allows an annual tax write-off equal to the deductible amount of the accompanying health care plan. The tax write-off cannot exceed \$2,250 for an individual plan, \$4,500 for a family plan. For taxpayers 55 and older, the new law permits an additional \$500 contribution in 2004.

The accounts have the potential to accumulate huge balances over years of contributions and investment gains. In theory, that puts younger workers in a better position to pay for their own health care as they grow old, when costs typically peak.

There are two basic two requirements for opening an HSA:

- It must be done in conjunction with an HDHP
- A taxpayer must be under 65 — the age of Medicare eligibility — when opening an account

For more information and worksheets on HDHPs and HSAs that you can download, click on:

http://www.usatoday.com/money/perfi/taxes/2003-12-04-mym_x.htm

<http://www.opm.gov/hsa/>

<http://www.ustreas.gov/offices/public-affairs/hsa/>

<http://www.irs.gov/publications/p969/ar02.html#d0e108>

