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FROM THE ARCHIVES: July 14, 2003

To Save on Health-Care Costs, Firms Fire Disabled Workers

Policy Shift at Polaroid Leads to Scrimping, New Worries for Extremely Sick Employees

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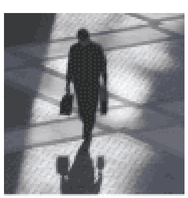
As it was preparing the sale of its assets to Bank One Corp. last July, Polaroid Corp. sent a letter to 180 disabled employees notifying them that they had been fired and their health, life and dental insurance were being terminated.

At the time he received the letter, Nelson Tauriac, a Polaroid forklift operator for 21 years, was bed-ridden, his feet swollen to three times their normal size because of kidney disease. John Magenheimer, who had headed a Polaroid research laboratory, was recovering from surgery in which one of his ribs was removed so doctors could cut out a cancerous tumor pressing against his heart. Elizabeth Williams, a senior human-resources administrator, was at home, doubled over with pain from a form of lupus that attacks the lungs and muscles.

"I couldn't believe this was happening," recalls Mr. Magenheimer, who says his wife showed him the letter as he lay "in a fog" from chemotherapy and radiation treatment. "How could Polaroid do this to me? For more than 20 years I gave them everything I had."



LEFT BEHIND
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Across the corporate landscape, disabled workers are becoming an increasingly common casualty of the drive to cut costs. As recently as three to five years ago most companies paid health benefits for the long-term disabled until they were 65 years old, according to James Curcio, a senior consultant for Washington Business Group on Health, a trade association that

COMPANIES

Dow Jones, Reuters

Bank One Corp. (ONE)

PRICE	39.88
CHANGE	0.66
U.S. dollars	1:38 p.m.

* At Market Close

helps companies contain health-care costs. At 65, federal Medicare benefits kick in.

But as health-insurance costs and the number of disabled employees climb, more companies are firing them. A Mercer Human Resource Consulting study last year found that 27% of the 723 companies surveyed dismiss employees as soon as they go on long-term disability and that 24% dismiss them at a set time thereafter, usually six to 12 months. (Dow Jones & Co., which publishes The Wall Street Journal, terminates employees six months afterward.) The survey found 15% keep the disabled on as employees with benefits until age 65.

Mr. Magenheimer and the other employees fired by Polaroid were on long-term disability leave because of injuries or illnesses that left them too incapacitated to work. They are entitled to be compensated at 60% to 70% of their regular pay through a combination of social-security disability benefits and payouts from disability-insurance policies purchased by Polaroid.

They still receive that money. But the loss of their other benefits -- especially their health and life insurance -- has brought them additional financial burdens at a time when they already are struggling with reduced income and the ravages of cancer, heart disease and other serious conditions.

The federal law known as COBRA mandates that they can keep the health insurance they had at Polaroid for 18 months after their dismissal. Some companies pay the premiums, but most, like Polaroid, require employees to pick up the tab themselves. Disabled workers can purchase Medicare coverage after 18 months. Both kinds of coverage cost thousands of dollars a year, which many disabled workers can ill afford. Because people on long-term disability leave continue to receive a portion of their salaries, they are typically not eligible for the Medicaid program that offers poor Americans health insurance.


John Magenheimer

Kevin Pond, a Polaroid spokesman, says that Bank One took over Polaroid with the understanding that the new management would decide whom to hire and whom to let go. "Even though the old Polaroid maintained their employee-like status, the [workers on long-term disability] were not real employees," he says. In response to a letter to Polaroid by U.S. Rep. William Delahunt of Massachusetts, who had written on behalf of constituents who worked there, Polaroid general counsel Neal Goldman noted that the company had preserved the benefits as long as it could, despite "enormous pressure to dramatically reduce costs" during bankruptcy.

The disability-payment squeeze is likely to continue for companies and their employees. Some 5.5 million people received long-term disability benefits last year, according to the U.S. Department of Labor, a 62% jump from 1992. The reasons for the big rise aren't completely understood, but the most cited explanation is an aging work force.

Bankruptcies and takeovers often spur companies to fire disabled workers. When International Steel Group Inc. acquired the assets of LTV Corp. last year, it rehired many of the able-bodied workers who had been dismissed in LTV's bankruptcy proceeding. It didn't rehire the hundreds of employees on disability. When MMI Co., a medical consulting and insurance firm in Deerfield, Ill., in 1999 acquired Applied Risk Management Inc. of Oakland, Calif., which administers worker's compensation programs for companies, it only hired ARM employees who weren't on medical or extended leave. Five employees on long-term disability leave weren't hired.

MMI has since been acquired by St. Paul Cos., an insurance concern. A spokeswoman declined to comment. Mitch Hecht, vice president of external affairs at International Steel, says, "It's strictly an arithmetic fact that the profits are not being generated to cover the costs of all the health care programs of workers from the past." The company views the plight of the disabled worker a tragedy and calls on the government "to come up with a broad solution to fix the problem," says Mr. Hecht.

Polaroid began its downward spiral in the mid-1990s, as digital cameras and cheap, one-hour developing ravaged its niche of instant photography. With nearly $1 billion in debt, Polaroid filed for bankruptcy-court protection in October 2001. Nine months later, One Equity Partners, a Bank One investment arm, acquired its assets. "Under the asset purchase agreement, employees on long-term disability will not be hired by One Equity Partners," Polaroid wrote in a July 2002 letter to the affected workers.

Ms. Williams, who has been on disability since 1988 because of her lupus and diabetes, says "people in the group have a multiplicity of medical problems." Many are in their 50s. Elaine Johnson, 59, of Attleboro, Mass., suffers from blood clotting and heart problems and nearly died from a pulmonary embolism earlier this year. Another, Paul Day, 61, of Billerica, Mass., has undergone several surgeries to remove cancerous growths in his leg and kidney.

Ms. Williams recruited some of her ex-colleagues to hire attorney Harvey Schwartz, who filed a discrimination case last week in federal court in Boston. Polaroid and One Equity "got together and consciously planned to discriminate against people who were receiving" long-term disability benefits, says Mr. Schwartz, of Boston. The new Polaroid hired able-bodied workers, but their disabled colleagues "were intentionally not hired because they were disabled," Mr. Schwartz added. A spokesman for Polaroid, under One Equity's management, declined to comment on the suit.

It isn't the first time disabled workers have gone to court on the issue. Denice Lessard, a compensation analyst for Applied Risk Management, had been on long-term disability for three years because of a work-related spine injury, when MMI acquired the company and she was fired. A three-judge panel of the U.S. Circuit Court of Appeals in San Francisco ruled in Ms. Lessard's favor, stating that discrimination had occurred. By firing the disabled workers, MMI was effectively punishing them "for exercising their rights under an employee benefit plan," the court wrote. That is illegal under the Employee Retirement Income Security Act, which guarantees employees the right to use their benefits.

The case was sent back to the district court, which had earlier ruled in the company's favor. MMI subsequently settled, and Ms. Lessard's benefits have been restored, says her attorney Laurence F. Padway.

In Polaroid's good years, the 1970s through the early 1990s, surveys frequently rated the company as one of the 100 best companies to work for. The company paid full tuition for employees pursuing college degrees and provided free medical services at headquarters and other sites with a staff that included four doctors, 13 nurses and about half a dozen family and divorce counselors.

Polaroid took pride in supporting employees who were sick or got hurt on the job. Short-term disability compensation, at 100% of pay for up to a year, was among the best in the country. Employees on long-term disability were permitted to remain with the company until 65. When employees went on long-term disability, the company even picked up the tab for the portion of health and life insurance premiums that were typically deducted from Polaroid paychecks.

At the time of One Equity's offer, Polaroid had about 8,000 employees. It now has less than 6,000, says a person familiar with the company. The company no longer reports results, but people familiar with the revamped company's business say that it is now profitable. The company has introduced new products and most employees received a bonus last Christmas, says Karl Farmer, chairman of a court-appointed committee that looks after Polaroid retirees' interests.

For many disabled employees, things haven't worked out as well. On receiving news of his termination last summer, Mr. Tauriac, the long-time forklift operator, found it would cost him $862 a month to continue the health insurance he had been getting free.

That left Mr. Tauriac with a difficult choice. He could continue to live in his $1,100-a-month, two-bedroom apartment in New Iberia, La., without health insurance, or keep his health insurance and move out. On his monthly disability income of $1,960 he couldn't afford both. Even with the company's health plan, his co-payments for 16 prescription drugs and doctors' visits had been running up to $350 a month. In addition to heart problems Mr. Tauriac was suffering from hypertension and diabetes, and needed kidney dialysis three times a week.

After deliberating for a month, Mr. Tauriac and his wife Gladys reluctantly decided to move to a modest cottage owned by her brother, who discounted the rent to $400 a month. Over the next six weeks he was hospitalized five times for ailments including chest pains, shortness of breath and high-blood pressure.

On Oct. 15, 2002, his feet swollen and filled with blood clots, he died. He was 61 years old. "He used to wake up in the middle of the night and say to me, 'I don't know what's happening to me, lovely,' " Mrs. Tauriac recalls. She believes "it was the stress" that made him take a turn for the worse -- "no money, no house, no peace."

Had he died before Polaroid fired him, Mrs. Tauriac would have received $77,220 from a life insurance policy that paid 1.5 times his salary. But the policy ended with his employment. Mrs. Tauriac says she couldn't have afforded the funeral without a gift from her son, who is in graduate school.

Herself a Polaroid employee before taking early retirement in 1995, she receives a total of about $800 a month from her pension and survivor benefits. Of that, $381 goes for health insurance, which doesn't cover drugs. So Mrs. Tauriac says she skips prescriptions for hypertension and a heart condition. She has been moving from relative to relative to save on rent. At 59, she has concluded, she soon will have to find work.


Sally Ferrari

"Life today is a far cry from the way it used to be a decade ago," when she and her husband lived in suburban Easton, Mass., she says. "Between the two of us we made $90,000 a year. We sent our son to Boston College and we thought life was good. I never thought I was going to end up this way."

When Mr. Magenheimer was dismissed, he lost his health insurance, although he was still covered under his wife's policy, provided by the school where she teaches. He started looking to replace the life-insurance policy that he also lost, fearing his family would be left in a bind. He had a $1 million policy through Polaroid, including extra coverage for which he paid between $500 and $1,000 a year for 20 years. As director of the company's Materials and Chemical Analysis Laboratory, Mr. Magenheimer had earned $110,000 a year.

Diagnosed with a deadly form of skin cancer in 1992, Mr. Magenheimer worked for six years following the diagnosis. He worked longer than he would have liked, he says, in part because he wanted to keep the life insurance. To keep up with the work, he took an afternoon nap and then often worked late. He injected himself with anticancer drugs that he kept in a cooler at the lab.

"It made you feel like you had the worst case of the flu, but it gave you energy," he recalls, sitting in his dining room of his suburban home.

He went on long-term disability leave in 1998. Treatments did some good, he says, but tumors kept resurfacing, and his condition didn't improve enough to return to work. He had just undergone surgery when the news came about his dismissal. From a Boston hospital bed, he telephoned insurance agents, searching for a new life policy. Many asked him whether he was "nuts" and told him no one so sick was insurable, he says.

He was so frustrated he would scream into the phone and end up drained from the fighting. After several weeks, Mr. Magenheimer says, he threatened to bring a discrimination case against the insurance company that covered him at Polaroid unless it extended the policy. It agreed to $500,000 in coverage, for $20,000 a year in premiums. To make the payments, he took out a third mortgage on his home, adding $100,000 in debt to the $125,000 he already owed on the previous mortgages.

Sally Ferrari, another of the terminated Polaroid employees, was diagnosed with Alzheimer's disease in 1996 and went on long-term disability a year later. The former executive assistant to a marketing director is 59. Her husband John is two years older and worked for 31 years at Polaroid as a human resources executive before leaving in the same year for another job. At Polaroid the two would meet for lunch whenever possible.

Mr. Ferrari says he would have retired by now to take care of his wife, but has to keep working to afford her care and health insurance. He said he is "bitter" about having to spend his days away from his wife in the time remaining before her dementia puts her beyond reach.

Patients who contract Alzheimer's as early as his wife usually decline rapidly, Mr. Ferrari has learned. Many are dead within eight years, according to the Alzheimer's Research Foundation, "But she's got a strong constitution," says Mr. Ferrari, holding back tears. "I'm hoping she can make it to 65."

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Updated July 14, 2003 11:59 p.m.