

The Current State of Retiree Health Benefits

**Presented by
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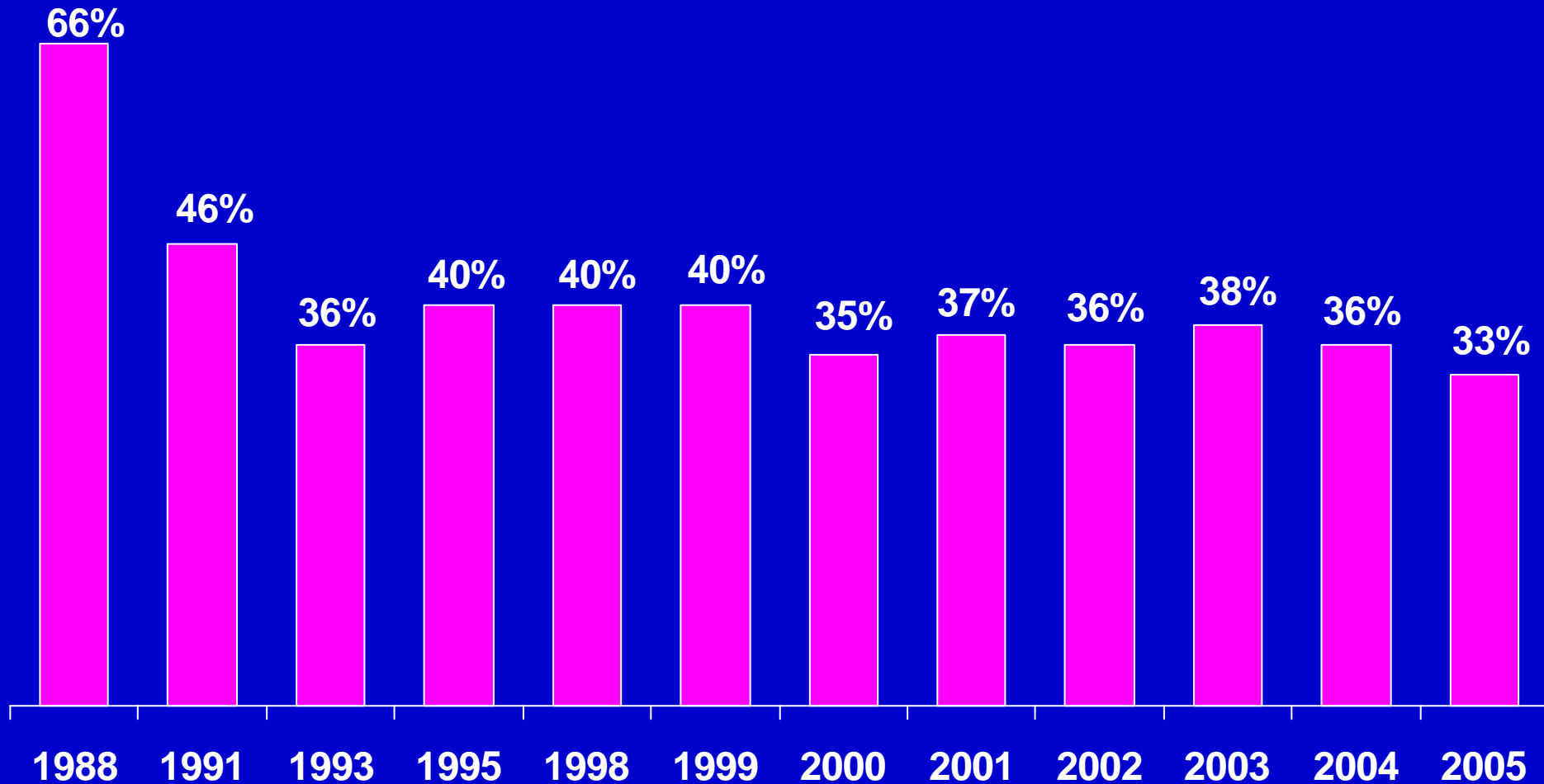
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for

Council on Health Care Economics and Policy

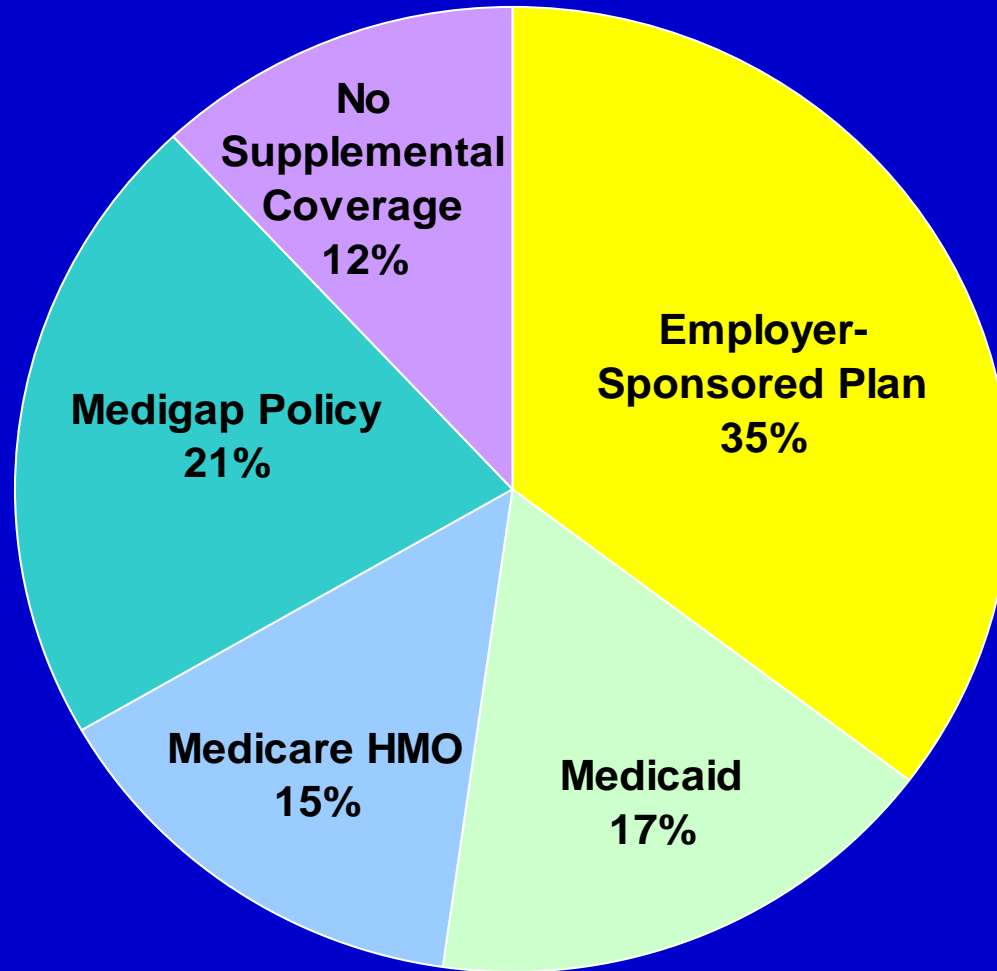
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The share of employers offering retiree health benefits has declined



Note: Large employers include firms with 200 or more workers.
SOURCE: Kaiser/HRET Employer-Sponsored Health Benefits, 2005.

One in three people on Medicare have employer-sponsored health coverage



Total = 42 million Medicare beneficiaries, 2002

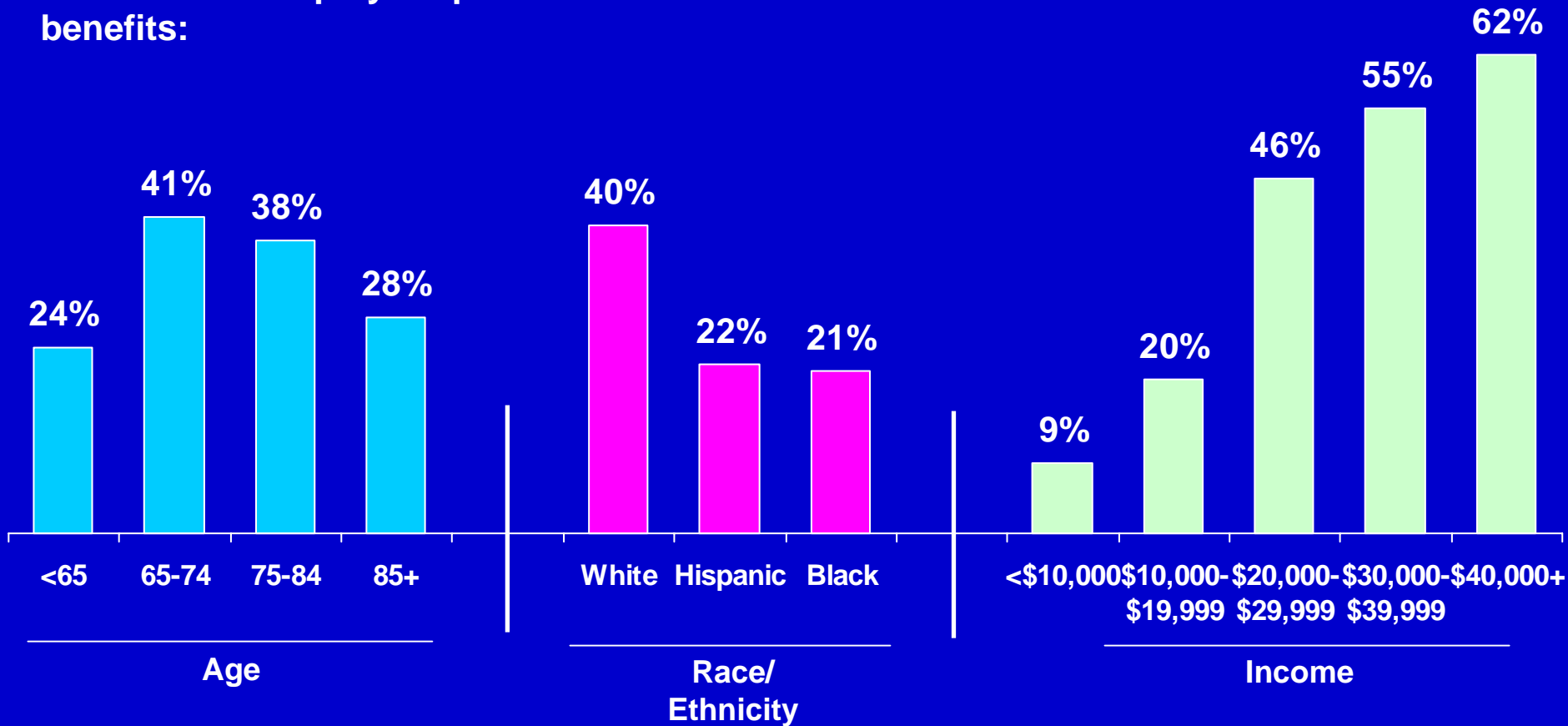
Note: Total number of Medicare beneficiaries is based on weighted number of respondents in the Medicare Current Beneficiary Survey 2002 Cost and Use file.

SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Medicare and Employer-Sponsored Health Coverage

Who has it? Who doesn't?

Percent with employer-sponsored health benefits:

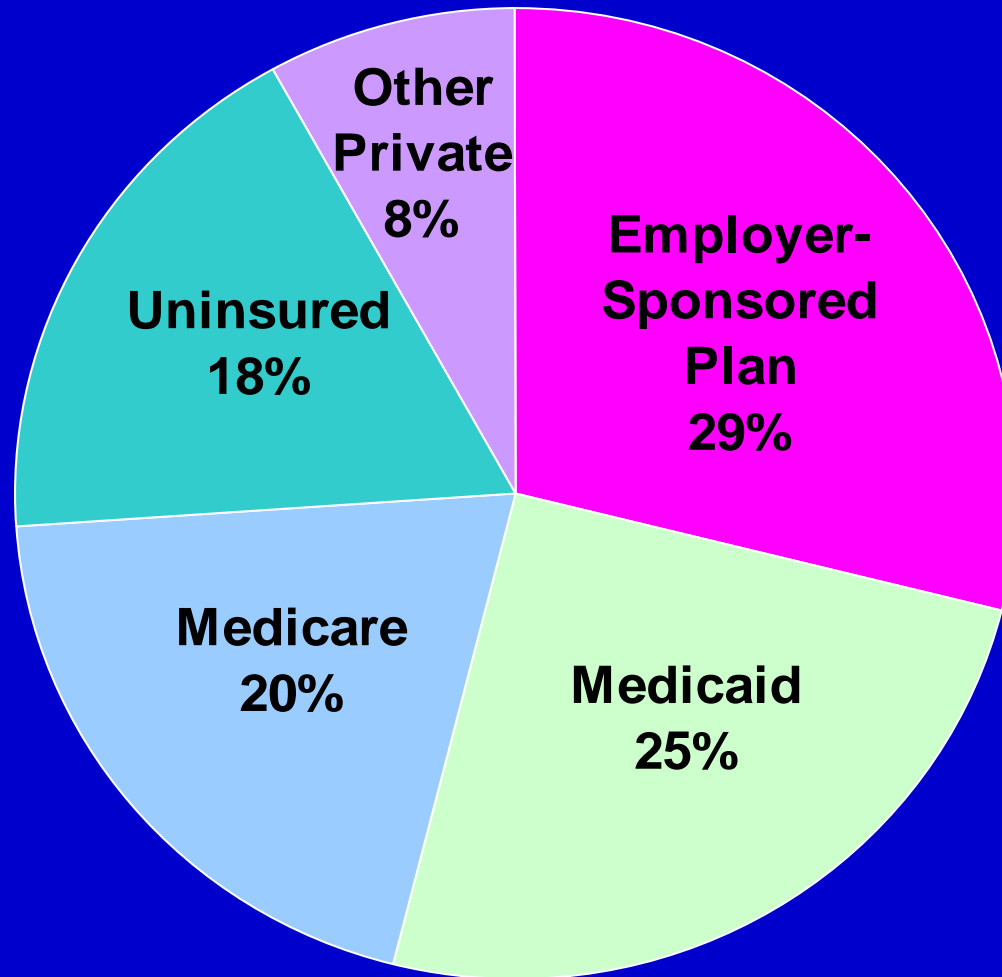


The number of Medicare beneficiaries with employer-sponsored health benefits *increased* at higher incomes, but *dropped* at lower income levels, 1997-2002

(in millions)



More than one in four non-workers ages 55-64 has employer-sponsored coverage

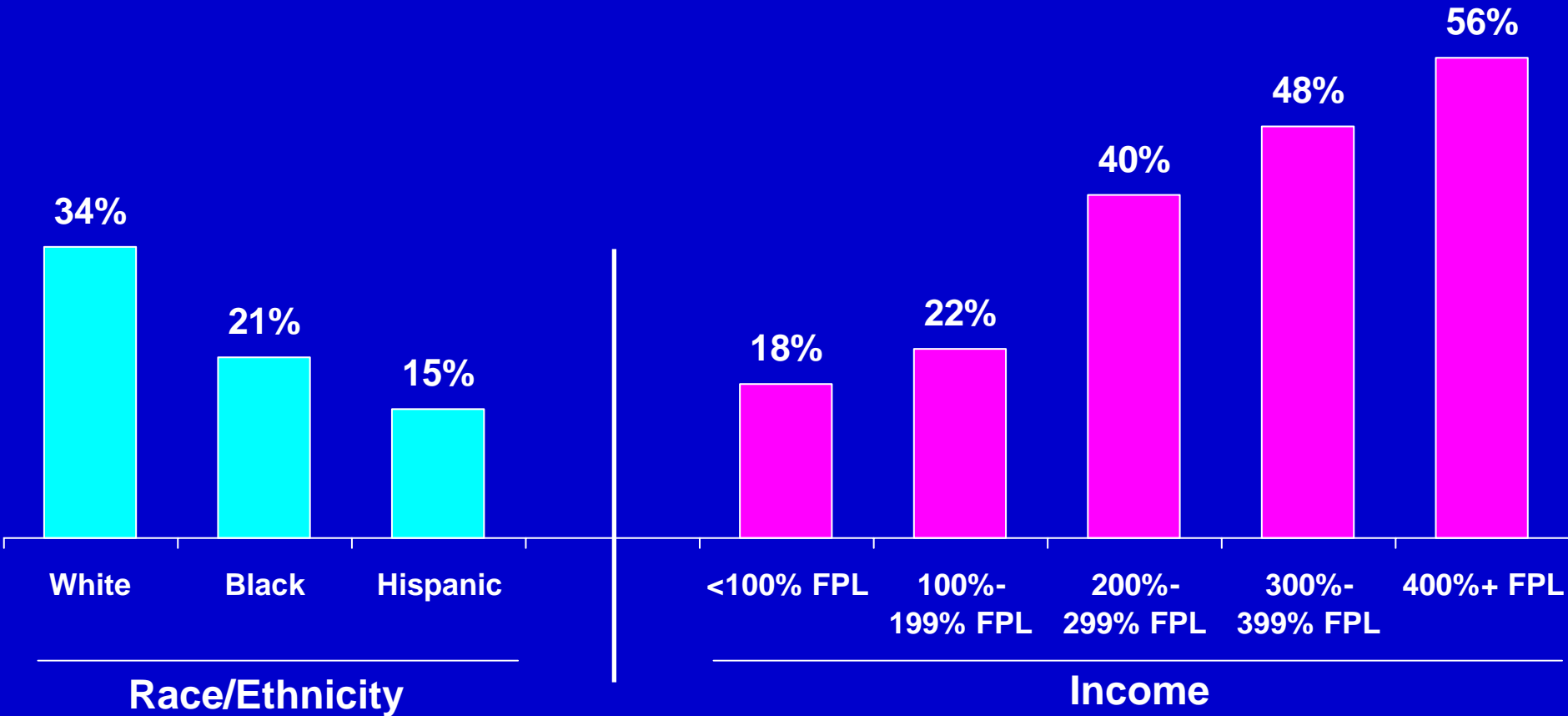


Total = 6.6 million 55-64 non-workers, 2004

Employer Health Coverage for Non-Workers, Ages 55-64

Who has it? Who doesn't?

Percent with Employer Health Benefits:



Pre-65 Retirees

- **Since 1997, the number of 55 to 64 retirees has stayed fairly constant, but the share with retiree coverage has declined**
 - From 39% in 1997 to 29% in 2002 (EBRI analysis of SIPP)
- **Pre-65 retirees are hard pressed to find affordable, comparable health coverage if they lose retiree benefits**
 - Individual market; COBRA; state high risk pools
 - Return to work; get coverage through a spouse
- **Preliminary findings from recent survey of retired steel workers show**
 - Early retirees who lose coverage often go long periods without health insurance
 - Uninsured early retirees report delaying needed care from a doctor at twice the rate as those with health coverage - despite being in poorer health

Employers report taking steps to shift costs to retirees

Percentage of large private-sector employers making the following changes between 2003 and 2004:

79%

45%

37%

13%

12%

8%

7%

3%

Increased Retiree Contributions to Premiums

Increased Retiree Coinsurance or Copayments

Increased Deductibles

Provided Access-Only to Health Benefits with Retiree Paying 100% of Costs

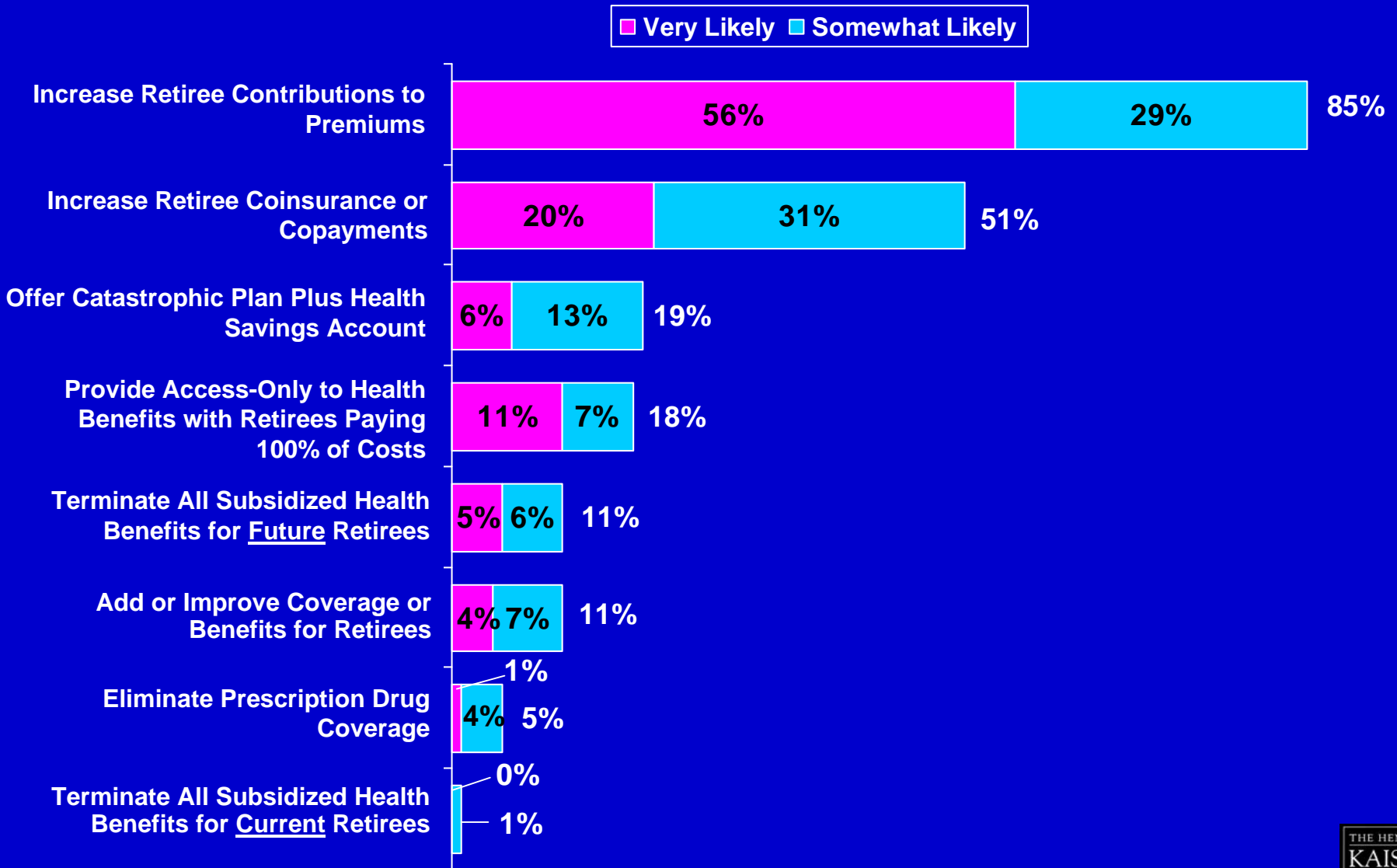
Added or Improved Coverage or Benefits for Retirees

Terminated All Subsidized Health Benefits for Future Retirees

Imposed New Cap on Firm's Contributions for Group of Retirees for Which There Previously Was No Cap

Shifted to Defined Contribution Approach

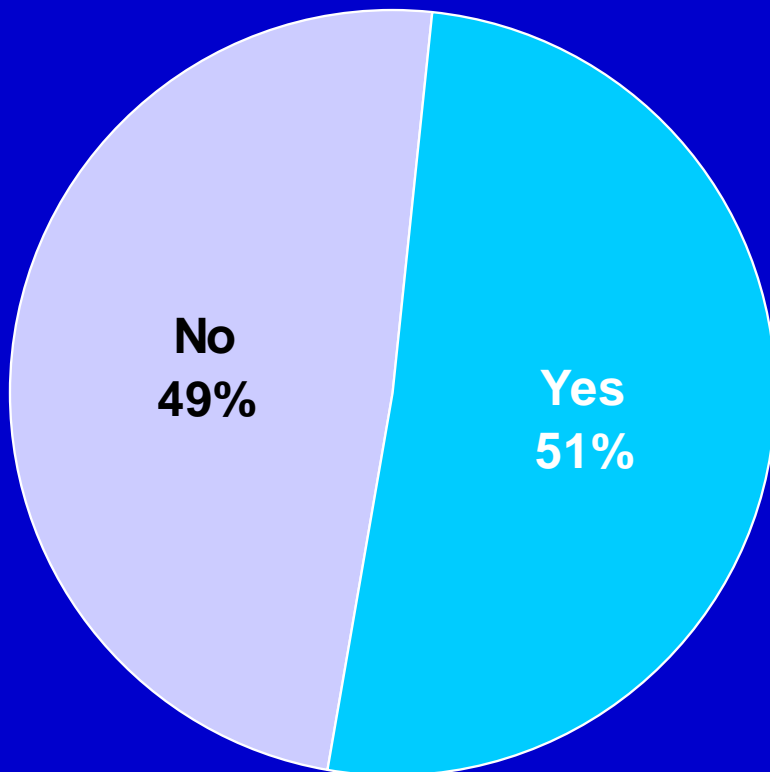
Employers predicted higher costs for retirees



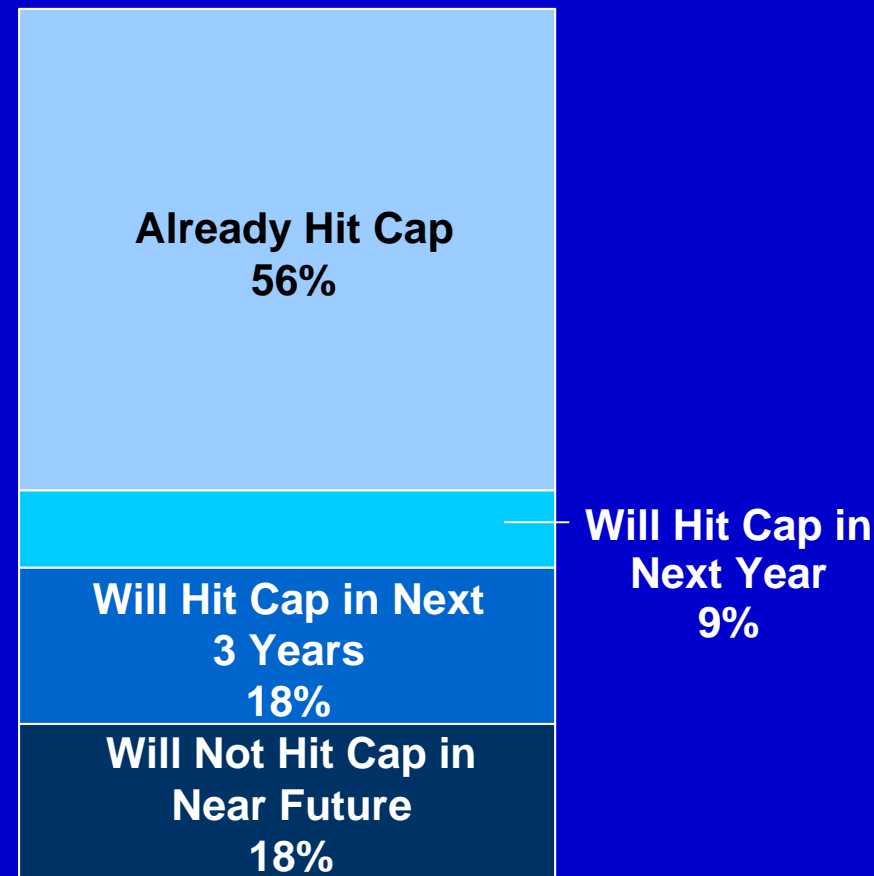
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
 SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Financial caps exert cost pressure on employers

Percentage of 65+ retirees in a plan with a cap:



Of large private-sector employers with a cap on their largest 65+ plan, percentage that anticipate hitting the cap:



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

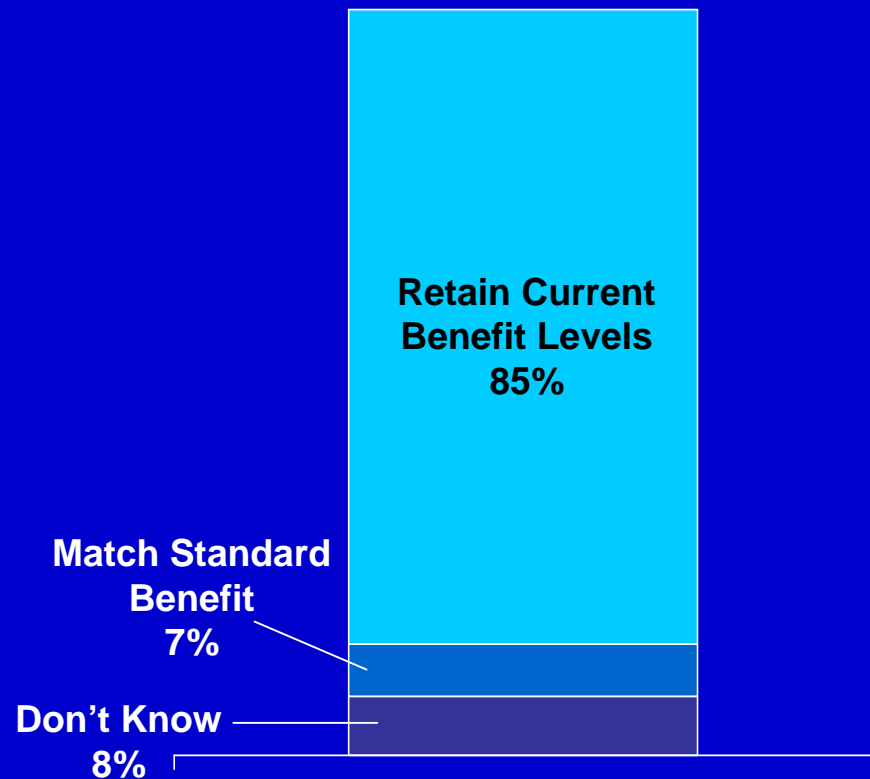
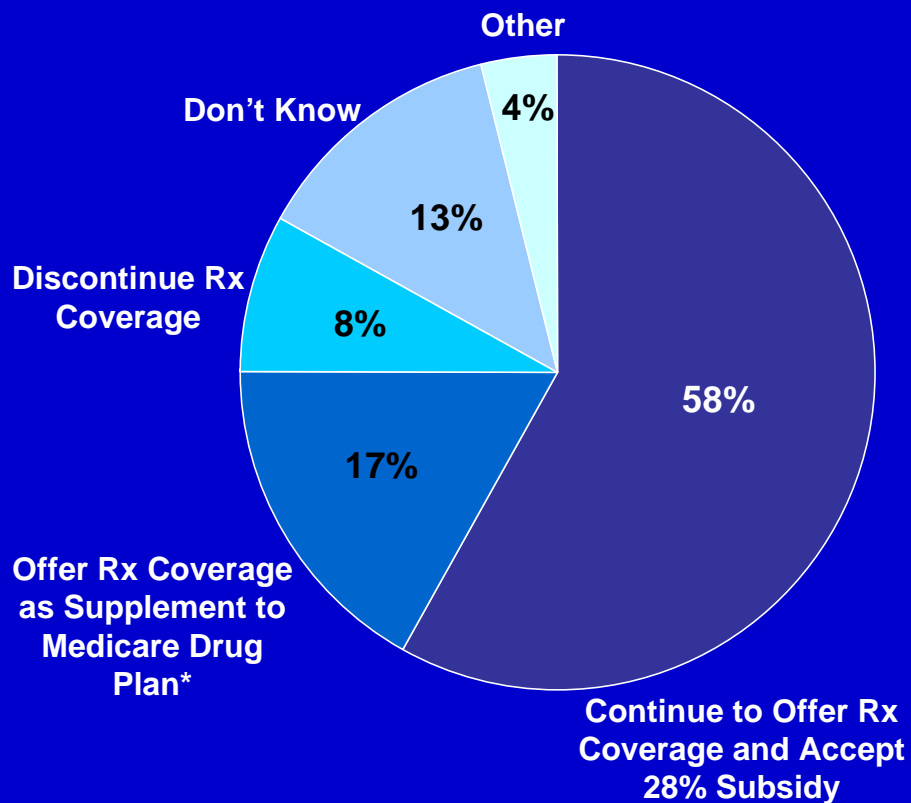
How will employers respond to the Medicare drug benefit?

- **Maintain drug benefits at least actuarially equivalent to standard Medicare drug benefit (take tax-free 28% subsidy)**
- **Offer supplement to Medicare drug benefit**
- **Discontinue drug and/or all retiree health benefits**

Most large private employers said they plan to maintain drug benefits, 2004

Strategies firms are likely to choose under the Medicare drug law:

Among employers who plan to continue coverage and accept 28% subsidy:



* Medicare would be primary payer.

Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Applies to plan with the largest number of Medicare-eligible retirees.

SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

65+ Retirees' Perspective

- **Benefits offered by employers typically more generous than Medicare Part D standard benefit and Medigap**
 - Better drug coverage
 - Other valuable benefits, like out-of-pocket limits
 - Lower premiums than Medigap
- **Still, decisions for retirees may not be straightforward**
 - No low-income subsidies if retiree remains in employer plan
 - Retirees may be tempted to switch to Medicare drug plan to lower their monthly premiums
- **“Bad” decisions could have consequences**
 - May not be able to go back to employer plan
 - May lose other valuable benefits – like out-of-pocket limits

Key Considerations

- **From employer perspective, after years of double-digit increases in retiree health costs, subsidy helps reduce costs for 65+ retirees**
 - Obviously, no impact on costs for pre-65 retirees
- **From federal government/taxpayer perspective – costs generally lower if retirees elect employer plan over Medicare drug plan**
- **From retiree perspective, generally better coverage under employer plan than standard Medicare drug benefit**
- **Some good news - surveys indicate most employers planning to stay the course in the short term**
 - Outlook for the longer term far less certain

Wrap Up

- **Today's workers are far less likely than current generation of retirees to get employer-sponsored retiree health benefits**
- **As long as retiree health costs continue to climb, retirees are likely to pay more for their coverage**
- **Early retirees especially vulnerable when employers terminate coverage**
- **For Medicare-eligibles, good news in the short term – but longer term is far less certain**
- **Key question is how to finance medical care for retirees, now and in to future?**