EXECUTIVE SUMMARY

Introduction

Interest in employer-sponsored retiree health plans remains very high, especially because of the drug benefit provision of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (P.L. 108-73) that will take effect on January 1, 2006. Given that rapidly approaching date, employers, retirees and policymakers all have a major stake in knowing how employers will respond to the new options available to employers under the MMA. This survey by the Kaiser Family Foundation and Hewitt Associates, conducted between May and September 2004, is the third in a series of such surveys that provide detailed information on the state of retiree health benefits. This study provides the most current and comprehensive set of survey results on how private-sector employers expect to respond to the MMA beginning in 2006.

The current state of employer-sponsored health benefits is of great interest because these plans are often a critical source of relatively generous health insurance for retirees. For the majority of workers who retire before they turn age 65 and are eligible for Medicare, the coverage provided under employer plans is often difficult, if not impossible, to find anywhere else. For retirees ages 65 and older, employer-sponsored plans help by filling gaps in the Medicare benefit package and by providing additional cost-sharing protections, such as limits on retiree out-of-pocket expenses, which traditional Medicare fee-for-service does not provide. Employer plans remain the primary source of prescription drug coverage for seniors on Medicare; and typically, this coverage is more generous than the standard prescription drug benefit that will be offered by Medicare plans beginning in 2006.

However, there is significant concern about the erosion of this coverage driven in part by double-digit increases in retiree health costs. Between 1988 and 2004, the share of large employers (200 or more employees) offering retiree health benefits declined from 66 percent to 36 percent,[1] a trend which is likely to increase the number of future retirees without such coverage. Retiree health benefits have become a focal point in negotiations between labor and management,[2] and retiree health costs have been cited as a factor in recent bankruptcy filings. Of critical concern is the extent to which these negotiations will result in benefit terminations or cost-shifting to retirees, particularly among financially distressed companies.

This report provides a detailed description of large, private-sector retiree health benefits, including prescription drug coverage, in 2004. It describes the actions employers have taken in the past year and are planning to take in 2005 before the MMA takes effect. It concludes with a discussion of employers' likely responses to the MMA, based on their understanding of the law at the time the survey was conducted.

---

[1] *Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2004.*

[2] *Wall Street Journal,* 11/10/04; *Chicago Tribune,* 11/07/04; *Charlotte Observer,* 10/23/04.

Survey Methods

The data in this report reflect the responses of 333 large firms that currently offer health benefits to retirees, based on an online survey conducted between May and September 2004.[3] The large firms that participated in this survey, defined as private-sector employers with 1,000 or more employees, represent 32 percent of all Fortune 100 companies and 20 percent of all Fortune 500 companies.[4] The overwhelming majority (87 percent) are multi-state employers that represent a broad range of manufacturing (44 percent) and non-manufacturing (56 percent) industries.

The survey includes responses from 153 firms (45.9 percent) with 1,000 to 4,999 employees, 112 firms (33.6 percent) with 5,000 to 19,999 employees, and 68 "jumbo" firms (20.4 percent) with 20,000 or more workers. Together, these employers have over 6.5 million employees and nearly 3 million retirees. They provide health benefits that impact the lives of approximately 4.9 million retirees and dependent family members, and 16.3 million employees and dependent family members. The employers in this sample provide health benefits to an estimated 3.5 million Medicare-eligible retirees and their spouses, representing more than a quarter (29 percent) of the roughly 12 million nonfederal retirees with employer-sponsored health coverage.[5]

This study is based on a non-probability sample of large private-sector firms that offer retiree health benefits.[6] Despite interest in examining trends in this area, comparisons between the new 2004 findings and results from the 2003 Kaiser/Hewitt survey are somewhat limited. Given the nonrandom nature of this sample and the fact that the samples each year include different companies and different plans offered by those companies, study findings may not be strictly comparable from year to year.

Information was collected on a variety of topics, including costs, premiums, retiree contributions, prescription drug benefits, recent changes in benefits, the likelihood of making changes for the 2005 plan year, and the implications of the Medicare drug law for employers. Employers were asked to provide information about the health plan with the largest number of enrolled retirees, primarily because such plans represent the majority of retirees with health coverage among the surveyed employers and to ease the reporting burden for employers. All premium and benefit design information presented in this report therefore reflects responses for the employer-sponsored health plan with the largest number of retirees. Further, because retiree contributions often vary based on the retiree's age or years of service with the firm, employers were asked to provide the average premium for those retiring on or after January 1, 2004—to whom we refer throughout

[3] The study focuses on large employers because these firms are far more likely than mid- and small-sized firms to offer retiree health benefits. According to the *Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2004,* retiree health benefits are offered by 60 percent of firms with 5,000 or more employees, 43 percent of firms with 1,000–4,999 employees, 31 percent of firms with 200–999 employees, 10 percent of firms with 50–199 employees and up to 9 percent of firms with fewer than 50 employees.

[4] These companies account for one-third (35 percent) of the 500 companies with the largest retiree health liability in 2003.

[5] Estimates of nonfederal retirees with employer-sponsored coverage from Congressional Budget Office, letter to Honorable William M. Thomas, November 14, 2003.

[6] This survey is based on a non-probability sample because there is no known database that identifies all private-sector firms offering retiree health benefits from which a random sample could be drawn. To construct this sample, Hewitt identified a list of employers potentially offering retiree health coverage based on data from respondents to previous Hewitt surveys and data from their proprietary client databases, supplemented by other employers drawn from Standard & Poor's Research Insight,[SM] a commercial database.

this report as "new retirees." As a result, the premium information does not represent *all* retirees with employer-sponsored coverage.

Highlights

Coverage and Plan Options. The vast majority of surveyed private-sector firms with 1,000+ employees that offer retiree health benefits provide coverage for both pre-65 retirees and age 65+ retirees (89 percent). These large employers provide retiree health benefits to salaried employees (92 percent), hourly employees (87 percent), and grandfathered employees or retirees (70 percent). Among those employers that provide retiree health benefits to both salaried and hourly employees, 87 percent provide the same benefits to salaried and hourly employees.

Pre-65 retirees have somewhat greater choices of health plans than do age 65+ retirees because pre-65 retirees often have the same plan choices as active employees, while age 65+ retirees are generally offered somewhat fewer options that coordinate with Medicare. Seventy-three percent of surveyed employers provide new pre-65 retirees a choice of two or more health plans, while 54 percent of employers provide new age 65+ retirees a choice of two or more health plans.

The most common plan offered by employers to pre-65 retirees is a PPO option (83 percent), whereas the most common plan offered to age 65+ retirees is an indemnity or managed indemnity plan (56 percent).

Employers were asked to estimate the percentage of their firms' active workforce who will be eligible for employer-subsidized retiree health benefits when they retiree. Respondents estimate that 59 percent of active workers will be eligible for retiree health benefits, on average, when they retire. Seven percent of employers estimate that none of their active employees will be eligible for retiree health benefits; 16 percent of employers estimate that 100 percent of their firm's active employees will be eligible for subsidized health benefits when they retire.

Retiree Health Costs. Among surveyed employers, the total employer and retiree cost of providing health benefits for both pre-65 and age 65+ retirees and their dependents was an estimated $15.5 billion in 2003.[7]

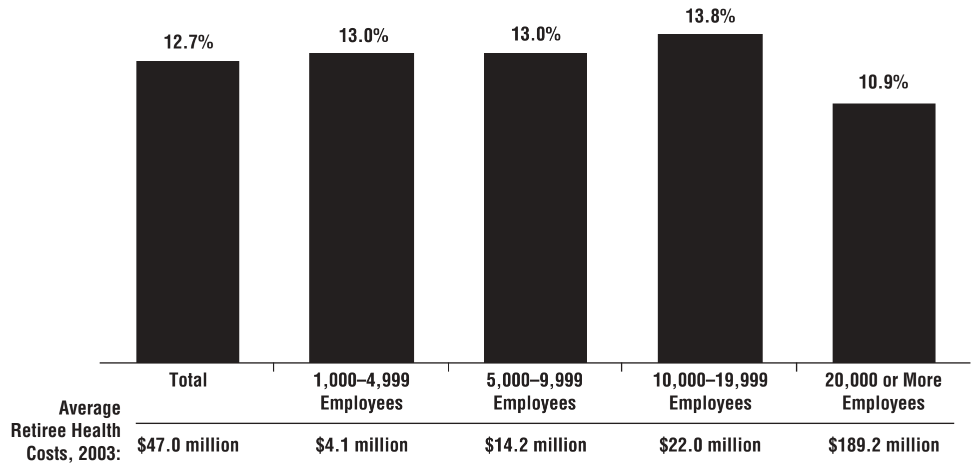
According to these employers, the total cost of providing retiree health benefits increased by an estimated 12.7 percent, on average, between 2003 and 2004 with somewhat lower cost increases reported by firms with 20,000 or more employees (Exhibit E1). This growth rate is fairly consistent with the 12.3 percent average growth in the cost of providing health benefits to active workers observed in a different sample of large employers during the same time frame.[8] By 2004, total retiree health costs are estimated to be $17.4 billion for surveyed employers, based on employers' estimates of total cost increases between 2003 and 2004.

[7] The total cost of retiree health benefits for employers participating in the 2004 survey is lower than the total cost reported by employers in the *Kaiser/Hewitt 2003 Survey on Retiree Health Benefits* because there are fewer participating companies in the 2004 survey (333 vs. 408). The average cost per firm in the 2004 survey was higher than the average cost per firm in the 2003 survey ($46.9 million vs. $42.8 million). See note 9.

[8] Hewitt Associates, "Health Care Costs Show Signs of Moderating, but Still Outpace Inflation," press release, October 11, 2004, based on data from the Hewitt Health Value Initiative.™

Exhibit E1

Average Increase in Total Retiree Health Costs, by Firm Size, 2003 to 2004



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.

The average total cost of retiree health among all the surveyed employers was $46.9 million per firm in 2003,[9] but varied substantially by firm size. Among jumbo firms with 20,000 or more employees, the total cost of providing retiree health benefits was $189 million, on average, in 2003, and within this group, some companies report total costs in excess of $1 billion. This compares to an average of $22 million for firms with 10,000–19,999 employees, $14.2 million for firms with 5,000–9,999 employees, and $4.1 million for firms with 1,000–4,999 employees.

The costs associated with retiree health obligations appear to be a significant concern for company CEOs. Eighty-nine percent of all respondents said their CEO is very (58 percent) or somewhat (31 percent) concerned about retiree health care costs. Total costs for retiree health benefits among surveyed companies represent more than a quarter (29 percent) of the total costs of health coverage for active workers, retirees, and dependents.

Caps on Future Obligations

Many large employers have placed caps on their future financial obligations for retiree health coverage in response to the rising cost of providing retiree health benefits and the early 1990s changes in Financial Accounting Standards Board (FASB) rules that require firms to account for retiree health obligations on an accrued basis. When employers place financial caps on their retiree health obligations, retirees tend to pay a greater share of costs as medical costs rise above a pre-determined amount.

---

[9] By comparison, the average cost per firm in the *Kaiser/Hewitt 2003 Survey on Retiree Health Benefits* was $42.8 million among 408 large firms. Although the surveys consist of different samples and are not strictly comparable from year to year, for reference purposes, if 408 employers had the 2004 average cost of $46.9 million per firm, total retiree costs for 408 companies would be $19.1 billion in 2004, versus $18.1 billion in 2003.

- 54 percent of all surveyed firms report having a cap on their firms' contribution to retiree health benefits in any plan offered to retirees in 2004.

- Among firms with a cap, 70 percent report having more than one plan with a cap across the firms' retiree health plans.

- Among firms with a cap, 84 percent have a cap for the largest pre-65 retiree health plan, and 89 percent have a cap for their largest age 65+ retiree health plan.

  — For firms that have a cap on their largest pre-65 retiree health plan, 53 percent have already hit the cap, and 28 percent anticipate hitting the cap in the next one to three years.

  — For firms with a cap on their largest age 65+ retiree health plan, 56 percent have already hit it, and another 27 percent anticipate hitting the cap in the next one to three years.

Nine out of ten firms that have already hit the cap or anticipate hitting the cap within the next year say they have or intend to hold firm on the cap. Among employers that have held firm on the cap or intend to hold firm on the cap, 30 percent say they have taken steps to soften the impact of the cap on pre-65 and 65+ retiree contributions to premiums.

In the 2004 survey, we took the additional step of not only determining the percentage of large companies with caps but also the percentage of retirees in plans that are capped, based on the largest plan offered by the surveyed employers.

- 54 percent of retirees in the largest pre-65 plans are in plans that are capped, as are 51 percent of retirees in the largest age 65+ plan.

Premiums. Total premiums (the sum of employer and retiree contributions) are typically higher for pre-65 retirees than they are for those ages 65+ because the employer plan is the main source of coverage (i.e., no Medicare) for pre-65 retirees but secondary to Medicare for retirees age 65+. Likewise, retiree contributions to premiums are, on average, higher for pre-65 retirees than for age 65+ retirees. Premiums vary by plan type (e.g., a PPO or HMO), plan design, demographics of retirees, geography, and firm size. In this report, the total premiums and retiree contributions to premiums are weighted by firm size and by the number of retirees in the largest employer health plan in order to give greater weight to the responses of larger firms that have a greater number of retirees.[10]

The following information presents average total premiums and retiree contributions for new retirees (those retiring on or after January 1, 2004) in the employer-sponsored retiree health plan with the largest number of retirees enrolled.

<u>Pre-65 Retirees</u>

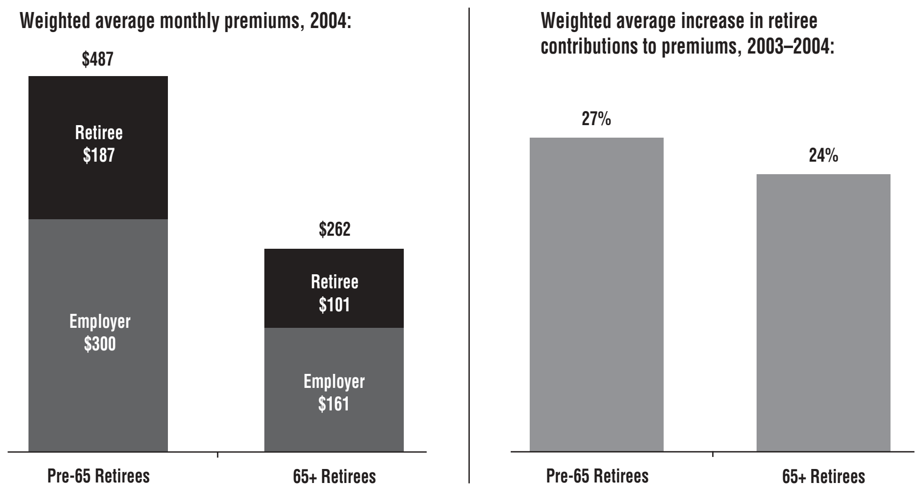
- For newly retiring pre-65 retirees, the weighted average total premium for retiree-only coverage is $487 per month (Exhibit E2).

  — Average total monthly premiums are lower in firms with 1,000–4,999 employees ($391 per month) than in jumbo firms with 20,000 or more employees ($499 per month). In this case,

[10] See *Appendix I: Methods* for additional information.

Exhibit E2

Average Monthly Premiums for New Retirees



Note: Includes firms that do not require retiree contributions. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004 (new retirees), in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

the larger companies may have richer plan designs or collectively bargained plans or may have more retirees located in higher health cost areas of the country.

- The weighted average retiree contribution to the total premium paid by new pre-65 retirees is $187 per month for retiree-only coverage. After excluding firms that do not require pre-65 retirees to pay any portion of the premium, the weighted average contribution for new pre-65 retirees increases to $202 per month.

  — On average, new pre-65 retiree contributions are 38 percent of the total weighted average premium in 2004, with substantial numbers of retirees paying much less or more than the average.

- Between 2003 and 2004, the weighted average increase in retiree contributions was 27 percent for new pre-65 retirees in the health plan with the largest number of enrollees.

<u>Age 65+ Retirees</u>

- For newly retiring age 65+ retirees, the weighted average total premium for retiree-only coverage is $262 per month (Exhibit E2).

  — For retirees age 65+, there is little variation in average total monthly premiums across firms of different sizes. Since these plans typically coordinate with Medicare, there may be less variation in overall plan designs than for pre-65 retirees, where the benefits are more often similar to those provided to active employees.

- The weighted average retiree contribution for new age 65+ retirees is $101 per month for retiree-only coverage. After excluding firms that do not require retiree contributions to the premium, the weighted average retiree contribution rises to $113 per month.

  — On average, new age 65+ retiree contributions are 39 percent of the total weighted average premium, with substantial numbers of retirees paying much less or more than the average.

- Between 2003 and 2004, the weighted average increase in the retiree contribution was 24 percent for new age 65+ retirees in plans with the largest number of retirees enrolled.

<u>Distribution of Employers by Share of Premium Paid by Retiree</u>

- 21 percent of surveyed employers require new pre-65 retirees to pay 100 percent of the total premium in the largest plan, while 6 percent do not require retiree contributions to premiums in the health plan with the largest number of enrollees.

- 19 percent of firms require new age 65+ retirees to pay 100 percent of the total premium, while 11 percent of employers do not require retiree contributions to premiums in the health plan with the largest number of enrollees.

Prescription Drug Benefits. For retirees ages 65 and older, employer-sponsored health benefits are the primary source of drug coverage, assisting more than one in three seniors with Medicare. The vast majority of employer plans with the largest number of age 65+ enrollees provide coverage for prescription drugs (98 percent). Most (93 percent) offer drug benefits as part of the firm's retiree health benefit plan, while a small share (5 percent) do so as a separate, employer-subsidized stand-alone drug plan. Only 2 percent do not offer prescription drug benefits to age 65+ retirees. Typically, employer-sponsored drug benefits include both retail and mail-order options; 21 percent of firms that offer drug benefits say they have a mandatory mail-order feature.

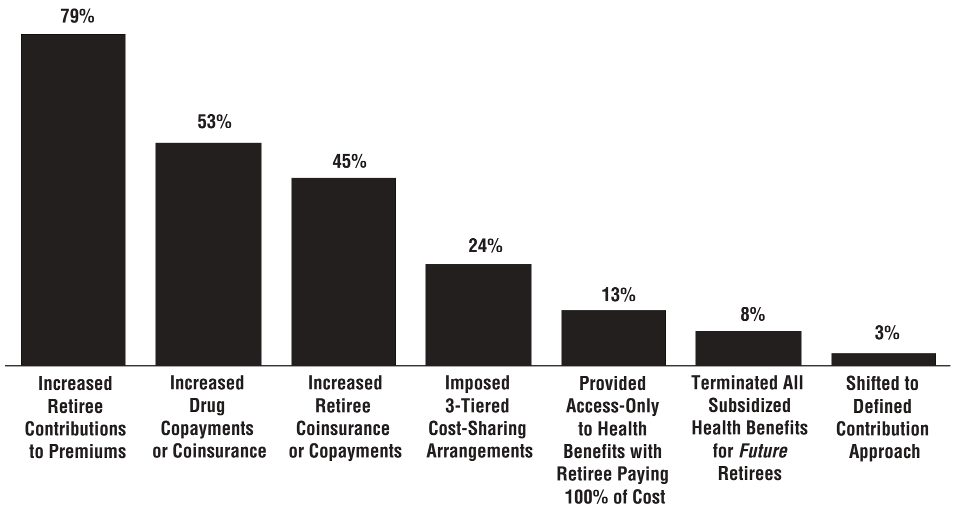
Nearly two-thirds of the largest 65+ retiree plans with drug benefits report that these benefits are subject to the overall plan design (58 percent), meaning they do not impose separate deductibles or out-of-pocket limits for their drug benefits versus other covered benefits. About a quarter (27 percent) of the largest age 65+ retiree plans providing drug benefits have a separate annual deductible (with $50 the most common drug deductible reported), and 18 percent impose a separate annual maximum for out-of-pocket drug expenses. Separate drug benefit limits are very uncommon with only 9 percent of the largest plans reporting them. Separate premiums for prescription drug benefits are rare with only 3 percent of firms charging a monthly premium for drug benefits in 2004. As a result, employer-sponsored retiree drug coverage is more generous than the standard drug benefit that will be offered under Medicare in 2006.

Employers use a variety of cost-sharing strategies for prescription drug benefits. More than half of surveyed firms (58 percent) have a three-tiered plan design in which generic drugs, formulary/preferred drugs, and non-formulary/non-preferred drugs are each subject to different copayments/coinsurance rates.

- For retirees in plans with a three-tiered design, median retail copayments for a 30-day supply (or lesser amount as prescribed) range from $10 for generics to $20 for brand-name drugs on the

Exhibit E3

Percentage of Large Private-Sector Employers Making Changes to Retiree Health Benefits in the Past Year



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.

formulary/preferred list, and $35 for brand-name drugs on the non-formulary/non-preferred list, and typically cover a 30-day supply of medication.

- For employer plans with three-tiered cost-sharing and a mail-order feature, median copayment amounts range from $20 for generics to $40 for brand-name drugs on the formulary/preferred list and $70 for brand-name drugs on the non-formulary/non-preferred list, and typically cover a 90-day supply of medication.

Changes in the Past Year. Large private-sector employers offering retiree health benefits have made substantial changes in an effort to control rising costs, and all signs point to sustained efforts to slow the growth in retiree health obligations in the future (Exhibit E3).

- 79 percent of large private-sector firms increased retiree contributions to premiums and 45 percent increased cost-sharing requirements for retirees in the past year.

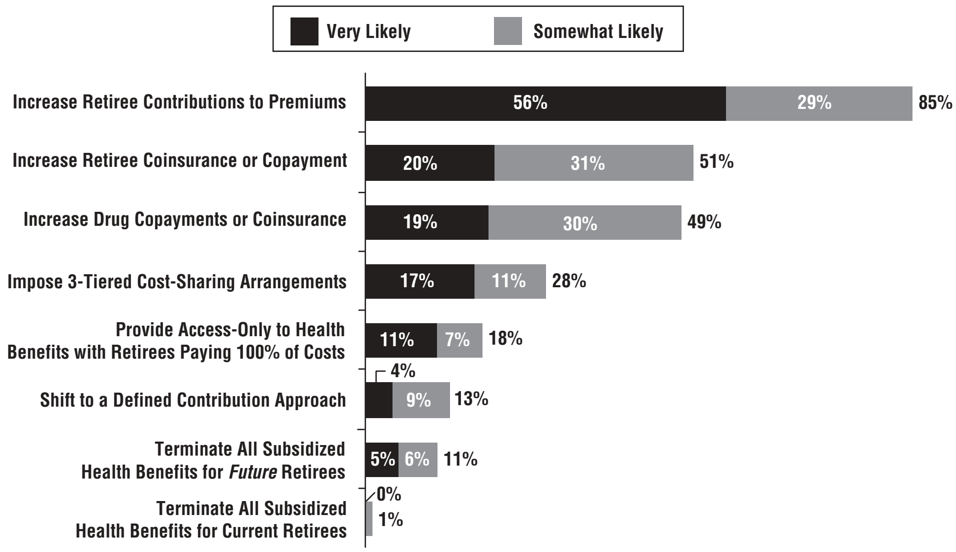
- 8 percent of surveyed employers eliminated subsidized health benefits for future retirees in the past year.

  — Termination of benefits reported by these employers primarily affect employees *hired* after a specific date rather than employees who will *retire* after a specified date.

  — Nearly half of the firms that terminated benefits for future retirees in the past year also indicated that they provided access-only to health benefits with retirees paying 100 percent of the cost.

Exhibit E4

Likelihood of Making Changes to Retiree Health Benefits for the 2005 Plan Year



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.

- 3 percent say they shifted to a defined contribution approach, and 3 percent say they put in place a catastrophic plan coupled with a health savings account.
- While most indicators suggest a reduction in benefits for retirees, 12 percent of large employers report having added benefits or improved coverage for retirees in the past year.

Prescription Drugs

To help manage costs in the last year, employers have raised cost-sharing requirements and implemented new strategies to manage utilization of drugs, but no surveyed employers have eliminated drug coverage for retirees within the last year.

- 53 percent of surveyed employers have increased prescription drug copayments or coinsurance.
- 24 percent imposed three-tiered copayments for pharmaceuticals. Only 4 percent imposed a four- or more tiered structure.
- 15 percent of employers replaced fixed dollar copayments for drugs with coinsurance, a potentially significant shift.

Changes for the 2005 Plan Year. Looking forward, large private-sector employers are considering a number of changes in their retiree health plans, many of which would require higher retiree contributions and cost-sharing requirements in 2005 (Exhibit E4).

- The vast majority of large employers say they are very or somewhat likely to raise premiums and/or cost-sharing requirements for retirees for the 2005 plan year, including:

  — Increasing contributions to premiums by retirees (85 percent) and dependents (75 percent);

  — Increasing retiree coinsurance or copayments for health care services (51 percent);

  — Increasing deductibles (43 percent); and

  — Raising out-of-pocket limits (37 percent).

- While only a small share say they are very or somewhat likely to terminate subsidized coverage for current retirees (1 percent), more than 1 in 10 employers say they are very or somewhat likely to terminate coverage for future retirees (11 percent). Most of these terminations are expected to affect "new hires" only.

Prescription Drugs

Despite the implementation of more aggressive cost-management tools in the past year, nearly half of surveyed employers say they are very or somewhat likely to increase drug copayments or coinsurance for pharmaceuticals for the 2005 plan year (49 percent). A quarter of surveyed employers (24 percent) say they are very or somewhat likely to replace fixed dollar copayments for prescription drugs with a coinsurance approach. Coinsurance approaches expose retirees to higher out-of-pocket spending as the cost of drugs rise and create greater financial incentives for retirees to save money by using lower-cost brand or generic products.

Many expect to impose more stringent controls on utilization in the future, including:

- Prior authorization requirements (40 percent);

- Therapeutic interchange (29 percent); and

- Step-therapy edits (31 percent).

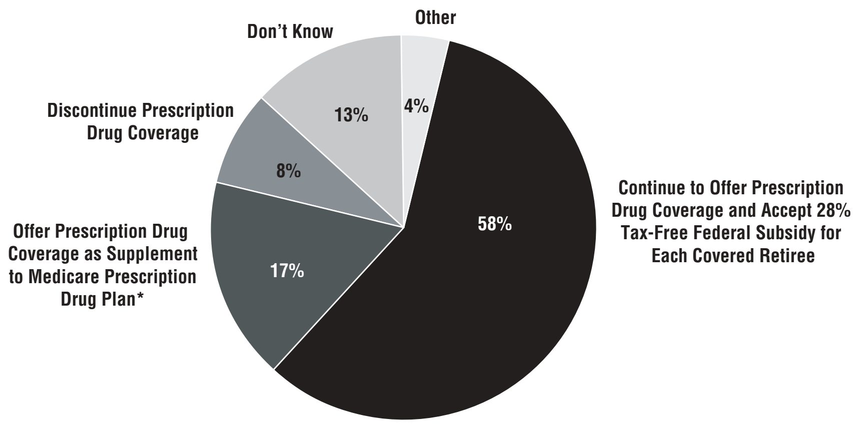
However, only 5 percent say that they are very or somewhat likely to eliminate retiree drug coverage altogether.

Perspectives on the Medicare Prescription Drug Debate. One of the key issues throughout the Medicare prescription drug debate has been the likely response of employers to a new Medicare drug benefit. As the implementation of the Medicare Modernization Act (MMA) proceeds, many lawmakers remain concerned about whether the Medicare drug benefit will accelerate the erosion of relatively generous and highly valued employer-sponsored retiree health coverage—the primary source of drug coverage for the Medicare population today.

The MMA provides multiple options for employers who wish to continue providing assistance to retirees in terms of drug coverage. The law includes financial incentives for those employers that provide prescription drug benefits to Medicare-eligible retirees and dependents if that coverage is at least actuarially equivalent to the standard Medicare drug benefit defined in the law. Medicare will provide these employers tax-free payments equal to 28 percent of allowable drug costs between $250

Exhibit E5

Strategies Firms Are Likely to Choose Under the Medicare Drug Law



*Medicare would be primary payer.
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plan with the largest number of age 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

and $5,000 for each covered retiree in 2006, estimated to be on average, $611 per retiree.[11] Other options allow employers to wrap around Medicare Part D coverage or to become the sponsor of a prescription drug plan (PDP) or a Medicare Advantage prescription drug plan (MA-PD). Our findings reflect employer reactions about how they are likely to respond to the new Medicare drug law in 2006, based on what they knew about the law at the time the survey was conducted.

The majority of employers say they are likely to continue to offer drug benefits to their Medicare-eligible retirees[12] (Exhibit E5):

- 58 percent of responding firms—representing an estimated 77 percent of age 65+ retirees in the largest plans offered by respondents—said their firm is likely to continue to offer prescription drug benefits and accept the per retiree 28 percent tax-free drug subsidy.

  — 85 percent of these employers say they plan to retain current benefit levels;

  — 7 percent of these employers plan to modify the actuarial value of the plan to match the standard Part D benefit; and

[11] Centers for Medicare and Medicaid Services (CMS), "Notice of Proposed Rulemaking (NPRM) regarding the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)," *Federal Register,* August 3, 2004.

[12] Refers to strategy reported for firms' largest group of age 65+ retirees. On average, 74 percent of surveyed firms' age 65+ retirees are enrolled in their firms' largest plans.

— 8 percent do not know.

- 17 percent of responding firms—representing an estimated 6 percent of age 65+ retirees in the largest plans offered by respondents—said their firm is likely to offer prescription drug coverage as a supplement to the Medicare prescription drug plan (Medicare would be the primary payer).

- 8 percent of responding firms—representing an estimated 4 percent of age 65+ retirees in the largest plans offered by respondents—said they would discontinue drug coverage. Some employers in this group indicated they would contribute toward the retiree's Part D premium.

- 13 percent said they do not know which strategy their firm is likely to choose and 4 percent said "other" strategy.

About a third (34 percent) of surveyed firms said they had already evaluated the financial impact of the MMA. About half (47 percent) said they plan to evaluate the impact within 6 months after the survey was conducted and 16 percent said they plan to analyze the new law within 7–12 months.

Among firms that have analyzed the financial impact of the MMA drug law, 15 percent expect a "significant" (20 percent or more) reduction in their annual, before tax, FAS 106 accounting costs, and 34 percent expect a "moderate" (6–19 percent) reduction; while 17 percent expect a "nominal" (1–5 percent) reduction and 8 percent expect no reduction (0 percent). The remaining 26 percent either did not know or expect a different financial impact of the law.

Employers were asked how likely they would be to separate the 65+ retiree prescription drug election or premium from their overall retiree health plan, in response to the MMA. The majority (58 percent) of employers said they are unlikely to separate drug coverage from their overall retiree health plan in response to the new law (24 percent "very unlikely" and 34 percent "somewhat unlikely"). One-third (34 percent) said they are very likely (9 percent) or somewhat likely (25 percent) to make such a change. Clearly, how employers fully respond to incentives beginning in 2006 will become apparent after these employers have had sufficient time to evaluate the impact of the law on their firms.

Nearly three-quarters of employers said they are likely (32 percent "very likely" and 40 percent "somewhat likely") to give their age 65+ retirees educational materials about the Medicare drug benefit. Given the complexity of the new law, such educational efforts could help ease the transition for retirees as the drug law goes into effect.

Conclusion

Findings from this 2004 retiree health benefits survey confirm that employers are continuing to modify retiree health plans in ways similar to what they have done in the past. Costs are continuing to rise at double-digit rates, leading employers to increase retiree contributions and cost-sharing and to consider eliminating subsidized retiree health coverage for new hires in particular. Nevertheless, surveyed employers project that the majority of their current workers will continue to be eligible for health benefits when they retire. There is virtually no interest in terminating subsidized benefits for current retirees in 2005 or in dropping prescription drug benefits for retirees.

Most surveyed employers indicate that they are likely to continue drug coverage for age 65+ retirees after the Medicare drug benefit goes into effect. However, because of the uncertainties that existed at the time the survey was conducted and because employer responses may change over time, further research is needed to monitor employer responses on an ongoing basis. The majority of companies had yet to determine the financial impact of the MMA at the time of the survey, though virtually all companies are expected to do so by early 2005, if not sooner. Most of the employers who participated in this study completed the survey before the proposed MMA regulations were published. The final regulations—which should address a number of issues of critical importance to employers—are not expected before early 2005. Employers' responses to the new law may change after they have had an opportunity to monitor its implementation and assess the availability of new Medicare drug plans over time.

In the meantime, this survey indicates that most large private-sector employers expect to stay the course for 2006. This finding suggests that the vast majority of retirees who now receive employer-sponsored drug benefits from large private-sector firms continue to receive them either as part of their current plan or as a supplement to Medicare, at least in the early stages of the MMA. Those retirees who do lose employer-sponsored coverage when the Medicare benefit goes into effect in 2006, however, are likely to encounter higher out-of-pocket costs under Medicare prescription drug plans in that the benefits provided by employers are typically far more generous than the standard Medicare drug benefit. The relative generosity of employer health benefits helps to explain concerns about the erosion of employer coverage after the Medicare drug benefit goes into effect. With employers and retirees clearly concerned about rising health care costs, ongoing efforts to monitor the effects of the MMA are essential.