

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004
Survey on Retiree Health Benefits

SECTION 1

COVERAGE AND HEALTH PLAN OPTIONS

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The vast majority of large private-sector firms that offer retiree health benefits provide coverage to both pre-65 and 65+ retirees. In addition to retired workers, these employers generally provide health benefits to spouses and often to other dependents. For those retiring prior to their 65th birthday, employer-sponsored retiree health benefits are their primary source of health insurance coverage, filling a gap until they become eligible for Medicare. For retirees ages 65 and older, Medicare is generally the primary payer and the employer plan is typically secondary, paying for supplemental benefits, such as prescription drugs, which Medicare will not provide until 2006.

Employers offering benefits to age 65+ retirees currently use a variety of strategies to coordinate with Medicare. Under the most common approach, known as “carveout,” the plan calculates the benefit as it normally would and then subtracts (“carves out”) the Medicare payment. Retirees are required to satisfy the deductible and cost-sharing under the employer plan. Under another approach, known as “full coordination of benefits,” the employer plan pays the difference between total health care charges and the Medicare reimbursement amount. This latter approach often offers retirees complete coverage and protection from out-of-pocket costs.

Pre-65 retirees are somewhat more likely than age 65+ retirees to be offered a choice of health plans, and may have a different set of health plan options than do age 65+ retirees because early retirees are generally offered the same health plan options as active employees. PPOs are the most common plan type that surveyed employers provide pre-65 retirees; indemnity plans are the most frequently provided plan for age 65+ retirees.

Covered Individuals

- 89 percent of surveyed employers that offer retiree health benefits provide coverage for both pre-65 and age 65+ retirees and 11 percent of employers offer retiree health benefits to pre-65 retirees only.¹³
- Surveyed employers typically provide retiree health benefits to salaried employees (92 percent of employers), hourly employees (87 percent), and grandfathered employees or retirees (70 percent). Grandfathered employees or retirees are those who retain retiree health coverage from a previously established employer-sponsored health plan that is no longer offered to current employees or retirees (Exhibit 1).
 - Among employers that provide retiree health benefits to both salaried and hourly employees, 87 percent provide the same benefits to salaried and hourly employees, 13 percent provide different benefits.
- 52 percent of all surveyed firms offer retiree health benefits to both union and non-union employees, 1 percent offer these benefits to union-employees only, and 47 percent offer retiree health benefits to non-union employees only (Exhibit 2).

¹³ Less than 1 percent of employers offer health benefits exclusively to age 65+ retirees.

- All surveyed employers offer retiree health benefits to the spouses of retirees and most offer these benefits to other dependents (82 percent).
- 42 percent of all surveyed employers offer retiree health benefits to part-time workers.

Choice of Health Plans

Pre-65 retirees have somewhat greater choice of plans than do age 65+ retirees. This is because pre-65 retirees often have the same plan choices as active employees, while age 65+ retirees are generally offered fewer plans that coordinate with Medicare.

When asked about the number of health plan options available to new retirees, defined as those retiring on or after January 1, 2004 (Exhibit 3):

- 27 percent of firms that provide retiree health benefits to pre-65 retirees offer one employer-sponsored plan, compared with 46 percent of firms offering one plan to age 65+ retirees.
- 25 percent of employers report providing new pre-65 retirees a choice of two health plans; 23 percent of employers provide age 65+ retirees a choice of two health plans.
- 48 percent of employers provide pre-65 retirees a choice of three or more health plans; 31 percent provide age 65+ retirees a choice of three or more health plans.

Types of Health Plans Offered

Large private employers as a group commonly provide health coverage for retirees under health maintenance organizations (HMOs), preferred provider organizations (PPOs), point-of-service (POS) plans, indemnity (or managed indemnity) plans, and, for age 65+ retirees, Medicare Advantage plans (formerly called M+C plans) (Exhibit 4).¹⁴

- Surveyed employers most frequently provide pre-65 retirees the option of coverage under PPOs (83 percent), followed by HMOs (58 percent), indemnity (or managed indemnity) plans (38 percent), and POS plans (29 percent). Again, pre-65 retirees are often covered by the active employee plans, so they typically have somewhat greater access to PPOs and HMOs than do age 65+ retirees.
- The most common types of plans that surveyed employers provide to age 65+ retirees are indemnity (or managed indemnity) plans (56 percent), followed by Medicare Advantage or other HMO plans (43 percent), and PPOs (43 percent).

Share of Active Workers Likely to be Covered in the Future

Employers were asked to provide an estimate of the percentage of their firms' active employees who will be eligible for employer-subsidized retiree health benefits when they retire. Surveyed firms

¹⁴ For definitions of these health plans, see Appendix II: Definitions of Health Plans.

estimate that, on average, 59 percent of active workers will be eligible for retiree health benefits when they retire.

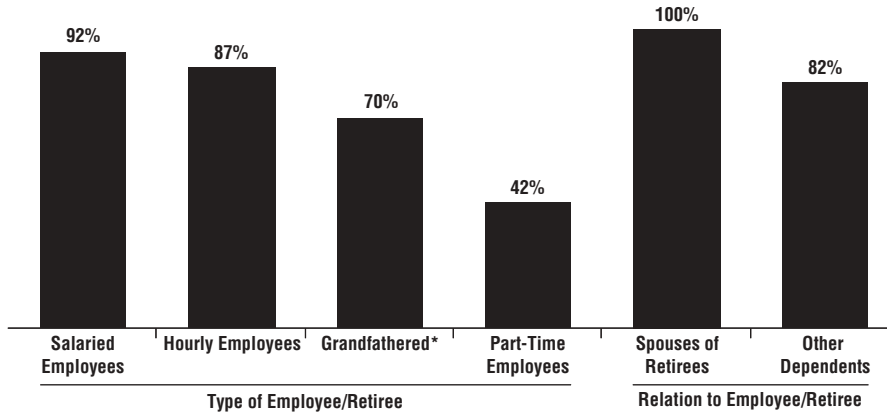
- The share of active workers likely to be covered in the future is fairly consistent across firms of different sizes ranging from 56 percent, on average, among firms with 5,000–9,999 employees to 59 percent among firms with 1,000–4,999 employees, 61 percent among firms with 20,000 or more employees, and 63 percent, on average, among firms with 10,000–19,999 employees.
- The share of active workers likely to be covered in the future is also fairly consistent between the manufacturing sector (61 percent) and the non-manufacturing sector (58 percent).

Among surveyed employers:

- 7 percent estimate that none of their active employees will be eligible for employer-subsidized retiree health benefits when they retire;
- 22 percent of employers estimate that up to 25 percent of workers, on average, will be eligible for benefits;
- 24 percent estimate that between 26 and 75 percent of workers, on average, will receive benefits;
- 31 percent estimate that between 76 and 99 percent of their workforce, on average, will be eligible for retiree health benefits when they retire; and
- 16 percent estimate that 100 percent of their firm's active employees will be eligible for subsidized health benefits when they retire.

Exhibit 1

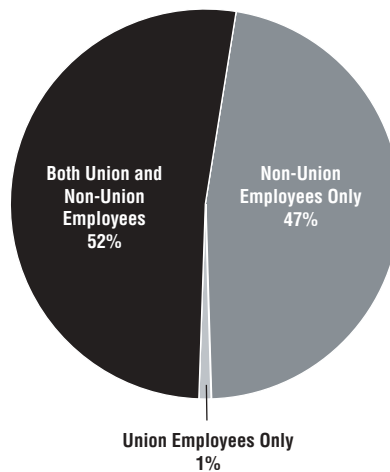
Percentage of Large Private-Sector Employers Offering Retiree Health Benefits to Selected Individuals



*Grandfathered employees or retirees are those who retain retiree health benefits from a previously established plan that is no longer offered to current employees or retirees.
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 2

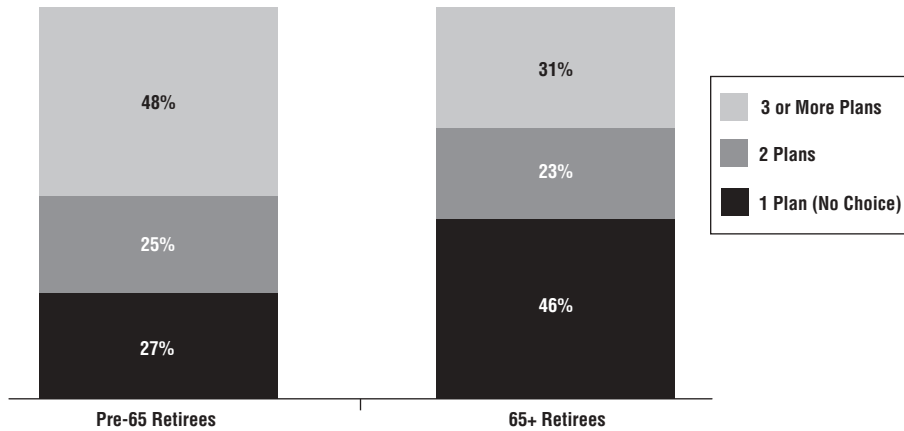
Percentage of Large Private-Sector Employers Offering Retiree Health Benefits to Union and Non-Union Employees



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.

Exhibit 3

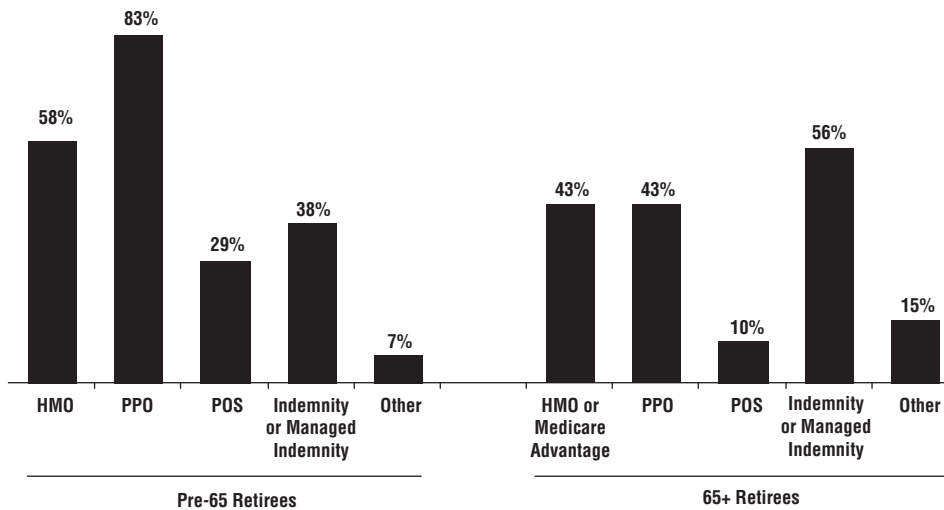
Percentage of Large Private-Sector Employers Providing Retirees with a Choice of Health Plans



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Choice of health plans for full-time employees retiring on or after January 1, 2004.
 SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 4

Type of Health Plans Offered to Retirees by Large Private-Sector Employers



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Type of health plan for full-time employees retiring on or after January 1, 2004.
 SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.