

# CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

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

SECTION 3

PREMIUMS

# PREMIUMS

Total premiums for retiree health benefits—the sum of both employer and retiree contributions—vary widely.<sup>20</sup> Premiums are typically higher for pre-65 retirees, where the employer plan is generally the sole source of coverage, than for those age 65+, where the employer plan is typically secondary to Medicare. Demographics, plan type (e.g., a PPO or HMO), plan design, and scope of coverage are also key factors affecting the utilization of health benefits and the overall cost of the plan (and hence the premiums) for both pre-65 and age 65+ retirees.

In a given firm, retiree contributions to premiums can vary widely depending on the retiree's years of service with the firm, the type of health plan selected, the date of retirement, the size of the firm, whether the individual retired before or after turning age 65, and whether the plan is collectively bargained.

In more than half of the largest pre-65 and age 65+ retiree health plans offered by employers in this survey, retiree contributions differ based on the retiree's years of service with the employer. In firms with service-related contributions, retirees with fewer years of employment typically pay a larger share of the total premium than others in the same firm with more years of service. Thus, employees retiring in the same year who are the same ages and have the same health plan options could be subject to different retiree contributions, depending on their years of service with the firm and the type of plan they select.

All premium information collected in this survey refers solely to new retirees (i.e., those retiring in 2004), and therefore does not represent the premium information for *all* retirees with employer-sponsored coverage. It does not include retiree contribution information, for example, for earlier generations of retirees who may typically pay a lower percentage of the total premium than newer retirees, as the earlier generations may have had their contribution level grandfathered or protected under a previous collective bargaining agreement between the employer and the labor union, where applicable.

Because there can be wide variations in premiums for retiree health coverage, large employers were asked to provide an average total premium and average retiree contribution for those retiring on or after January 1, 2004 (new retirees) in the plan with the largest enrollment of pre-65 and age 65+ retirees.

In this section, we use two approaches to examine total premiums and retiree contributions to premiums. We present weighted average premiums to describe the experiences of retirees, and thus weight premiums and retiree contributions to premiums by firm size and number of retirees in each firm's largest health plan. We use the weighted average when presenting the average total premium, the average retiree contribution to premium, the average share of total premiums paid by retirees, and the average annual increase in retiree contributions to premiums from 2003 to 2004.

---

<sup>20</sup> For convenience, we use the term "premium" to include "premium equivalents," which is the term for the employer and retiree contributions in plans that are self-insured. Since the vast majority of firms in our survey are multi-state employers (87 percent), one would expect a large percentage of these retiree health plans to be self-insured, rather than insured plans.

We also present unweighted averages for some purposes. We use the unweighted average to show the distribution of employers by the share of premium paid by new retirees in the largest plan; the distribution of employers by the average annual increase in retiree contributions to premiums, 2003 to 2004; and the average annual increase in retiree contributions to premiums, by plan type and by firm size.

## **Pre-65 Retirees**

### ***Total Average Premium (Employer and Retiree Contributions Combined)***

- For retiree-only coverage, the weighted average total monthly premium (both employer and retiree contributions combined) for new pre-65 retirees is \$487. Total premiums are generally higher for pre-65 retirees than for age 65+ retirees (Exhibit 10).
- For coverage of both retirees and spouses, the total weighted average monthly premium is \$1,124 for pre-65 retirees and their spouses.
- Just over half of all surveyed employers (54 percent) report that premiums for pre-65 retirees are based on the claims experience of those retirees only. The remaining 46 percent report that the pre-65 premiums reflect a blend of the experience of active employees and pre-65 retirees.
- For new pre-65 retirees, the average total monthly premium is lowest for HMO plans (\$371 per month) and highest for PPO plans (\$452 per month) (Exhibit 11).
- For new pre-65 retirees, average total monthly premiums are lower in the 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, 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.

### ***Retiree Contributions to Total Premium***

The vast majority of employers (94 percent) require newly retiring pre-65 retirees to share in the cost of retiree health coverage by contributing to the total monthly premium.

- The weighted average retiree contribution to premiums for new pre-65 retirees is \$187 per month (\$387 per month for new pre-65 retirees and spouses), based on health plans offered by employers with the largest number of enrolled retirees. After firms that do not require retirees to pay any portion of the premium are excluded, the weighted average contribution for new pre-65 retirees increases to \$202 per month.<sup>21</sup>
  - The amount that new pre-65 retirees contribute toward the total premium also varies by type of plan. For individuals retiring in 2004 with retiree-only coverage, the average monthly retiree contribution by pre-65 retirees is lowest for POS plans (\$135 per month) and highest for PPO plans (\$203 per month), the plan type most commonly offered to pre-65 retirees.

---

<sup>21</sup> The remaining average pre-65 retiree contribution amounts reported in this section include firms that do not require retirees to pay any portion of the premium.

— The average retiree contribution toward the premium among new pre-65 retirees also varies by firm size, ranging from \$187 per month (firms with 1,000–4,999 employees) to \$217 per month (firms with 10,000–19,999 employees).

- New pre-65 retirees contributed, on average, 38 percent of the total weighted average premium in 2004 for retiree-only coverage in the health plan with the largest number of retirees.
- 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.<sup>22</sup>

### ***Distribution of Employers by Share of Premium Paid by Retiree***

- There are significant variations in the share of the total premium that employers require retirees to contribute. For example, 21 percent of employers require pre-65 retirees to pay 100 percent of the total premium in the largest plan, while 6 percent report that new pre-65 retirees pay nothing toward the premium in the health plan with the largest number of enrollees (Exhibit 12).

### ***Distribution of Employers by Change in Retiree Contributions, 2003–2004***

- Fourteen percent of employers report no increase in the pre-65 retiree contributions between 2003 and 2004, 22 percent report an increase of up to 10 percent, and 32 percent report increases between 11 and 20 percent (Exhibit 13).

### ***Change in Retiree Contributions by Firm Size and Plan Type***

- By firm size, the average annual increase in pre-65 retiree contributions was highest in firms with 5,000–9,999 employees (33 percent) and lowest for those with 10,000–19,999 employees (15 percent) (Exhibit 14).
- Employers report the average annual increase in pre-65 retiree premium contributions was highest for POS plans (33 percent) and lower for HMO (24 percent) and PPO plans (23 percent). The average percentage change in retiree contributions for pre-65 retirees was lowest for indemnity/managed indemnity plans (14 percent) (Exhibit 15).

## **Age 65+ Retirees**

### ***Total Average Premium (Employer and Retiree Contributions Combined)***

- For retiree-only coverage, the weighted average total monthly premium is \$262 for newly retiring age 65+ retirees (Exhibit 10).
- For coverage of both retirees and spouses, the total weighted average monthly premium is \$600 for age 65+ retirees and their spouses.

---

<sup>22</sup> The pre-65 weighted average increases reported in this section include those firms that reported no change, i.e., a zero percent increase, in retiree contributions from 2003 to 2004.

- For age 65+ retirees, the average total monthly premium was lowest for employer-sponsored Medicare Advantage or other HMOs (\$213 per month) and highest for POS plans (\$285 per month) (Exhibit 11).
- 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.

### ***Retiree Contributions to Total Premium***

As they do for pre-65 retirees, the vast majority of employers (89 percent) require new 65+ retirees to share in the cost of retiree health coverage by contributing to the total monthly premium. Still, retiree contributions to premiums vary by plan type and firm size.

- The weighted average retiree contribution for new age 65+ retirees in 2004 is \$101 per month for retiree-only coverage (\$209 per month for new retirees and spouses) in health plans with the largest number of retirees enrolled. After firms that do not require retirees to pay any portion of the premium are excluded, the weighted average contribution for new 65+ retirees increases to \$113 per month.<sup>23</sup>
  - Retiree contributions vary substantially by type of plan. For retiree-only coverage, the average monthly retiree contribution for new age 65+ retirees is highest for employer-sponsored Medicare Advantage plans or other HMOs (\$122 per month) and lowest for POS plans (\$73 per month). Retiree contributions in 2004 for new age 65+ retirees average \$108 for PPO plans, and \$99 for indemnity/managed indemnity plans.
  - On average, retiree contributions for age 65+ retirees vary slightly by firm size, from about \$122 per month (firms with 5,000–9,999 employees) to \$97 per month (firms with 1,000–4,999 and 10,000–19,999 employees) for retiree-only coverage.
- New Medicare-eligible retirees contributed, on average, 39 percent of the total weighted average premium in 2004 for retiree-only coverage in the health plan with the largest number of retirees enrolled.
- Between 2003 and 2004, the weighted average increase in the age 65+ retiree contribution was 24 percent for new age 65+ retirees in plans with the largest number of retirees enrolled.<sup>24</sup>

<sup>23</sup> The remaining average 65+ retiree contribution amounts reported in this section include firms that do not require retirees to pay any portion of the premium.

<sup>24</sup> The 65+ weighted average increases reported in this section include those firms that reported no change, i.e., a zero percent increase, in retiree contributions from 2003 to 2004.

### ***Distribution of Employers by Share of Premium Paid by Retiree***

- There are significant variations in the share of the total premium that employers require retirees to contribute. For example, 19 percent of employers require new age 65+ retirees to pay 100 percent of the premium, while 11 percent of employers report that new age 65+ retirees pay nothing toward the premium under the health plan with the largest number of retirees enrolled (Exhibit 12).

### ***Distribution of Employers by Change in Retiree Contributions, 2003–2004***

- More than one-fifth (21 percent) of employers report no change in age 65+ retiree contributions in the largest health plan between 2003 and 2004, while 26 percent report an increase of up to 10 percent, and 25 percent report an increase of between 11 and 20 percent for new retirees (Exhibit 13).

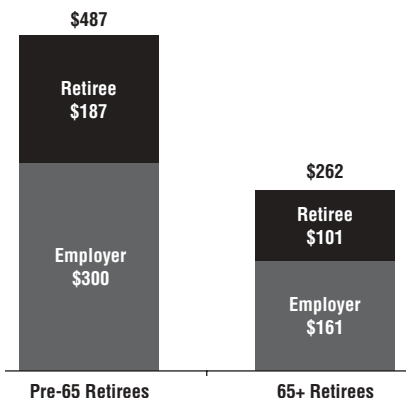
### ***Change in Retiree Contributions by Firm Size and Plan Type***

- By firm size, the average annual increase in age 65+ retiree contributions for retiree-only coverage was highest in firms with 20,000 or more employees (24 percent) (Exhibit 14).
- The average annual increase in age 65+ retiree contributions was highest for POS plans (24 percent), followed by PPOs (23 percent), indemnity/managed indemnity plans (21 percent), and Medicare Advantage plans/other HMOs (16 percent) (Exhibit 15).

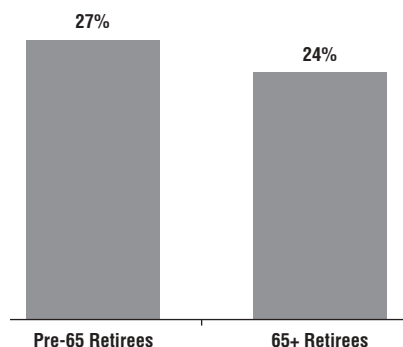
Exhibit 10

### Average Monthly Premiums for New Retirees

Weighted average monthly premiums, 2004:



Weighted average increase in retiree contributions to premiums, 2003–2004:



Note: Includes firms that do not require 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.

Exhibit 11

### Average Monthly Premiums for New Pre-65 and 65+ Retirees by Plan Type and Firm Size

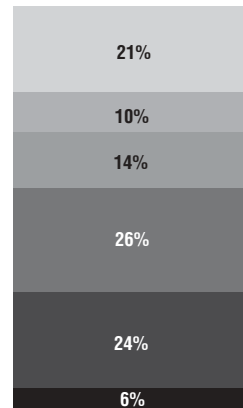
	Pre-65 Retirees			65+ Retirees		
	Total Premium (Employer + Employee Share)	Retiree Contributions to Premiums		Total Premium (Employer + Employee Share)	Retiree Contributions to Premiums	
		All Firms	Firms that Require Retiree Contributions		All Firms	Firms that Require Retiree Contributions
<b>By Plan Type:</b>						
HMO*	\$371	\$184	\$191	\$213	\$122	\$144
PPO	\$452	\$203	\$210	\$239	\$108	\$113
POS	\$385	\$135	\$152	\$285	\$73	\$90
Indemnity/ Managed Indemnity	\$433	\$163	\$194	\$274	\$99	\$113
<b>By Firm Size:</b>						
1,000–4,999	\$391	\$187	\$198	\$235	\$97	\$107
5,000–9,999	\$423	\$181	\$188	\$286	\$122	\$142
10,000–19,999	\$467	\$217	\$222	\$266	\$97	\$106
20,000+	\$499	\$185	\$202	\$262	\$100	\$112

\*Includes Medicare Advantage for 65+ retirees.  
Note: 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, in plans with the largest number of enrolled retirees.  
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

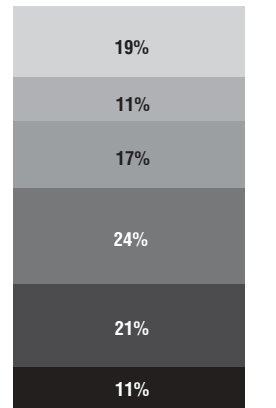
Exhibit 12

### Distribution of Employers by Share of Premium Paid by Retiree

Distribution of Employers by Share of Premium Paid by Pre-65 Retirees:



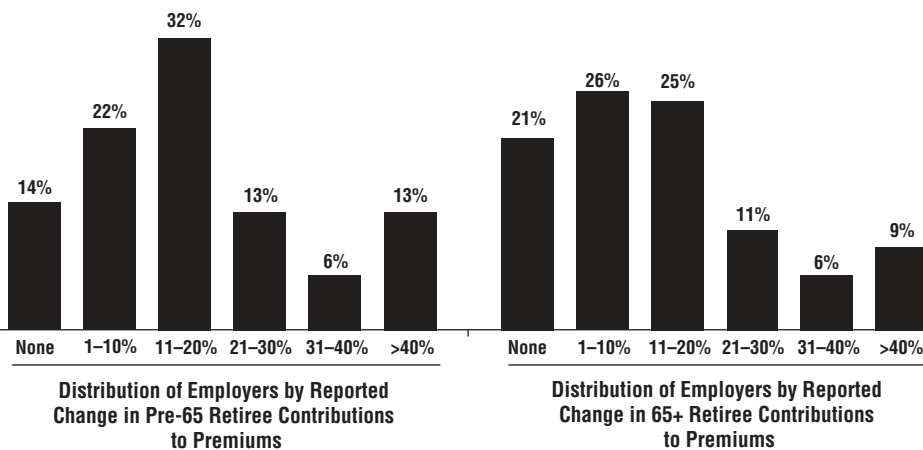
Distribution of Employers by Share of Premium Paid by 65+ Retirees:



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. 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.

Exhibit 13

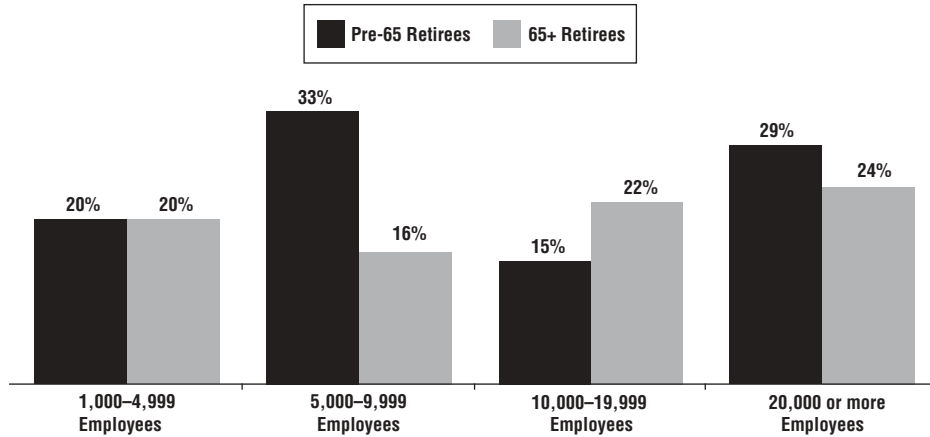
### Distribution of Employers by Reported Change in Retiree Contributions to Premiums, 2003 to 2004



Note: Average increases in retiree contributions for new retirees across surveyed employers are 23% for pre-65 retirees and 21% for 65+ retirees (unweighted). Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Retiree contributions to premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003 and 2004, respectively, in plans with the largest number of enrolled retirees.  
 SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 14

### Employer-Reported Average Annual Increase in Retiree Contributions for New Retirees, by Firm Size, 2003 to 2004

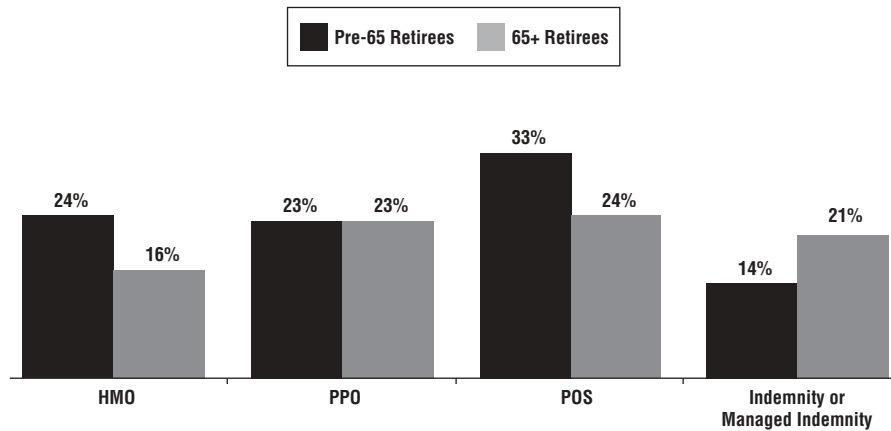


Note: Average increases in retiree contributions for new retirees across surveyed employers are 23% for pre-65 retirees and 21% for 65+ retirees (unweighted). Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring in 2003 and 2004, respectively, in plans with the largest number of enrolled retirees.

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

Exhibit 15

### Employer-Reported Average Annual Increase in Retiree Contributions for New Retirees, by Type of Health Plan, 2003 to 2004



Note: Average increases in retiree contributions for new retirees across surveyed employers are 23% for pre-65 retirees and 21% for 65+ retirees (unweighted). 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 in 2003 and 2004, respectively, in plans with the largest number of enrolled retirees.

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