

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

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

SECTION 5

CHANGES MADE BY LARGE EMPLOYERS IN PAST YEAR

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Employers offering retiree health benefits have made substantial changes in the past year in an effort to control rising costs, and survey responses point to sustained efforts to slow the growth in retiree health obligations in the 2005 plan year. Much like we have observed in previous years, the majority of surveyed firms have increased retiree contributions to premiums, and about half have increased general cost-sharing requirements for health care services in the past year. A much smaller share of employers in this survey have terminated health benefits for future retirees entirely. While most survey indicators suggest a reduction in benefits for retirees, one in eight large employers report having added benefits or improved coverage for retirees in the past year.

Prescription drug costs are a major focus for employers. Not surprisingly, large employers report having implemented a number of specific strategies to control rising drug costs. Just over half reported increasing copayments or coinsurance for retirees' prescription drugs in the past year.

Coverage

- Among large, private-sector firms that provide retiree health benefits, 8 percent terminated all subsidized health benefits for future retirees in the past year (Exhibit 23).
 - Terminations 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.
- 3 percent of surveyed employers shifted to a defined contribution approach and 3 percent say they put in place a catastrophic plan coupled with a health savings account.

Retiree Contributions

- 79 percent of surveyed employers report having increased retiree contributions to premiums in the past year. More than two-thirds (68 percent) report increases in contributions for dependent coverage (Exhibit 24).
- 13 percent of all surveyed firms report making a change to provide access-only to group health benefits, with retirees paying 100 percent of the costs.

Cost-Sharing

- During the past year, nearly half (45 percent) of surveyed employers report increases in retiree cost-sharing in the form of copayments and coinsurance for a range of health care services.

Surveyed employers made the following cost-sharing changes in the past year:

- 37 percent raised deductibles; and
- 29 percent increased out-of-pocket limits.

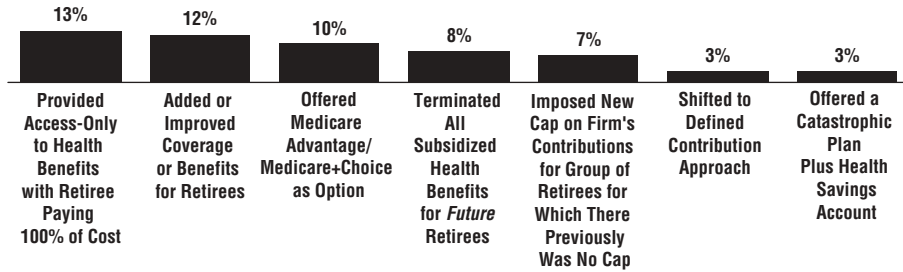
Prescription Drug Benefit Changes

Large employers have implemented a variety of measures to control rising drug costs during the past year, including plan design changes that increase cost-sharing for retirees, as well as strategies to manage utilization of prescription drugs.

- 53 percent of surveyed employers have increased prescription drug copayments or coinsurance (Exhibit 25).
- 24 percent imposed three-tiered copayments for pharmaceuticals. Only 4 percent imposed a four- or more tiered structure.
- With respect to utilization management strategies: 37 percent put into place prior authorization requirements; 22 percent of employers implemented step-therapy provisions, in which patients receive progressively higher cost treatments only if lower cost alternatives are ineffective; 21 percent imposed rules related to therapeutic interchange (formulary interventions by PBMs); and 14 percent implemented closed or partially-closed formularies (Exhibit 26).
- 15 percent of employers replaced fixed dollar copayments for drugs with coinsurance, a potentially significant shift.
- 11 percent required mandatory use of mail-order for prescription refills or maintenance drugs.
- None of the surveyed employers eliminated prescription drug coverage within the past year.

Exhibit 23

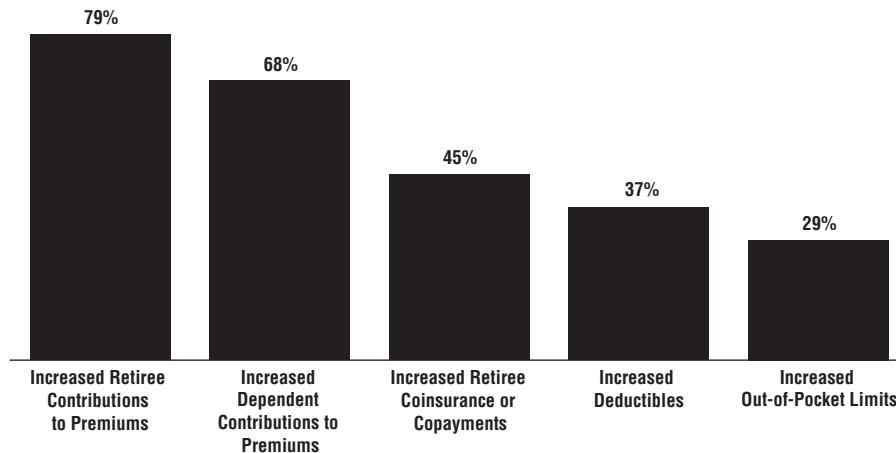
Percentage of Large Private-Sector Employers Making Changes to Retiree Health Benefits in the Past Year



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.

Exhibit 24

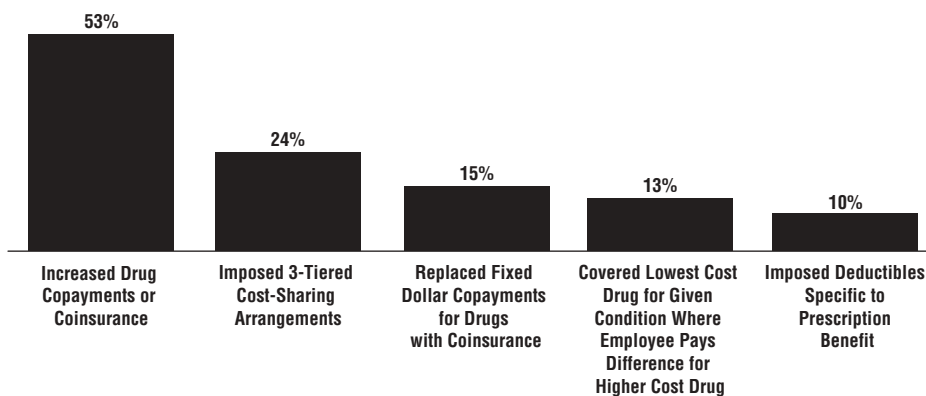
Percentage of Large Private-Sector Employers Making Changes to Retiree Contributions or Cost-Sharing for Retiree Health Benefits in the Past Year



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.

Exhibit 25

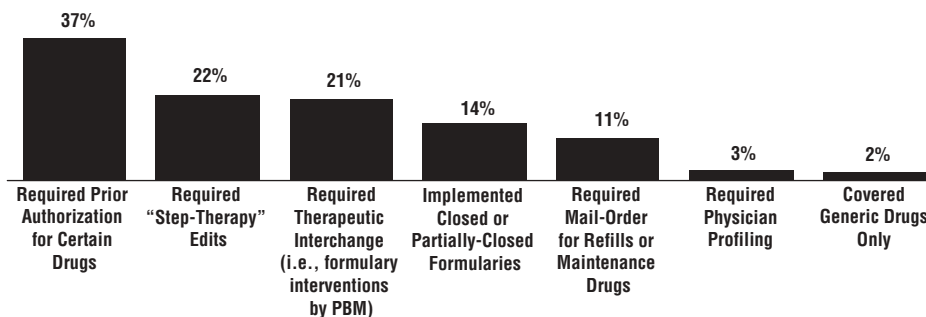
Percentage of Large Private-Sector Employers Making Changes in Cost-Sharing to Manage Retiree Prescription Drug Costs in the Past Year



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.

Exhibit 26

Percentage of Large Private-Sector Employers Making Other Changes to Manage Retiree Prescription Drug Costs 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.