

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

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

SECTION 6

CHANGES ANTICIPATED BY LARGE EMPLOYERS FOR THE 2005 PLAN YEAR

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Looking ahead, the majority of surveyed employers say they are very or somewhat likely to make changes in their retiree health plans for the 2005 plan year. Most of these changes would involve higher retiree contributions and/or cost-sharing. Despite the implementation of more aggressive prescription drug cost management tools within the last year and the promise of a Medicare drug benefit in 2006, most employers say they are very or somewhat likely to raise retirees' cost-sharing for pharmaceuticals in 2005 and many expect to impose more stringent controls on utilization.

Coverage

- Only 1 percent of surveyed employers say they are very or somewhat likely to terminate all subsidized benefits for current retirees for the 2005 plan year (Exhibit 27).
 - By contrast, 11 percent say they are very or somewhat likely to terminate all subsidized health benefits for future retirees.
- There is also serious consideration being given to providing access-only to health benefits, with 18 percent of firms reporting they are very or somewhat likely to ask retirees to pay 100 percent of the cost of coverage.
- 19 percent of surveyed employers say they are very or somewhat likely to offer catastrophic benefits, coupled with health savings accounts;²⁶ 13 percent of surveyed employers say they are very or somewhat likely to shift to a defined contribution approach.
- 11 percent of surveyed firms say they are very or somewhat likely to add or improve benefits for retirees.

Retiree Contributions

- 85 percent of surveyed employers say they are very or somewhat likely to increase retiree contributions to premiums for the 2005 plan year; 75 percent say they are very or somewhat likely to increase contributions for dependents (Exhibit 28).

Cost-Sharing

- 51 percent of surveyed employers say they are very or somewhat likely to increase retiree coinsurance or copayments for health care services.
 - 43 percent say they are very or somewhat likely to increase deductibles;

²⁶ Under the Medicare Modernization Act, Medicare-eligible retirees may not make contributions to health savings accounts, although they may use funds accumulated prior to Medicare eligibility to pay for health care expenses.

— 37 percent say they are very or somewhat likely to raise out-of-pocket limits.

Changes to Manage Prescription Drug Costs

While only 5 percent of all surveyed employers say they are very or somewhat likely to eliminate prescription drug coverage for the 2005 plan year, a number of other prescription drug benefit and cost-sharing design changes appear more imminent (Exhibit 29).

- 49 percent of surveyed employers say they are very or somewhat likely to increase retiree copayments or coinsurance for prescription drugs.
- Employers say they are likely to impose tiered cost-sharing for prescription drugs for the 2005 plan year:
 - 28 percent say they are very or somewhat likely to impose three-tiered cost-sharing;
 - 14 percent say they are very or somewhat likely to impose four- or more tiered cost-sharing for retirees.
- 24 percent of surveyed employers 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. They also provide stronger financial incentives for retirees to choose generic drugs when available or lower cost brand-name alternatives.
- 20 percent of employers say they are very or somewhat likely to impose deductibles specifically for the prescription benefit in 2005.
- 17 percent of employers say they are very or somewhat likely to cover the lowest cost drug for a given condition and have retirees pay the difference for a higher cost drug.

In addition to prescription drug cost-sharing changes, employers say they are likely to adopt the following prescription drug measures for the 2005 plan year (Exhibit 30):

- 40 percent say they are very or somewhat likely to impose prior authorization requirements for certain prescriptions.
- 31 percent say they are very or somewhat likely to require step-therapy edits in which the patient receives progressively higher cost treatments only if lower cost alternatives are ineffective.
- 29 percent say they are very or somewhat likely to require therapeutic interchange (i.e., formulary interventions by the PBM).
- 25 percent say they are very or somewhat likely to require use of mail-order for prescription refills or maintenance drugs.
- 19 percent say they are very or somewhat likely to use closed or partially-closed formularies within the next three years.

- 7 percent say they are very or somewhat likely to cap or decrease the annual drug benefit.

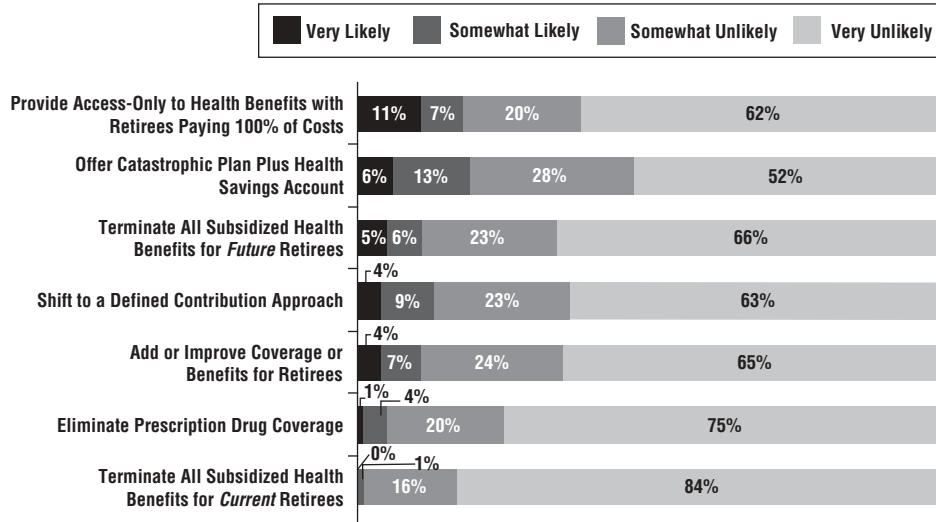
EEOC Proposed Interpretation of the Age Discrimination in Employment Act

In 2004, the Equal Employment Opportunity Commission (EEOC) voted to approve a rule stating that it is not a violation of the Age Discrimination in Employment Act if an employer offers Medicare-eligible retirees lesser or no retiree health benefits, compared to health benefits that the employer provides to pre-65 retirees. As of November 2004, the rule still requires further approval before it is final.

If the rule were finalized, the vast majority of surveyed employers (92 percent) said they would make no changes to their retiree health plans as a direct result of the rule. Only 1 percent of surveyed firms said they would eliminate retiree health benefits for Medicare-eligible retirees, and 7 percent said they would reduce benefits or increase retiree contributions for Medicare-eligible retirees as a direct result of the EEOC rule.

Exhibit 27

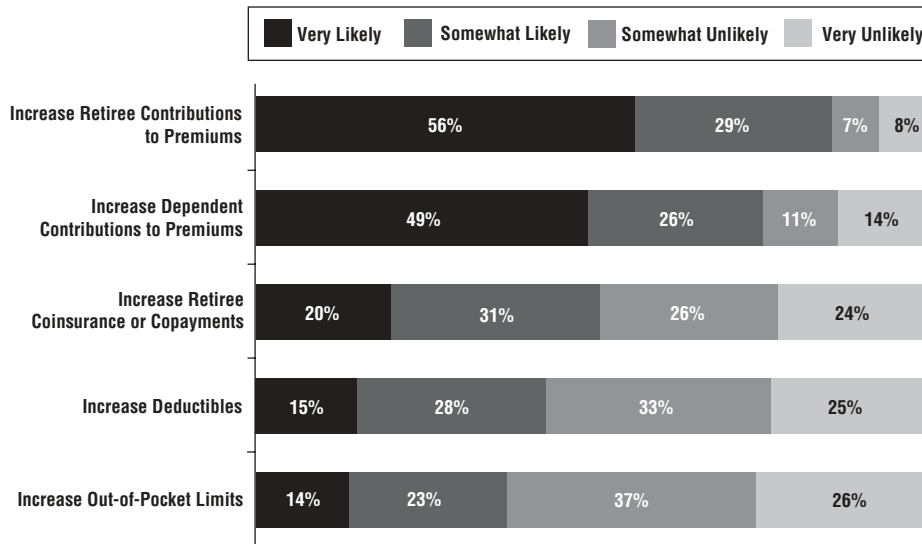
Likelihood of Making Changes to Retiree Health Benefits for Plan Year 2005



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.

Exhibit 28

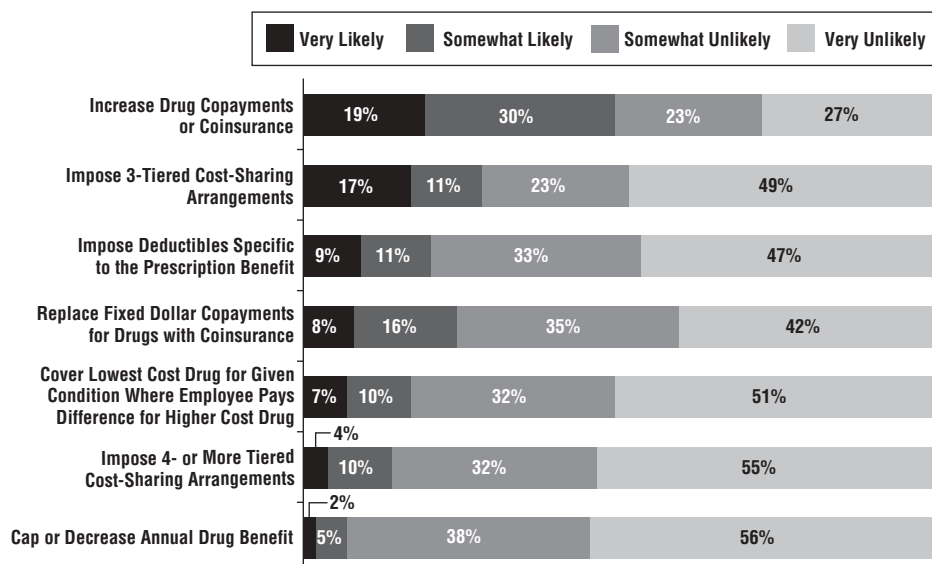
Likelihood of Making Changes to Retiree Contributions or Cost-Sharing for Retiree Health Benefits for Plan Year 2005



Notes: 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.

Exhibit 29

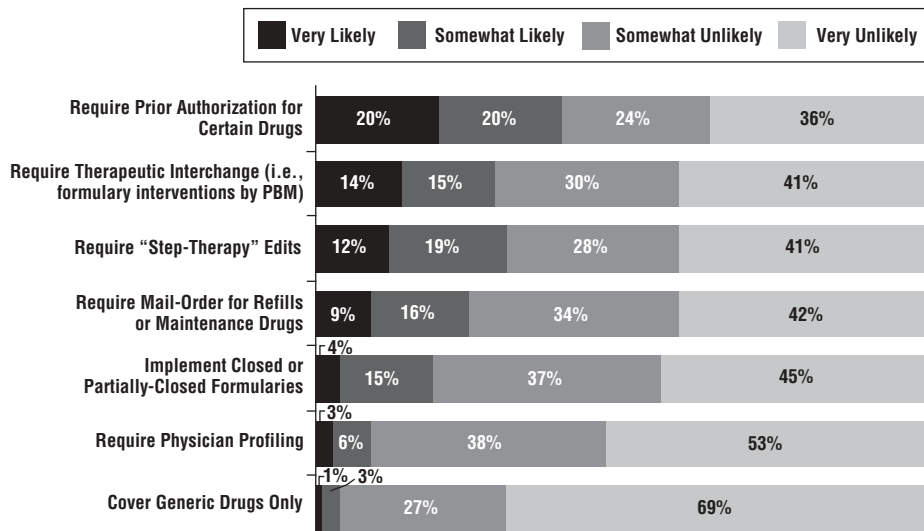
Likelihood of Making Changes to Cost-Sharing to Manage Retiree Prescription Drug Costs for Plan Year 2005



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.

Exhibit 30

Likelihood of Making Other Changes to Manage Retiree Prescription Drug Costs for Plan Year 2005



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.