

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

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

SECTION 7

PERSPECTIVES ON EMPLOYER-SPONSORED RETIREE HEALTH BENEFITS AND THE MEDICARE MODERNIZATION ACT

PERSPECTIVES ON EMPLOYER-SPONSORED RETIREE HEALTH BENEFITS AND THE MEDICARE MODERNIZATION ACT

The interaction between employer-sponsored retiree health benefits and Medicare prescription drug coverage received considerable attention during the debate over the Medicare Modernization Act (MMA). As implementation of the MMA proceeds, this interaction continues to be a key issue for employers, retirees, regulators, and lawmakers. Many lawmakers, including both supporters and opponents of the MMA, are concerned about whether the new Medicare 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, assisting one in three beneficiaries. Employers are hopeful that the new Medicare drug benefit could help offset double-digit increases in retiree health costs and make it easier for them to continue providing retiree drug coverage.

The MMA provides multiple options for employers who wish to continue providing assistance to retirees in terms of drug coverage. For example, the MMA 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 law. Medicare will provide these employers tax-free payments equal to 28 percent of allowable drug costs between \$250 and \$5,000 for each covered retiree in 2006, estimated to be, on average, \$611 per retiree.²⁷ Other options will allow employers to wrap around Medicare Part D coverage or to become the sponsor of a PDP or a MA-PD plan. How employers choose to respond to these financial incentives beginning in 2006 is a critical concern.

Employers offering retiree health benefits were surveyed between May 18 and September 30, 2004, i.e., after the MMA was enacted. The majority of employers who completed the survey (86 percent) submitted their completed survey responses before the proposed regulations were published (August 3, 2004). The proposed regulations provide few definitive answers as to how CMS will interpret the new law.²⁸ But they do provide some general indication of CMS policy issues on topics of interest to employers, such as the definition of actuarial equivalence, calculating and tracking true out-of-pocket costs, administrative requirements, and coordination issues. The Administration is expected to clarify key issues with respect to implementation when it releases the final rule in the early part of 2005.

The 2004 Kaiser/Hewitt survey includes a series of questions to ascertain employers' familiarity with the new law, the extent to which they have analyzed the financial impact for their firm, and their likely response to the MMA. Although most respondents reported being familiar with the MMA, about two-thirds had not yet analyzed the financial impact at the time the survey was

²⁷ 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.

²⁸ *Medicare Modernization Act Proposed Regulations: A Detailed Analysis*, Hewitt Associates, August 2004
http://was4.hewitt.com/hewitt/resource/legislative_updates/united_states/proposed_medicare_regulations_0804.pdf

completed. Our findings reflect employer reactions about how they are likely to respond to the new Medicare drug law in 2006, based on their understanding of the law at the time the survey was conducted.

Actuarial Value of Current Drug Benefit Relative to the 2006 Medicare Drug Benefit

The findings confirm why employer-provided health benefits are highly valued by retirees and help explain why retirees may be concerned about losing these benefits when the new Medicare Part D benefit goes into effect. In describing the generosity of their firms' current prescription drug benefit for their age 65+ retirees, the majority of employers (69 percent) say the actuarial value of their firm's current prescription drug benefit is greater than the standard Medicare Part D benefit, as defined in law; only 5 percent said their plan is less generous, and 4 percent said their plan was equal in value. Another 22 percent of respondents said they did not know (Exhibit 31).

Familiarity with the MMA

With implementation of the new drug law scheduled for 2006, more than 8 in 10 respondents say their firms' decision-makers are familiar with the key provisions of the new law, with 29 percent saying they are "very familiar" and another 55 percent "somewhat" familiar (Exhibit 32). As might be expected, those who are directly responsible for health benefits—such as the VP for Human Resources and Director of Benefits—are highly involved in decisions regarding how the firm is likely to react to the new law. Respondents also indicated that more than half of all CEOs (53 percent) and two-thirds of all CFOs (66 percent) are reported to be very or somewhat involved in decisions regarding how their company will respond to the new drug law (Exhibit 33).

Response to the MMA

Based on what they knew about the law at the time of the survey, the majority of employers said they are likely to continue to offer drug benefits to their Medicare-eligible retirees (Exhibit 34):²⁹

- 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 28 percent tax-free drug subsidy for each covered retiree in the firm's largest plan.
- 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) in the firm's largest plan.

²⁹ 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 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 in the firm’s largest plan, with some in this group indicating 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.”

Employers who said they plan to continue benefits and accept the 28 percent subsidy (59 percent of the total) were then asked about possible changes in their benefits.

- 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
- 8 percent do not know.

Assessing the Financial Impact of the MMA

About a third (34 percent) of firms said they had already evaluated the financial impact of the MMA. Among the two-thirds of firms that had not evaluated the financial impact, over two-thirds (71 percent) said they plan to evaluate the impact within six months after the survey was conducted, a quarter (24 percent) said they plan to analyze the new law within 7–12 months, and five percent plan to analyze in more than 12 months (Exhibit 35).

The survey asked firms that had analyzed the financial impact of the MMA drug law to report the expected reduction in their annual, before tax, FAS 106 accounting costs (Exhibit 36):

- 15 percent of these firms reported a “significant” reduction of 20 percent or more;
- 34 percent reported a “moderate” reduction of 6–19 percent;
- 17 percent reported a “nominal” reduction of 1–5 percent;
- 8 percent reported no reduction (0 percent); and
- 26 percent either did not know, or responded “other.”

Firms that analyzed the financial impact of the MMA drug law were as likely as firms that did not yet analyze the financial impact to say they are likely to maintain drug benefits and accept the 28 percent subsidy.

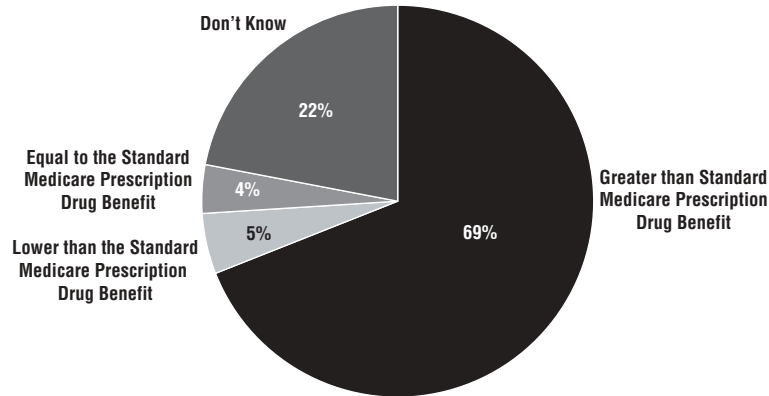
Other Responses to the MMA

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”), while a third are likely (9 percent “very likely” and 25 percent “somewhat likely”) to make such a change (Exhibit 37).

Finally, we asked employers how likely their firm would be to provide age 65+ retirees with educational materials about the new Medicare drug benefit: nearly three-quarters said they are likely (32 percent “very likely” and 40 percent “somewhat likely”) to give their retirees educational materials; 28 percent said they are unlikely to provide such materials (Exhibit 38). Given the complexity of the new law, such educational efforts could help ease the transition for retirees as the MMA is implemented.

Exhibit 31

Employers' Assessment of Actuarial Value of Current Prescription Drug Benefit Compared to 2006 Standard Medicare Drug Benefit

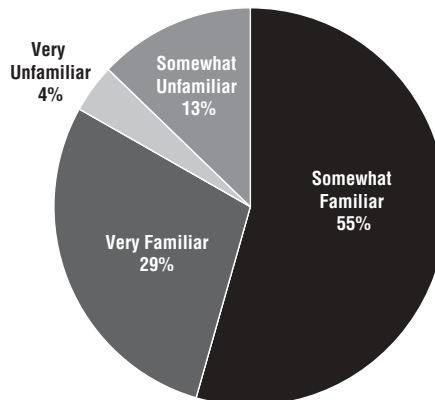


Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

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

Exhibit 32

Familiarity of Firm Decision-Makers with Key Provisions in the Medicare Drug Law

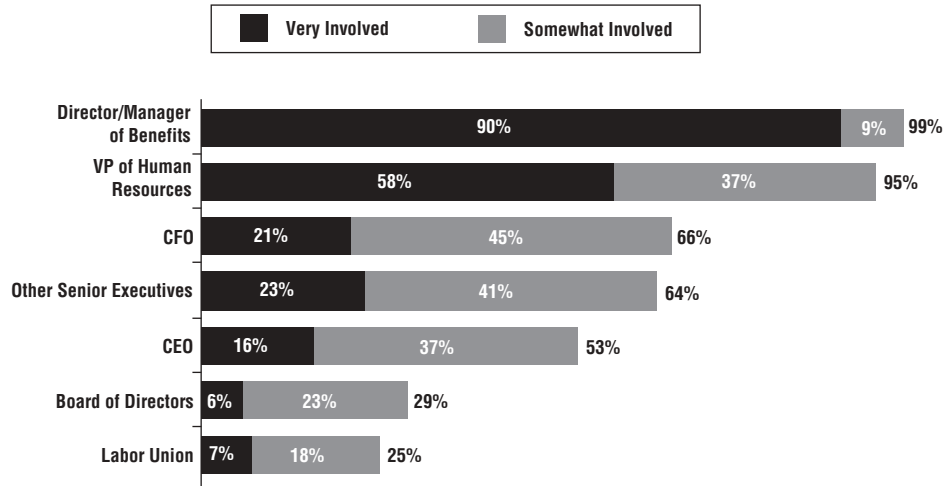


Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

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

Exhibit 33

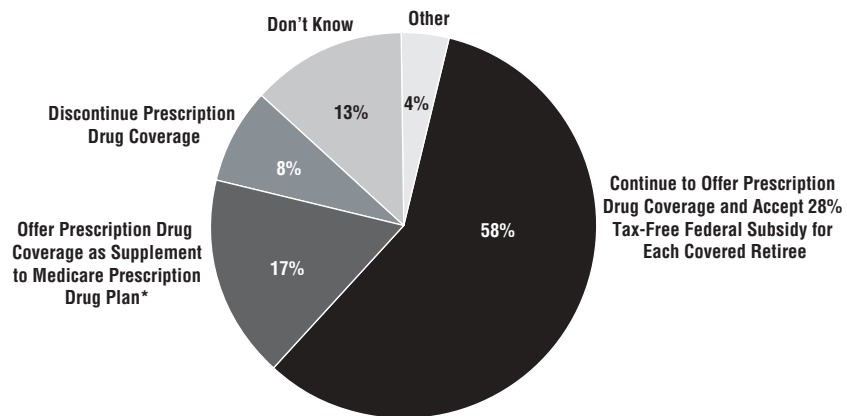
Level of Involvement of Firm Decision-Makers in Response to the Medicare Drug Law



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 34

Strategies Firms Are Likely to Choose Under the Medicare Drug Law

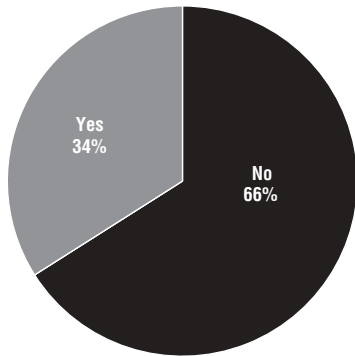


*Medicare would be primary payer.
 Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plan with the largest number of age 65+ retirees.
 SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

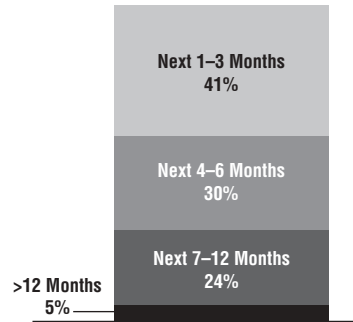
Exhibit 35

Evaluation of the Financial Impact of the Medicare Drug Law

Percent of Firms that Have Evaluated Financial Impact:



Timing for Firms to Evaluate Financial Impact:

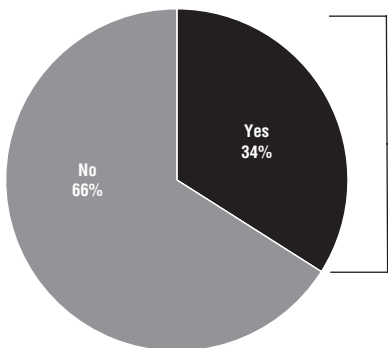


Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

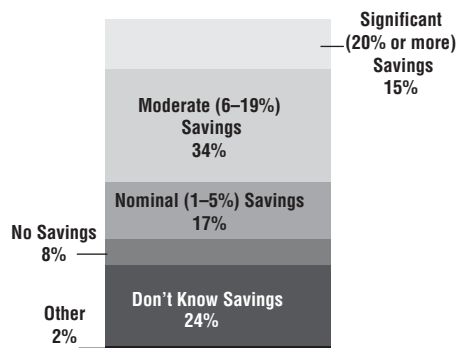
Exhibit 36

Projected Savings of the Medicare Drug Law

Percent of Firms that Have Evaluated Financial Impact:



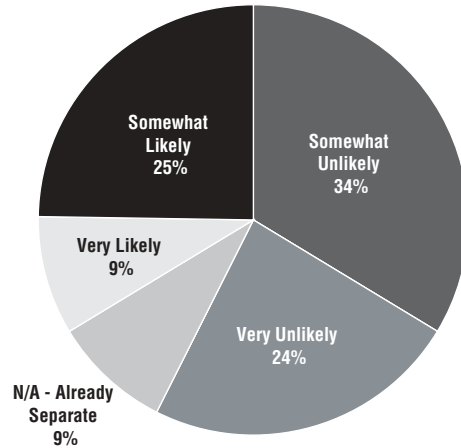
Projected Savings Among Firms that Have Evaluated Financial Impact:



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 37

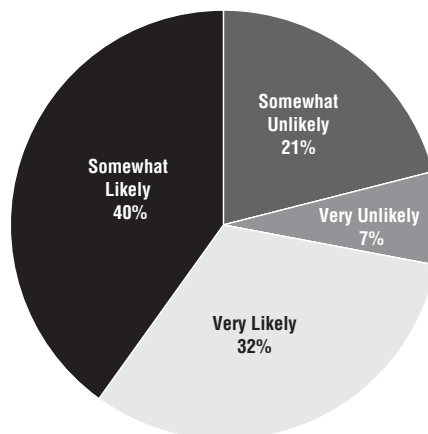
Likelihood of Separating 65+ Retiree Prescription Drug Election or Premium from Overall Retiree Health Plan



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 38

Likelihood of Providing 65+ Retirees with Educational Materials About the Medicare Drug Benefit



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.