

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2002 Retiree Health Survey

December 2002



- AND -

The Hewitt logo, consisting of the word "Hewitt" in a serif font, enclosed within a thin white rectangular border.

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EXECUTIVE SUMMARY

Introduction

Employer-sponsored health plans play a critical role in filling gaps in health insurance coverage for retirees. For workers who retire in their late fifties or early sixties—before they are eligible for Medicare—employer-sponsored plans offer access to health insurance coverage that retirees may otherwise have difficulty obtaining. For those age 65 and older, employer-sponsored health plans are a vital source of insurance that supplements Medicare by assisting with cost-sharing requirements and paying for benefits that are not covered by Medicare, especially prescription drugs. Employer health plans provide needed coverage to retirees at a time in their lives when they are most likely to face medical problems and need health care that can be prohibitively expensive without the financial protection offered by health insurance.

Over the past decade, however, there has been a steady erosion of retiree health insurance benefits that threatens, in the future, to increase the number of early retirees who may be uninsured before age 65 and to diminish needed supplemental coverage for retirees with Medicare. Looking to the future, there is concern that the recent downturn in the economy, the weakening of the labor market, and double-digit increases in health care costs may hasten the decline of retiree health benefits.

This study, conducted by Hewitt Associates and The Henry J. Kaiser Family Foundation, was designed to capture information on retiree health programs offered by large private-sector employers. The survey focuses on large employers because these firms are far more likely than mid- and small-sized firms to offer retiree health benefits, and are therefore the best focus for a survey that examines the scope of retiree health coverage.¹ The survey provides a new rich source of information that describes eligibility, benefits, premiums, and total costs, and offers insights as to what employers say they are likely to do in the future.

Survey Methods

The data in this report reflect the responses of 435 large firms that currently offer health benefits to retirees.^{2,3} The large firms that participated in this survey, defined as private-sector employers with 1,000 or more workers, represent 36 percent of all Fortune 100 companies and 28 percent of all Fortune 500 companies. They also account for more than half of the companies with the largest retiree health liability in 2001. The overwhelming majority (92 percent) are multi-state employers that represent a broad range of manufacturing (44 percent) and non-manufacturing (56 percent) industries. The survey includes responses from 182 firms with between 1,000 and 4,999 employees, 156

¹ According to the 2002 Kaiser/HRET Annual Employer Health Benefits Survey, retiree health benefits are offered by roughly 50 percent of firms with 1,000 employees, 30 percent of firms with 200–999 employees, 16 percent of firms with 50–199 employees, and up to 5 percent of firms with fewer than 50 employees.

² This survey is based on a convenience sample because there is no known database that identifies all private-sector firms offering retiree health benefits from which we could draw a random sample.

³ Hewitt identified a list of employees potentially offering retiree health coverage based on data from respondents to previous Hewitt Surveys and their proprietary client databases, supplemented by other employers drawn from Standard & Poor's Research InsightSM, a commercial database. In addition, Hewitt published a notice about the survey on their website, and the Washington Business Group on Health supported the survey effort by notifying its members about the survey and encouraging their participation.

firms with between 5,000 and 19,999 employees, and 97 “jumbo” firms with 20,000 or more workers. Together, these employers provide health benefits that impact the lives of approximately 18.5 million workers and family members and 5.4 million retirees and family members.

The survey was conducted online between July 2, 2002 and September 9, 2002. Employers who did not wish to respond online had the option of completing and returning a written questionnaire. Information was collected on a variety of topics including costs, premiums, retiree contributions, benefit design, prescription drug benefits, the likelihood of making changes in the next three years, and the implications of a Medicare prescription drug benefit for employers.

Employers were asked to provide information about the health plan with the largest number of enrolled retirees, primarily because such plans represent the majority of retirees with health coverage among the surveyed employers. All premium and benefit design information presented in this report therefore reflects responses for the employer-sponsored health plan with the largest number of retirees. Further, because retiree contributions often vary based on the retiree’s age or years of service with the firm, employers were asked to provide the average premium for those retiring on or after January 1, 2002—whom we refer to throughout this report as “new retirees.” As a result, the premium information does not represent *all* retirees with employer-sponsored coverage.

Highlights

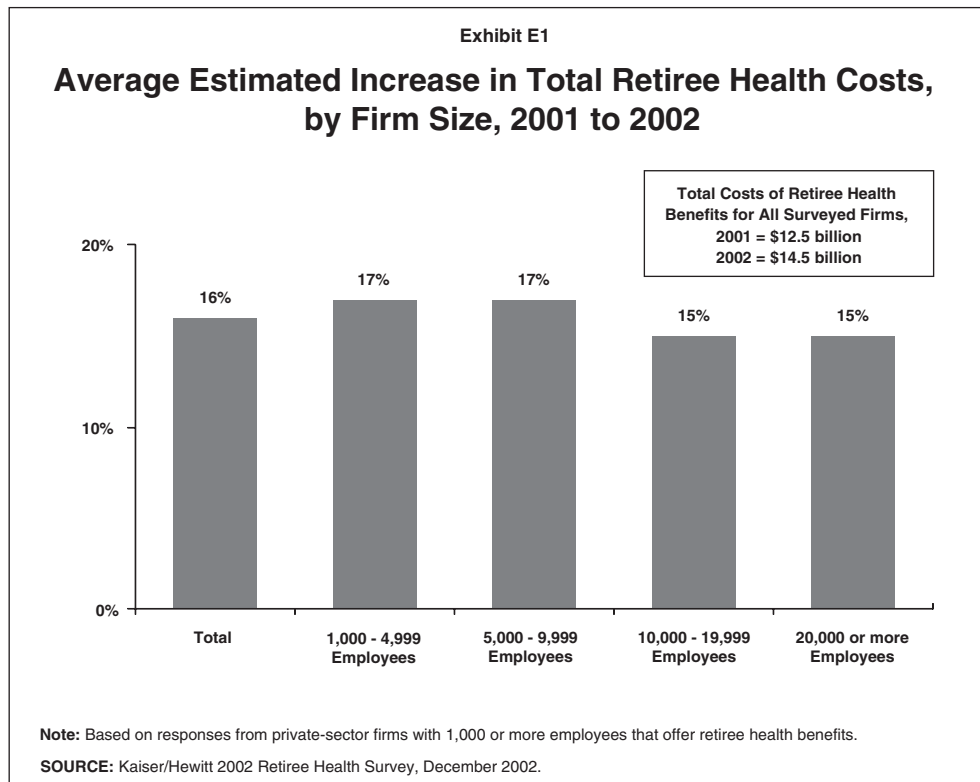
Coverage, Eligibility, and Plan Options. The vast majority of surveyed private-sector firms with 1,000 or more employees that offer retiree health benefits cover both pre-65 retirees and age 65+ retirees (91 percent). These large employers typically provide retiree health benefits to salaried employees (92 percent), hourly employees (83 percent), and grandfathered employees or retirees (61 percent). In addition to retirees, large employers generally cover health benefits for the spouses of retirees (91 percent) and other dependents (69 percent).

Employers typically require that individuals meet a combination of age-and-service requirements as a condition of receiving retiree health benefits. The most common age-and-service requirements for both pre-65 retirees and age 65+ retirees are age 55 with 6–10 years of service followed by age 55 with 11–15 years of service.

Surveyed employers typically offer retirees a choice of health plans. Pre-65 retirees have somewhat greater choice of plans than do age 65+ retirees, because pre-65 retirees are often provided the same choices as active employees and plans for age 65+ retirees must coordinate with Medicare. Seventy-four percent of surveyed employers provide new pre-65 retirees a choice of two or more health plans and 60 percent of employers provide new age 65+ retirees a choice of two or more health plans.

The two most common types of plans offered to pre-65 retirees are PPOs (78 percent), followed by HMOs (56 percent). For age 65+ retirees, the two most common plan options are indemnity (or managed indemnity) plans (57 percent) followed by Medicare+Choice or other HMO plans (48 percent).

Retiree Health Costs. Among surveyed employers, the total employer and retiree cost of providing health benefits for both pre-65 and age 65+ retirees and their dependents is an estimated \$12.5 billion in 2001.



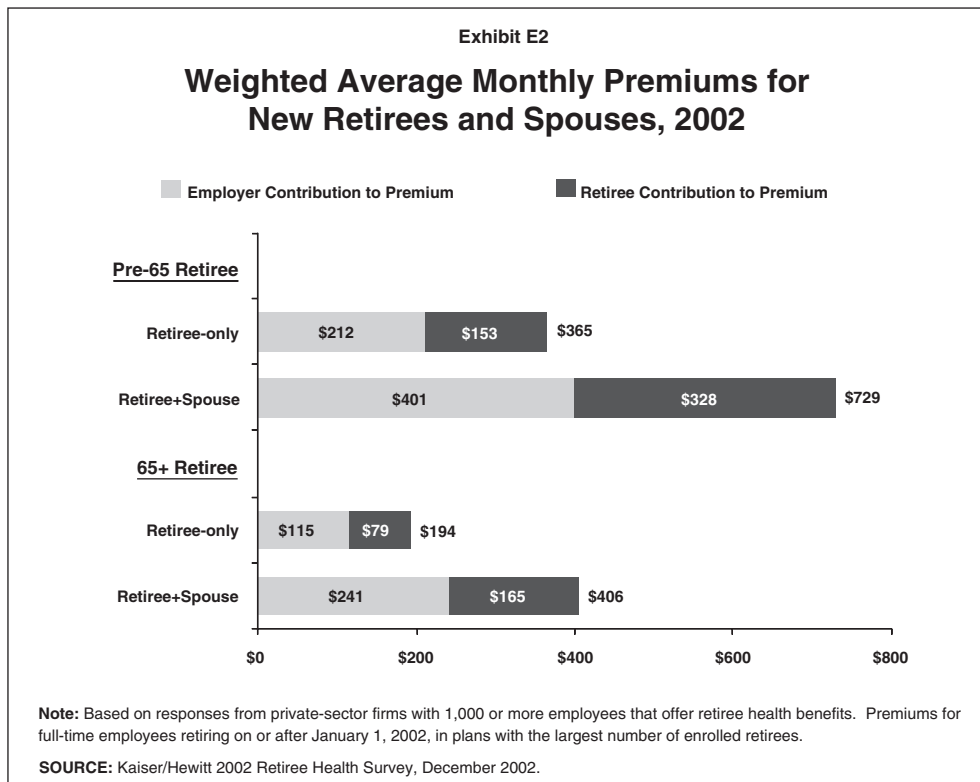
- By 2002, total retiree health costs are estimated to be \$14.5 billion, based on employers' estimates of total cost increases between 2001 and 2002.
- Between 2001 and 2002, the total cost of providing retiree health benefits increased by an estimated 16 percent, on average, for employers in this survey (Exhibit E1). By contrast, the national average increase in large employer costs of providing health benefits to active workers during the same time period was 13.7 percent, according to a report previously released by Hewitt Associates.⁴

The average total cost of retiree health among all the surveyed employers was \$28 million per firm in 2001. Among the jumbo firms surveyed with 20,000 or more employees, the average cost of providing retiree health benefits was \$95 million per firm in 2001.

In response to the rising cost of providing retiree health benefits and the early-1990s changes in Financial Accounting Standards Board rules that require firms to account for retiree health obligations on an accrued basis, many large employers placed caps on their future financial obligation for retiree health coverage. When an employer places a cap on the firm's contribution to retiree health benefits, retirees begin to pick up more costs as medical costs rise above the level of the pre-determined amount.

- Forty-five percent of all surveyed firms that offer pre-65 retiree health coverage and 50 percent of all surveyed firms that offer age 65+ retiree health coverage report having a cap on their firms'

⁴ Hewitt Associates, "Health Care Cost Increases Expected to Continue Double-Digit Pace in 2003," press release, October 14, 2002, based on data from the Hewitt Health Value Initiative.TM



contribution to retiree health benefits. Among firms that have a cap on their contributions to retiree health benefits, 49 percent offering pre-65 retiree health coverage and 57 percent offering age 65+ retiree health benefits say they have already hit the financial cap.

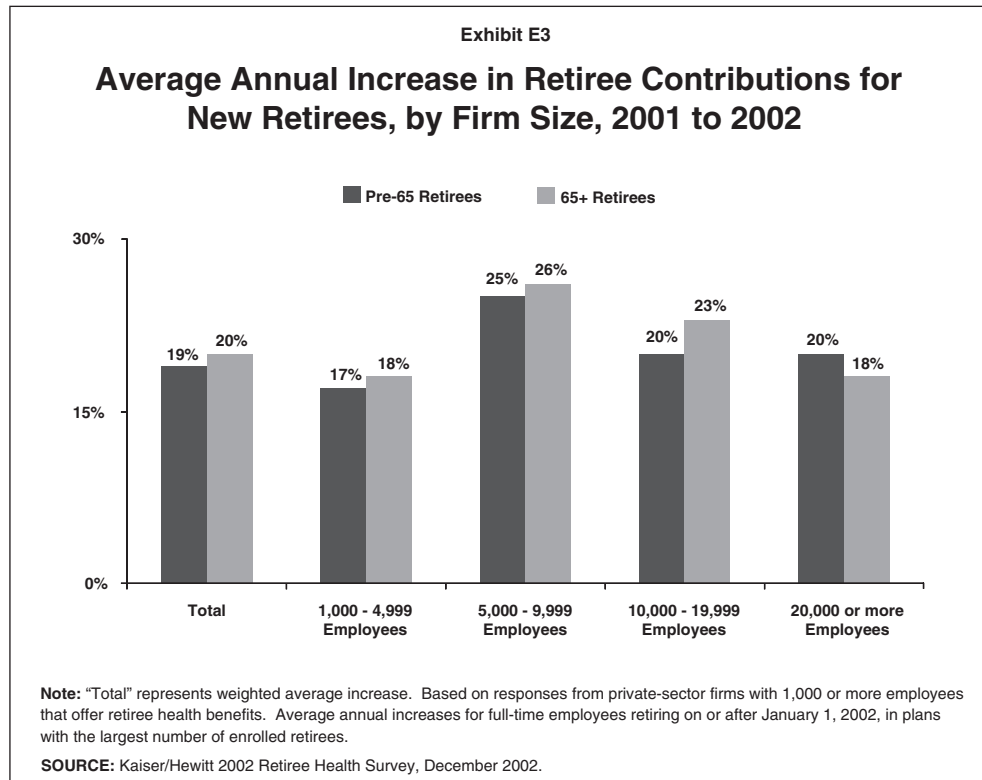
The costs associated with retiree health obligations appear to be a significant concern for company CEOs, with 88 percent of all respondents reporting that their CEO is very or somewhat concerned about retiree health care costs.

Premiums. Total premiums (the sum of employer and retiree contributions) vary by a number of factors. Premiums are typically higher for pre-65 retirees than they are for those age 65+ because the employer plan is primary (i.e., the employer plan pays before Medicare) and not secondary to Medicare as it generally is for retirees age 65+. Premiums also vary by plan type (e.g., a PPO or HMO), plan design, demographics of retirees, geography, and firm size. In this report, the total premiums and retiree contributions to premiums are weighted by firm size and by the number of retirees in the largest employer health plan. This gives greater weight to the responses of larger firms that have a larger number of retirees. For additional information, see Appendix I: Methods.

The following information presents average total premiums and retiree contributions for new retirees in the employer-sponsored retiree health plan with the largest number of retirees enrolled.

Total average premium:

- For newly retiring pre-65 retirees, the total weighted average premium is \$365 per month for retiree-only coverage and \$729 for retiree-plus-spouse coverage (Exhibit E2).



- For new age 65+ retirees, the total weighted average premium is \$194 per month for retiree-only coverage and \$406 for retiree-plus-spouse coverage.

Average retiree contribution:

- The weighted average retiree contribution paid by new pre-65 retirees is \$153 per month.
- For new age 65+ retirees, the weighted average retiree contribution is \$79 per month.

Increase in average retiree contribution for new retirees (2001–2002):

- For new pre-65 retirees, the average retiree contribution increased by 19 percent between 2001 and 2002 (Exhibit E3).
- For new age 65+ retirees, the average weighted retiree contribution increased by 20 percent between 2001 and 2002.
- On average, new pre-65 retiree contributions are 42 percent of the total average premium, with substantial numbers of retirees paying much less or more than the average.
- New age 65+ retirees contribute, on average, 40 percent of the total average premium (again, with substantial numbers of retirees paying far less or far more than average).

Out-of-Pocket Limits. The majority of employer plans with the largest number of enrolled retirees have an annual out-of-pocket limit on retiree costs. Eighty-one percent of the largest pre-65 plans

and 73 percent of the largest age 65+ plans have an annual out-of-pocket limit. For both pre-65 and age 65+ plans, the most common annual limit on retirees' out-of-pocket spending is \$1,500 for single retiree coverage and \$3,000 for retirees and spouses.

Prescription Drug Benefits. Among employer plans with the largest number of enrolled age 65+ retirees, the majority provide coverage for prescription drugs (96 percent). Most offer drug benefits as part of the firm's retiree health benefit plan (80 percent), while a small share do so as a separate, employer-subsidized stand-alone drug plan (15 percent).

Among plans with the largest number of age 65+ retirees, 31 percent report one or more plan design features (other than copayments) specific to their prescription drug benefit: 17 percent have a separate annual drug deductible, 15 percent have a separate annual out-of-pocket maximum for prescription drug costs, and 11 percent have a separate prescription drug benefit limit.

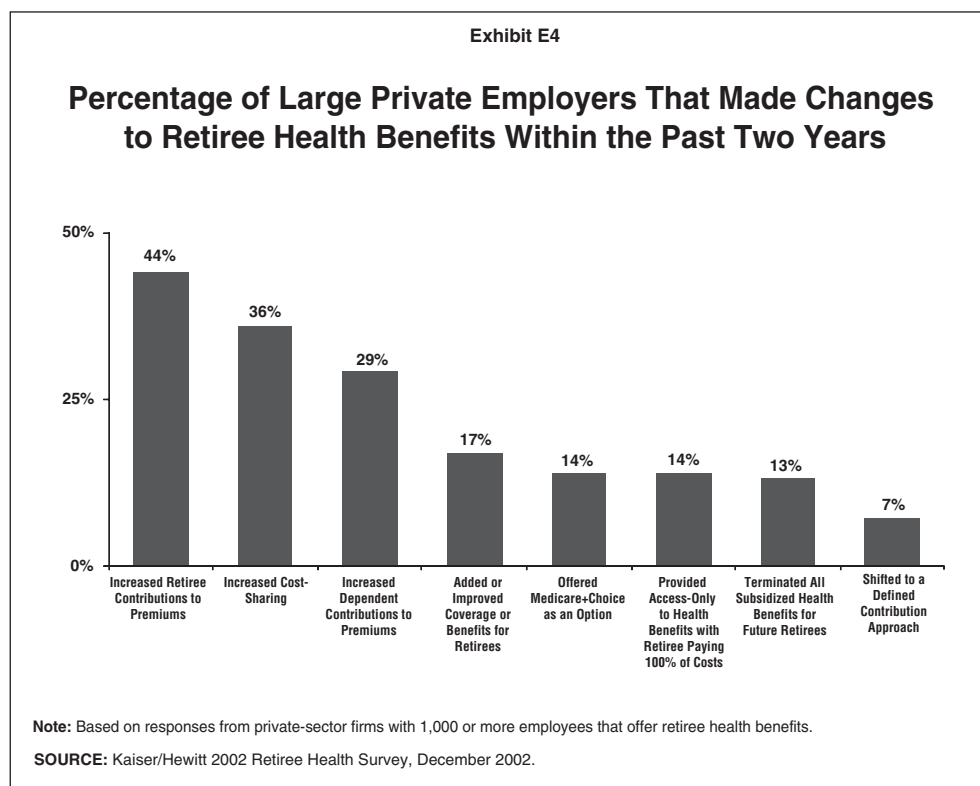
Employers use a variety of cost-sharing strategies for prescription drug benefits. For prescriptions filled at retail pharmacies, 61 percent require a fixed dollar copayment amount, 26 percent require a percentage coinsurance, and the remaining 13 percent use a combination of both copayments and coinsurance. Typically, the retiree copayment/coinsurance for purchases at retail pharmacies covers a 30-day supply or lesser amount as prescribed. Median retail copayments for age 65+ retirees filling a prescription for a 30-day supply range from \$8 for generics to \$15 for brand-name drugs on the formulary/preferred list, to \$25 for brand-name drugs not on the formulary/preferred list.

- For employer plans with a mail-order feature, 85 percent require retirees to pay fixed-dollar copayments, 9 percent impose coinsurance, and 6 percent use a combination of copayments and coinsurance. Median copayment amounts for age 65+ retirees filling prescriptions through mail order range from \$10 for generics to \$25 for brand-name drugs on the formulary/preferred list and \$35 for brand-name drugs not on the formulary/preferred list. Typically copayments cover a 90-day supply of medication.

Changes in the Past Two Years. Large private-sector employers offering retiree health benefits have made substantial changes in recent years in an effort to control rising costs, and all signs point to sustained efforts to slow the growth in retiree health obligations in the future.

- In the past two years, 44 percent of large private-sector firms increased retiree contributions to premiums and 36 percent increased cost-sharing requirements for retirees (Exhibit E4).
- Thirteen percent of surveyed employers terminated health benefits for future retirees.
- Seven percent say they shifted to a defined contribution approach.
- While most indicators suggest a reduction in benefits for retirees, 17 percent of large employers report having added benefits or improved coverage for retirees in the past two years.

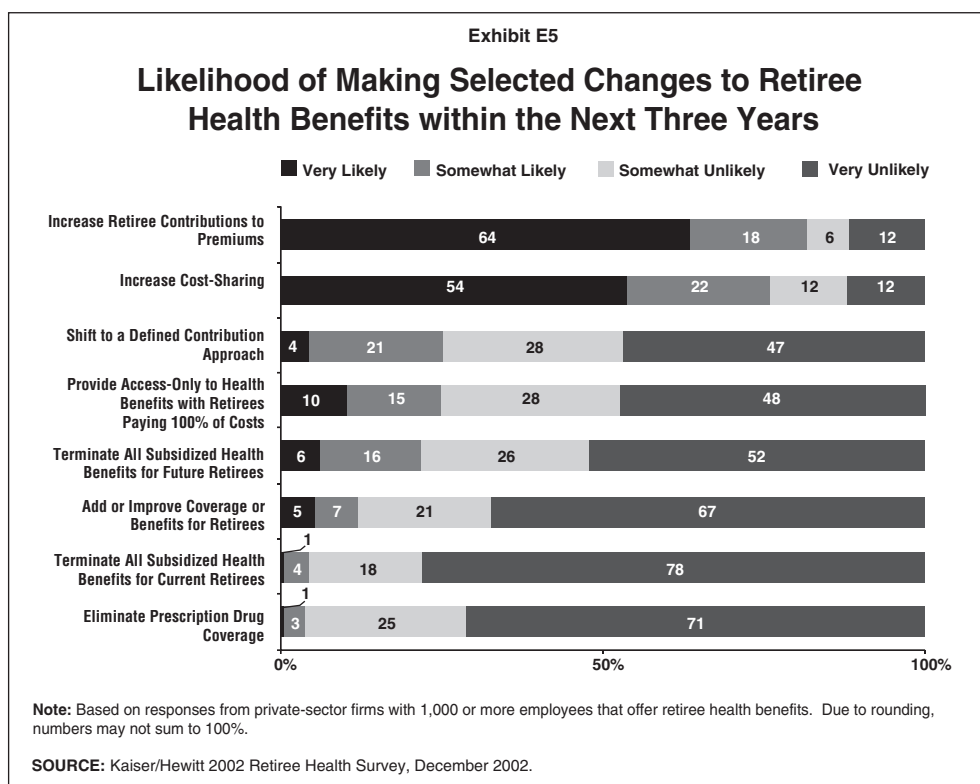
Changes within the Next Three Years. Looking to the future, it appears that employers are giving serious consideration to a number of changes related to retiree contributions and cost-sharing requirements.



- The vast majority of large employers say they are very or somewhat likely to make the following changes in the next three years:
 - Increase retiree contributions (82 percent)
 - Raise cost-sharing obligations (76 percent)
 - Increase deductibles (75 percent)
 - Increase physician copayments (71 percent)
 - Raise out-of-pocket limits (64 percent)
 - Increase cost-sharing for out-of-network care (58 percent)
 - Increase hospital copayments (58 percent)
- While only a small share say they are very or somewhat likely to terminate subsidized coverage for *current* retirees (5 percent), more than one in five employers say they are very or somewhat likely to terminate coverage for future retirees (22 percent) (Exhibit E5).

Prescription Drugs. Prescription drug costs are a major concern for employers. To help rein in costs in the last two years, employers have used higher cost-sharing requirements and new strategies to manage utilization of drugs.

- Nearly half of surveyed employers (49 percent) have increased drug copayments or coinsurance and close to two-thirds (63 percent) have imposed tiered copayments for pharmaceuticals.



- Despite the implementation of more aggressive cost-management tools in the past two years, most employers say they are very or somewhat likely to increase drug copayments or coinsurance for pharmaceuticals in the next three years (85 percent) and many expect to impose more stringent controls on utilization in the future. However, less than 4 percent say that they are very or somewhat likely to eliminate drug coverage.

Perspectives on the Medicare Prescription Drug Debate. Many major legislative proposals for Medicare drug coverage would offer incentives for employers to maintain some level of retiree health drug coverage, including direct and indirect subsidies and/or reinsurance payments.

When asked about the ongoing national debate to provide a Medicare drug benefit, the majority of employers surveyed (61 percent) say they think their firm would save money if a Medicare prescription drug benefit were enacted and 16 percent do not think their firm would save money. The remaining 23 percent say they do not know.

When asked how employers would respond if Congress approved a Medicare drug benefit with a deductible, coinsurance, and 100-percent stop-loss coverage for seniors with out-of-pocket expenses above \$4,000, 78 percent of surveyed employers say their firm would be most likely to *retain* drug benefits. Sixty-two percent say they would retain prescription drug coverage as a supplement to Medicare; 13 percent would retain primary prescription drug coverage and accept the subsidy from Medicare; and 3 percent would retain prescription drug coverage as a supplement to Medicare and pay the retirees' added Medicare premium. Eighteen percent say they would be most likely to *eliminate* drug coverage for retirees age 65+ if a Medicare drug benefit were enacted and another 5 percent say they would eliminate drug coverage but pay for the retirees' added Medicare premium for drug coverage.

Conclusion

Despite the widely reported decline in the prevalence of retiree health coverage over the past decade, close to half of all private-sector firms with 1,000 or more workers continue to offer these benefits to retirees.⁵ Employers that offer retiree health benefits typically extend coverage to both pre-65 and age 65+ retirees. They commonly offer health coverage to spouses of retirees, and continue to cover spouses after the retiree dies. The majority of surveyed private-sector employers that offer retiree health benefits give retirees a choice of two or more health plans, including different types of plans with different retiree contributions.

Employer-sponsored health benefits are critically important to retirees for a number of reasons. Employer plans provide access to health coverage at group rates. They offer a source of relatively generous insurance for pre-65 retirees, for whom alternative options for purchasing individual or other group coverage are otherwise limited. For Medicare-eligible retirees, employer-sponsored retiree health plans typically include outpatient prescription drug coverage and limits on retirees' out-of-pocket spending, both of which are significant gaps in the current Medicare benefit package.

Rising costs pose a growing challenge for both employers and their retirees, as retiree plan costs increase at double-digit rates (16 percent between 2001 and 2002)—even higher than the recent double-digit increases in costs for active employees as previously reported by Hewitt (13.7 percent). As a necessary adjustment for the survival of these retiree health plans, surveyed employers are generally requiring higher contributions from retirees as well as increased cost-sharing across a range of health care services. Current retirees in large firms are generally shielded from retiree health plan terminations, but future retirees are likely to face a greater risk of not being offered these benefits.

Even with the rising cost pressures, eight out of ten surveyed employers say their firm is very or somewhat unlikely to end subsidized benefits for current or future retirees in the next three years, an encouraging sign. And, despite rising prescription drug costs, 96 percent of surveyed employers say their firm is very or somewhat unlikely to drop drug coverage for retirees.

Providing retiree health benefits is a difficult balancing act for many large employers. Under tough economic conditions, surveyed large employers are struggling to maintain meaningful retiree health coverage. However, they must weigh this objective against the priorities, competitive pressures, and bottom-line financials of their companies. These considerations often involve striking a balance between the costs of providing health care to active employees versus retirees and between pension benefits and retiree health care. Employers' decisions will have important implications for current and future generations of retirees.

⁵ The 2002 Kaiser/HRET Annual Employer Health Benefits Survey.

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2002 Retiree Health Survey**

SECTION 1

COVERAGE, ELIGIBILITY, AND OPTIONS

COVERAGE, ELIGIBILITY, AND OPTIONS

The vast majority of large private-sector firms that offer retiree health benefits provide coverage to both pre-65 and age 65+ retirees. In addition to retirees, 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, providing a vital bridge until they become eligible for Medicare. For retirees age 65 and older, Medicare is generally the primary payer and the employer plan is typically secondary, paying for benefits such as prescription drugs, which Medicare does not provide.

Typically, employers that offer retiree health benefits require workers to meet a combination of both age and years-of-service criteria to be eligible for coverage. Once eligible for benefits, retirees often have a choice among health plans. 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. The two most common types of plans that surveyed employers offer to pre-65 retirees are preferred provider organizations (PPOs), followed by HMOs. For age 65+ retirees, the two most common plan options that employers offer are indemnity (or managed indemnity) plans, followed by Medicare+Choice (M+C) or other HMOs.

Covered Individuals

- Ninety-one percent of surveyed employers that offer retiree health benefits provide coverage for both pre-65 and age 65+ retirees.
- Surveyed employers typically provide retiree health benefits to salaried employees (92 percent of employers), hourly employees (83 percent), and to grandfathered employees or retirees (61 percent) (Exhibit 1). 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 retirees.
 - Among the 353 large private employers providing retiree health benefits to both salaried and hourly employees, 81 percent provide the same benefits to salaried and hourly employees, 19 percent provide different benefits.
- More than a third (35 percent) of all surveyed employers report offering retiree health benefits to part-time workers.
- Seven percent of all surveyed large employers provide retiree health benefits only to grandfathered employees or retirees.

Most of the surveyed employers offer retiree health benefits to the spouses of retirees (91 percent) and to other dependents (69 percent). Among employers offering health benefits to spouses, most (91 percent) report that the spouses of deceased retirees remain eligible for benefits.

Minimum Eligibility Requirements

Employers typically require that individuals meet a combination of age-and-service requirements as a condition of receiving retiree health benefits. Often, age-and-service requirements are the same for both pre-65 retirees and for age 65+ retirees.

Pre-65 Retirees:

- Eighty-eight percent of surveyed employers require that pre-65 retirees meet at least a minimum age-and-service requirement. Only 1 percent of surveyed employers base eligibility for pre-65 retirees on age only and less than 1 percent base eligibility on service only (Exhibit 2).
 - Two-thirds of employers (66 percent) require a single age-and-service requirement for pre-65 retirees. The most common minimum age-and-service requirement for pre-65 retirees is age 55 with 6-10 years of service (32 percent), followed by age 55 with 11-15 years of service (11 percent).
 - Twenty-two percent of surveyed employers allow employees retiring before age 65 an option of meeting one or more age-and-service requirements (e.g., age 55 and 20 years of service or age 60 and 15 years of service or age 65 and 5 years of service).

Age 65+ Retirees:

- Among surveyed employers offering benefits to age 65+ retirees, 81 percent require the retiree to meet age-and-service thresholds. Only 3 percent of surveyed employers base eligibility among pre-65 retirees on age only and another 3 percent base eligibility on service only (Exhibit 2).
 - For the 61 percent of employers that require a single age-and-service requirement, the most common minimum age-and-service requirements for age 65+ retirees is age 55 and 6–10 years of service (18 percent) followed by age 55 and 11–15 years of service (8 percent). Twenty percent of responding employers with a single age-and-service provision require the retiree to be at least age 65.
 - Twenty percent allow employees a choice among two or more age-and-service combinations (e.g., age 55 and 20 years of service or age 60 and 15 years of service or age 65 and 5 years of service).

Choice of Health Plans

Retirees are often offered a choice of health plans. Pre-65 retirees have somewhat greater choices of plans than do age 65+ retirees because pre-65 retirees are often provided the same choices as active employees, while age 65+ retiree plans generally coordinate with Medicare.

When asked about health plan options available to new retirees (defined as those retiring on or after January 1, 2002):

- Twenty-six percent of pre-65 retirees are offered benefits under a single employer-sponsored plan, compared with 40 percent of age 65+ retirees (Exhibit 3).
- Seventy-four percent of employers report providing new pre-65 retirees a choice of two or more health plans and 48 percent provide pre-65 retirees a choice of three or more health plans.
- Sixty percent of employers report providing new age 65+ retirees a choice of two or more health plans and 31 percent provide a choice of three or more health plans.

Types of Health Plans Offered

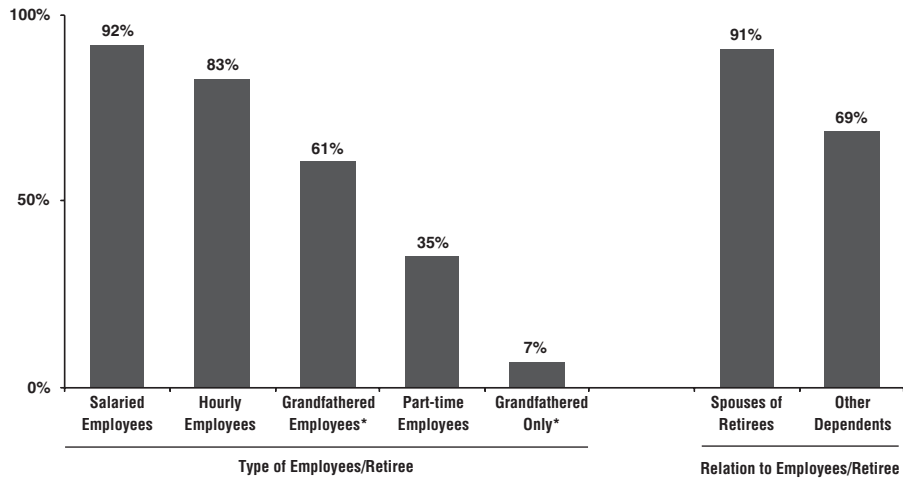
Large private employers as a group commonly provide health coverage for retirees under HMOs, PPOs, point-of-service (POS) plans, indemnity (or managed indemnity) plans, and, for age 65+ retirees, M+C plans.⁶ The two most common types of plans offered by surveyed employers to pre-65 retirees are PPOs, followed by HMOs. For age 65+ retirees, the two most common plan options offered are indemnity (or managed indemnity) plans, followed by M+C plans/HMOs.

- Surveyed employers most frequently provide pre-65 retirees the option of coverage under PPOs (78 percent), followed by HMOs (56 percent), indemnity (or managed indemnity) plans (44 percent), and POS (37 percent) plans. 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 retirees ages 65 and over (Exhibit 4).
- The most common types of plans that surveyed employers provide to age 65+ retirees are indemnity (or managed indemnity) plans (57 percent), followed by M+C or other HMO plans (48 percent), PPOs (39 percent), and POS plans (11 percent).

⁶ For definitions of these health plans, see Appendix II: Definitions of Health Plans.

Exhibit 1

Percentage of Large Private Employers that Offer Retiree Health Benefits to the Following Individuals



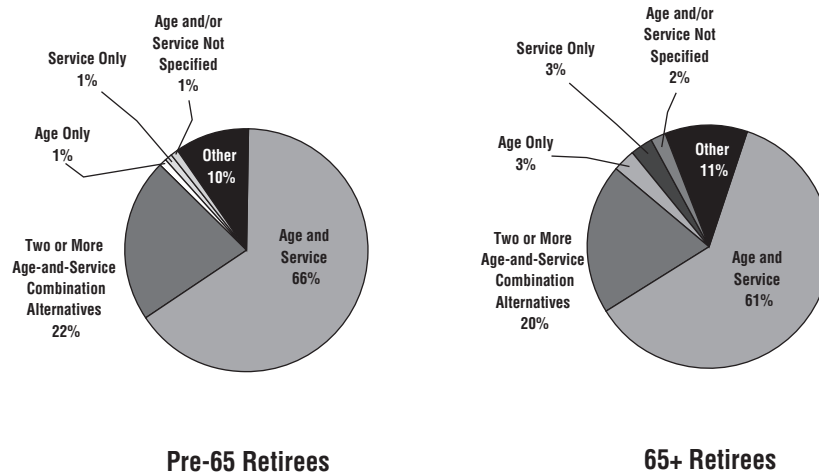
*Grandfathered employees or retirees are those who retain retiree health benefits from a previously established plan that is no longer offered to current employees or retirees.

Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 2

Eligibility Requirements for Retiree Health Benefits

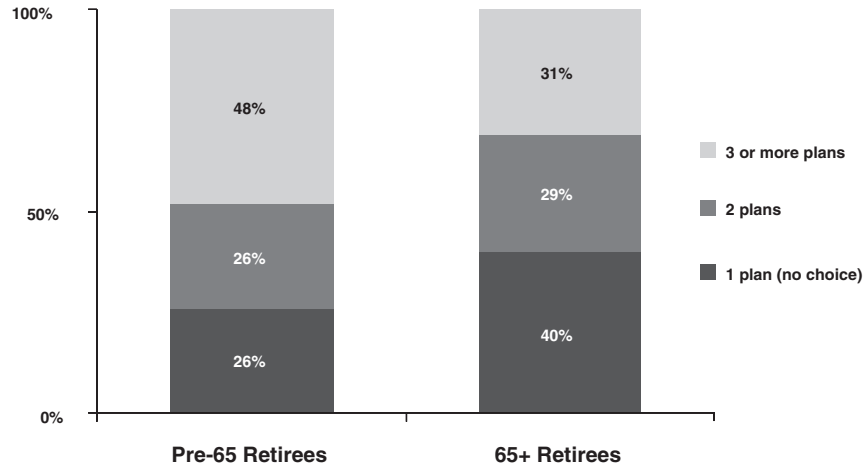


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Eligibility requirements for full-time employees retiring on or after January 1, 2002. Due to rounding, numbers may not sum to 100%.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 3

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

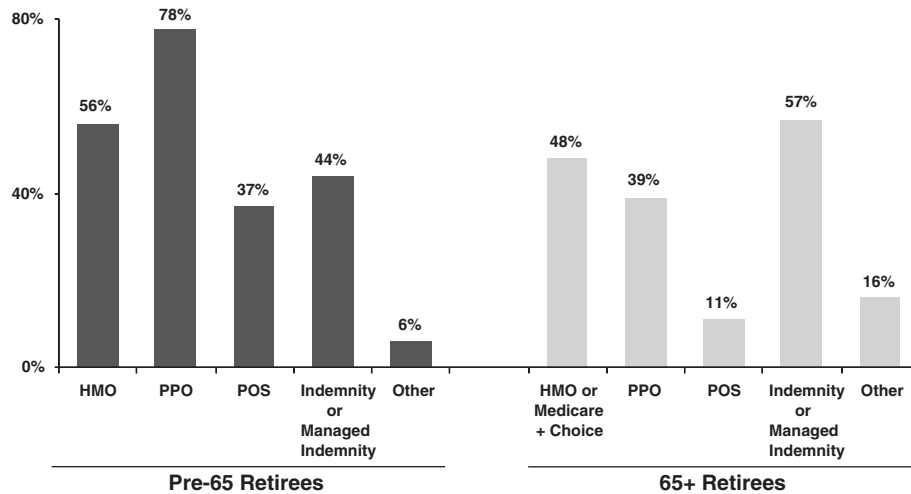


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Choice of health plans for full-time employees retiring on or after January 1, 2002. Due to rounding, numbers may not sum to 100%.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 4

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



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Type of health plans for full-time employees retiring on or after January 1, 2002.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

SECTION 2

RETIREE HEALTH COSTS

RETIREE HEALTH COSTS

Retiree health benefits are highly valued by employees, retirees, and their families, but are also a substantial cost for the large private-sector firms surveyed in this report. In many ways, the rising cost of retiree health care, coupled with the effects of accounting rules that the Financial Accounting Standards Board introduced in the early 1990s, have contributed mightily toward the decline in employer-sponsorship of retiree health benefits in the past decade.⁷

Despite ongoing efforts to manage the cost of retiree health programs, the total cost of providing retiree health benefits has been rising rapidly in recent years. Retiree health costs have become a significant source of tension in negotiations between labor and management, and have been cited in news reports of recent bankruptcy filings.⁸

Retiree health costs vary widely among large firms due to the demographics of the retiree group, differences in plan design and in utilization of medical services, the types of health plans offered, and geographic concentrations of retirees. Costs also vary by the overall size of the firm, industry practices, financial situation, and whether the plan is collectively bargained or not. Accordingly, because of all the factors that influence cost, there can be significant variations in the total cost of retiree health benefits among employers with roughly similar numbers of retirees. Total costs reported in this section include the combined employer/retiree costs of providing health coverage to all retirees (pre-65 and age 65+) and their dependents.

Total Costs

- Among surveyed employers, the 2001 estimated total cost of providing health benefits to pre-65 and age 65+ retirees and their dependents is \$12.5 billion.
 - In 2002, retiree health benefits are expected to reach \$14.5 billion, based on employers' estimates of the average increase in total annual costs from 2001 to 2002.
- In general, as might be expected, the larger the firm offering retiree health benefits, the larger their retiree populations, and hence the greater their total costs. For example, the average total cost among all surveyed employers with at least 1,000 employees was \$28 million per firm in

⁷ Financial Accounting Statement No. 106 (FAS 106) is an accounting standard that stipulates the manner in which companies expense for post-retirement medical benefits. It requires employers to accrue the cost of retiree health and other post-employment benefits during the working careers of active employees. The accounting standard requires companies to account for their retiree health care benefits on an accrual basis (much like pensions). For companies that did not change their retiree health plan design in response, their accounting costs for retiree health care benefits were typically increased by factors of six to eight or more, depending on the company's plan design and demographics. From "Retiree Health Trends and Implications of Possible Medicare Reforms," by Hewitt Associates for The Kaiser Family Foundation, September 1997.

⁸ Associated Press 11/16/01, 11/05/02.

2001. Among jumbo firms with 20,000 or more employees, the average total cost of providing retiree health benefits was \$95 million per firm in 2001 (Exhibit 5).

- For employers with 1,000-4,999 employees, the average annual 2001 total cost per firm was \$3.9 million, compared to \$12.1 million for employers with 5,000-9,999 employees and \$21.5 million for those with 10,000-19,999 employees.
- The total cost of providing retiree health benefits increased by an estimated 16 percent, on average, between 2001 and 2002 for employers in this survey (Exhibit 6).
 - By contrast, the national average increase in large employer costs of providing health benefits to active workers during the same time period was 13.7 percent, according to a report previously released by Hewitt Associates.⁹
- Large firms with 1,000 to 9,999 employees reported a slightly higher average annual increase in total costs (17 percent) between 2001 and 2002 than did firms with 10,000 or more retirees (15 percent).

Financial Caps on Employer Retiree Health Obligations

In response to the rising cost of providing retiree health benefits, and to the Financial Accounting Standards Board rules that require firms to account for retiree health obligations on an accrued rather than pay-as-you-go basis, many large employers have placed caps on their future financial obligation for retiree health coverage. When an employer places a cap on the firm's contributions to retiree health benefits, retirees begin to pick up more costs as medical costs rise above the level of the pre-determined amount. For an illustration of an employer cap, see Appendix III: Employer Cap Case Study.

Financial caps take on many shapes and forms. Some employers establish caps on the total cost (e.g., the company will not spend more, in total, for retiree medical than twice what was spent in a given year). Others focus the caps on individuals (e.g., the employer subsidy for age 65+ costs will not exceed \$2,000 per person in the future). Some strategies combine a service-related aspect of the employer subsidy.¹⁰

Financial caps on the employer's retiree health obligations are common among the large employers surveyed.

- Forty-five percent of all surveyed firms that offer pre-65 health coverage report having a cap on their firm's contribution to retiree health benefits (Exhibit 7).

⁹ Hewitt Associates, "Health Care Cost Increases Expected to Continue Double-Digit Pace in 2003," press release, October 14, 2002, based on data from the Hewitt Health Value Initiative.TM

¹⁰ "Retiree Health Trends and Implications of Possible Medicare Reforms," by Hewitt Associates, LLC, for The Kaiser Family Foundation, September 1997.

- Forty-nine percent of firms with financial caps on employer contributions to pre-65 retiree health coverage say they have already hit the cap.
- Another third of this group (35 percent) anticipate hitting the cap in the next 1 to 3 years.
- Fifty percent of all surveyed firms that offer age 65+ health coverage report having a cap on the firm's contributions to retiree health benefits (Exhibit 8).
 - Among firms that have such a cap, 57 percent of firms say they have already hit the cap.
 - Another 28 percent of this group anticipate hitting the cap in the next 1 to 3 years.

In some cases, employers have elected to raise the cap after retiree health expenses reached the pre-determined limit. There is some concern, however, that auditors will cast doubt on the effectiveness of a cap if there is a pattern of raising it once costs approach the stipulated limit.¹¹

Employer Cost Worries

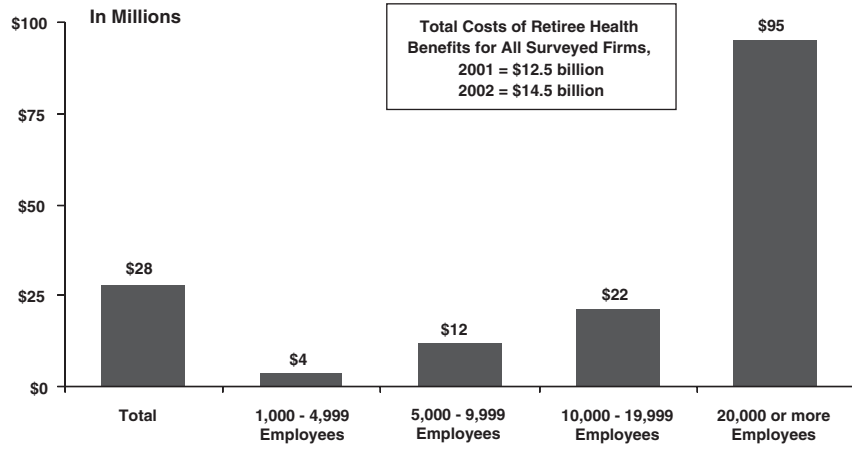
The costs associated with retiree health obligations appear to be a significant concern for company CEOs. Eighty-eight percent of all respondents said their CEO is very or somewhat concerned about retiree health care costs.

- Fifty-two percent say their CEO is very concerned about retiree health costs and another 36 percent say their CEO is somewhat concerned about retiree health costs (Exhibit 9).

¹¹ Some employers who set employer subsidy limits on retiree health expenditures have hit or are approaching their previously defined caps. Any plan design changes proposed now must consider accounting implications if the caps are raised. Most employers would agree that raising the cap once may be viewed as acceptable. However, raising the cap more than once may raise the issue of whether the cap is "real" from an auditor's perspective. From "Retiree Health Trends and Implications of Possible Medicare Reforms," by Hewitt Associates, LLC, for The Kaiser Family Foundation, September 1997.

Exhibit 5

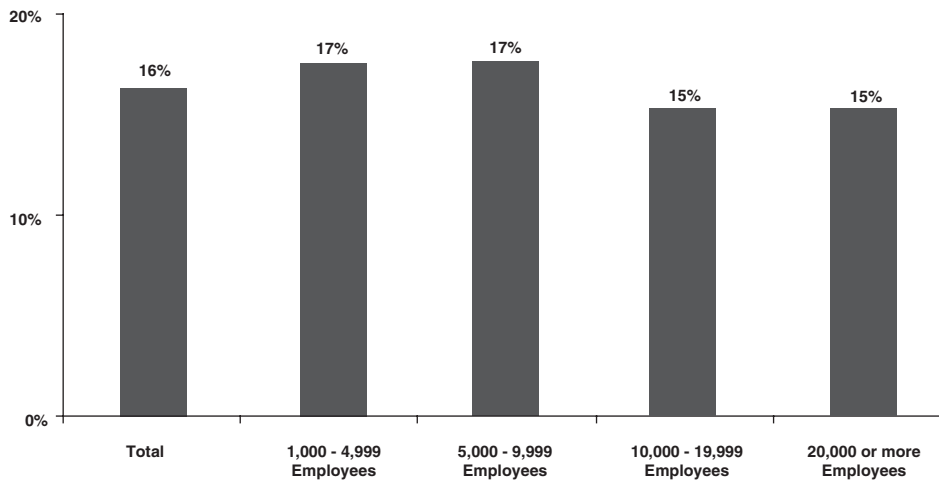
Average Total Cost of Providing Retiree Health Benefits to Pre-65 and 65+ Retirees and Dependents, by Firm Size, 2001



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.
SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 6

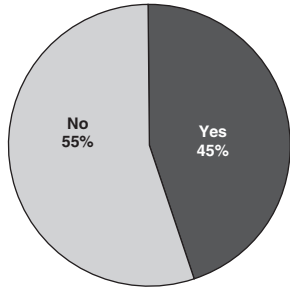
Average Estimated Increase in Total Retiree Health Costs, by Firm Size, 2001 to 2002



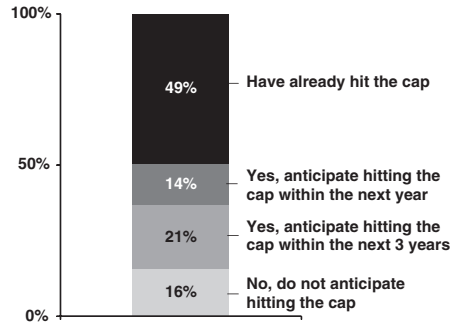
Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.
SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 7

Percentage of Large Private-Sector Employers that Have a Cap on Their Firm's Contribution to Retiree Health Benefits For Pre-65 Retirees



Of large private employers with a cap, percentage that anticipate hitting the cap:

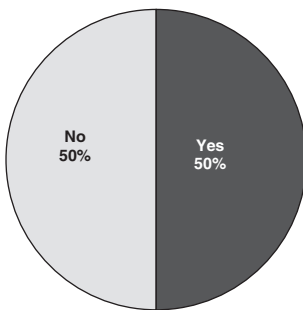


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

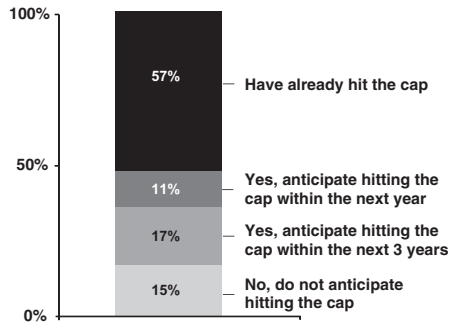
SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 8

Percentage of Large Private-Sector Employers that Have a Cap on Their Firm's Contribution to Retiree Health Benefits For 65+ Retirees



Of large private employers with a cap, percentage that anticipate hitting the cap:

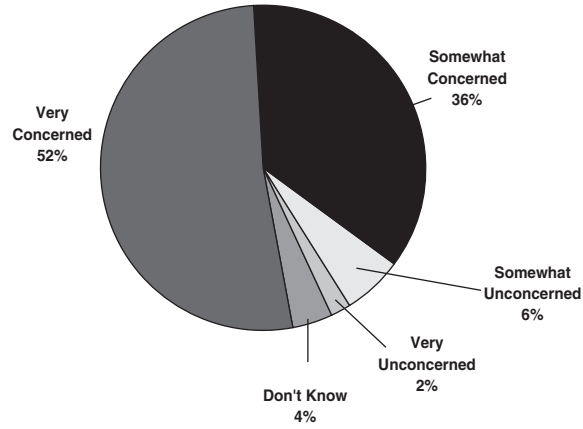


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 9

CEO Concern About Retiree Health Care Costs, as Reported by Large Employers



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Reflects responses to the question, "to the best of your knowledge, how much would you say your firm's CEO is concerned about retiree health care costs?"

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

SECTION 3

PREMIUMS

PREMIUMS

Total premiums—the sum of both employer and retiree contributions—vary widely. Premiums are typically higher for pre-65 retirees, where the employer plan is the primary payer, 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.

For individual retirees, contributions can vary based 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 half of the largest pre-65 and age 65+ plans offered to retirees by employers in this survey, retiree contributions differ based on the retiree's years of service with the firm. In these firms, two employees who are the same age and who are retiring in the same year may pay different premiums, with shorter-service employees generally paying relatively more for retiree health care than full-career employees.

Because there can be wide variations in premiums for retiree health coverage, we asked large employers to provide an average total premium and average retiree contribution for new retirees (those retiring on or after January 1, 2002) in the plan with the largest enrollment of pre-65 and age 65+ retirees.

In this report, the total premiums and retiree contributions to premiums are weighted by firm size and by the number of retirees in the largest employer health plan. This gives greater weight to the responses of larger firms that have a larger number of retirees. More detailed information regarding premiums is included in Appendix I: Methods.

All premium information collected in this survey refers solely to new retirees (i.e., those retiring in 2002) 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.

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 (92 percent), one would expect a large percentage of these retiree health plans to be self-insured, rather than insured plans.

Total Premiums (Employer and Retiree Contributions Combined)

- Total premiums (both employer and retiree contributions combined) are generally higher for pre-65 retirees than for age 65+ retirees.
 - For retiree-only coverage, the weighted average total monthly premium for new pre-65 retirees (\$365) is nearly twice the amount of the weighted average premium for newly retiring age 65+ retirees (\$194 per month) (Exhibit 10).
 - For coverage of both retirees and spouses, the total weighted average premium is \$729 for pre-65 retirees and \$406 for age 65+ retirees (Exhibit 11).
- Average total monthly premiums for individuals retiring in 2002 vary by type of health plan.
 - For new pre-65 retirees, the average total monthly premium is lowest for HMO plans (\$280 per month) and highest for indemnity/managed indemnity plans (\$366 per month) (Exhibit 12).
 - For age 65+ retirees, the average total monthly premium was lowest for employer-sponsored M+C or other HMOs (\$184 per month) and highest for PPOs (\$207 per month).
- Average total monthly premiums for new retirees vary somewhat by firm size.
 - For new pre-65 retirees, average total monthly premiums are lower in the firms with 1,000–4,999 employees (\$330 per month) than in jumbo firms with 20,000 or more employees (\$370 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.
 - For retirees age 65+, there are similar differences in average total monthly premiums across firms of different sizes, with somewhat lower premiums in firms with 10,000–19,999 employees (\$189 per month) than in firms with 5,000–9,999 employees (\$204 per month). 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.

Pre-65 Retiree Contributions to Total Premiums

The vast majority of employers (93 percent) require newly retiring pre-65 retirees to share in the cost of retiree health coverage by contributing to the total monthly premium. Retiree contributions vary based on a number of factors.

Retiree Contribution Amounts:

- The weighted average retiree contribution for new pre-65 retirees is \$153 per month, based on health plans offered by employers with the largest number of enrolled retirees (Exhibit 10). For

coverage for new pre-65 retirees and spouses, the retiree contribution to the premium is \$328 per month (Exhibit 11).

- The amount that new pre-65 retirees contribute toward the total premium also varies by type of plan. For individuals retiring in 2002 with retiree-only coverage, the average monthly retiree contribution by pre-65 retirees is lowest for POS and HMO plans (\$129 per month and \$132 per month, respectively) and highest for indemnity/managed indemnity plans (\$180 per month). For PPO plans (i.e., the plan type most commonly offered to pre-65 retirees), the average retiree contribution is \$158 per month. This pattern of retiree contributions may reflect employer pricing to create financial incentives for individuals to enroll in plans other than indemnity or managed indemnity.
- The average retiree contribution toward the premium among new pre-65 retirees is fairly similar across employers of different firm sizes. It ranges from about \$150 per month (firms with 1,000-4,999 employees and jumbo firms with 20,000+ employees) to \$170 per month (firms with 5,000-9,999 employees).

Increases in Pre-65 Retiree Contribution Amounts, 2001-2002:

- Between 2001 and 2002, the weighted average increase in retiree contributions was 19 percent for new pre-65 retirees in the health plan with the largest number of enrollees (Exhibit 13).
 - More than a fifth (21 percent) of employers report no increase in the pre-65 retiree contributions between 2001 and 2002, 24 percent report an increase of up to 10 percent, and 29 percent report an increase of between 11 and 20 percent.
 - The average annual increase in pre-65 retiree premium contributions was highest for HMO and POS plans (28 percent and 26 percent, respectively) and lowest for PPOs (18 percent) and indemnity/managed indemnity plans (13 percent) (Exhibit 14). Recall that PPOs are the most commonly offered health plan to pre-65 retirees, again reflecting trends in plans offered to active employees.
 - By firm size, the average annual increase in pre-65 retiree contributions was highest in firms with 5,000-9,999 employees (25 percent) and lowest for those with 1,000-4,999 employees (17 percent) (Exhibit 15).

Share of Total Premium Paid by Pre-65 Retirees:

- The weighted average retiree contribution, as a percent of the total premium is 42 percent for new pre-65 retirees in 2002.
 - Average retiree contribution, however, mask notable variations in the share of premiums actually paid by new retirees. For example, 22 percent of employers require new pre-65 retirees to pay more than 90 percent of the premium while, on the other end of the spectrum, 16 percent of employers report that retirees pay no more than 10 percent of the premium for retiree-only coverage under the health plan with the largest number of enrollees (Exhibit 16).

- As a percent of the total premium, new pre-65 retirees in 2002 contribute between 37 percent of the total for POS plans and 49 percent of the total for indemnity/managed indemnity plans (Exhibit 17).
- By firm size, average pre-65 retiree contributions for new retirees as a share of total premiums vary from 40 percent (20,000+ employees) to 48 percent (5,000–9,999 employees) (Exhibit 17).

Age 65+ Retiree Contributions to Premiums

Retiree Contribution Amounts:

- The weighted average retiree contribution for new age 65+ retirees in 2002 is \$79 per month for retiree-only coverage in health plans with the largest number of retirees enrolled (Exhibit 10). For age 65+ new retirees with a spouse, the retiree's contribution to the premium is \$165 per month (Exhibit 11).
 - 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 indemnity/managed indemnity plans (\$90 per month) and lowest for POS plans (\$43 per month). Retiree contributions in 2002 for new age 65+ retirees average \$68 for employer-sponsored M+C plans or other HMOs, and \$78 for PPOs (Exhibit 12).
 - On average, retiree contributions for age 65+ retirees also vary by firm size, from about \$72 per month (firms with 10,000-19,999 employees) to \$95 per month (firms with 5,000–9,999) for retiree-only coverage (Exhibit 12).

Increases in Age 65+ Retiree Contribution Amounts, 2001 to 2002:

- Between 2001 and 2002, the weighted average increase in the age 65+ retiree contribution was 20 percent for new age 65+ retirees in plans with the largest number of retirees enrolled (Exhibit 13).
 - More than a quarter (26 percent) of employers report no increase in age 65+ retiree contributions in the largest health plan between 2001 and 2002, while 20 percent report an increase of up to 10 percent, and 26 percent report an increase of between 11 and 20 percent for new retirees (Exhibit 13).
 - The average annual increase in age 65+ retiree contributions was highest for indemnity/managed indemnity plans (22 percent), followed by M+C plans/other HMOs (20 percent), PPOs (19 percent), and POS plans (14 percent) (Exhibit 14).
 - By firm size, the average annual increase in age 65+ retiree contributions for retiree-only coverage was highest in firms with 5,000-9,999 (26 percent) employees and in firms with 10,000-19,999 (23 percent) (Exhibit 15).

Share of Total Premium Paid by Age 65+ Retirees:

- As a percent of the total premium, the weighted average age 65+ retiree contribution for new retirees is 40 percent in 2002 for retiree-only coverage in the health plan with the largest number of retirees enrolled (Exhibit 17).
 - The weighted average age 65+ retiree contribution to the total premium masks significant variations in the share of the total premium paid by new retirees. For example, 22 percent of employers require new age 65+ retirees to pay more than 90 percent of the premium, while 21 percent of all employers report that new age 65+ retirees pay no more than 10 percent of the premium for coverage under the largest retiree health plan with the largest number of retirees enrolled (Exhibit 16).
 - By plan type, new age 65+ retirees contribute the smallest share of the total premium for POS plans (23 percent) and the largest share for indemnity/managed indemnity coverage (46 percent). Retiree contributions are 37 percent for M+C plans/other HMOs and 38 percent for PPOs (Exhibit 17).
 - By firm size, average age 65+ retiree contributions for new retirees, as a share of total premiums, vary from 38 percent (10,000–19,999 employees) to 47 percent (5,000–9,999 employees) (Exhibit 17).

Limits on Retiree Out-of-Pocket Spending

When looking at the financial obligation of retirees, premiums are only a part of the story. Typically, employers that offer retiree health benefits require cost sharing for health care services but limit the financial exposure of retirees through annual limits on retiree out-of-pocket costs for covered services.

- Eighty-one percent of the largest pre-65 retiree plans in this survey have an annual out-of-pocket limit on retiree costs for new retirees in 2002.
- Seventy-three percent of the largest age 65+ plans have an annual out-of-pocket limit.
- For both pre-65 and age 65+ retiree health plans, the most common annual limit on retirees' out-of-pocket spending is \$1,500 for single retiree coverage and \$3,000 for retirees and spouses.

Exhibit 10

Weighted Average Monthly Premiums for New Retirees, 2002

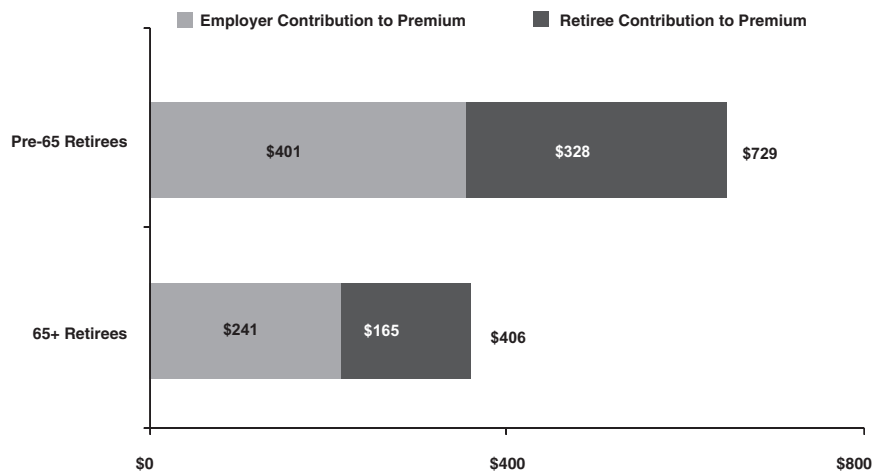


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2002, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 11

Weighted Average Monthly Premiums for New Retirees and Spouses, 2002



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2002, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 12

Average Monthly Premiums for New Pre-65 and 65+ Retirees, by Plan Type and Firm Size, 2002

	Pre-65 Retirees			65+ Retirees		
	Retiree Contribution	Employer Contribution	Total	Retiree Contribution	Employer Contribution	Total
Weighted Average	\$153	\$212	\$365	\$79	\$115	\$194
By Plan Type:						
HMO*	\$132	\$148	\$280	\$68	\$116	\$184
PPO	\$158	\$197	\$355	\$78	\$129	\$207
POS	\$129	\$221	\$350	\$43	\$144	\$187
Indemnity/ Managed Indemnity	\$180	\$186	\$366	\$90	\$104	\$194
By Firm Size:						
1,000-4,999	\$151	\$179	\$330	\$82	\$115	\$197
5,000-9,999	\$170	\$185	\$355	\$95	\$109	\$204
10,000-19,999	\$162	\$202	\$364	\$72	\$117	\$189
20,000+	\$149	\$221	\$370	\$78	\$116	\$194

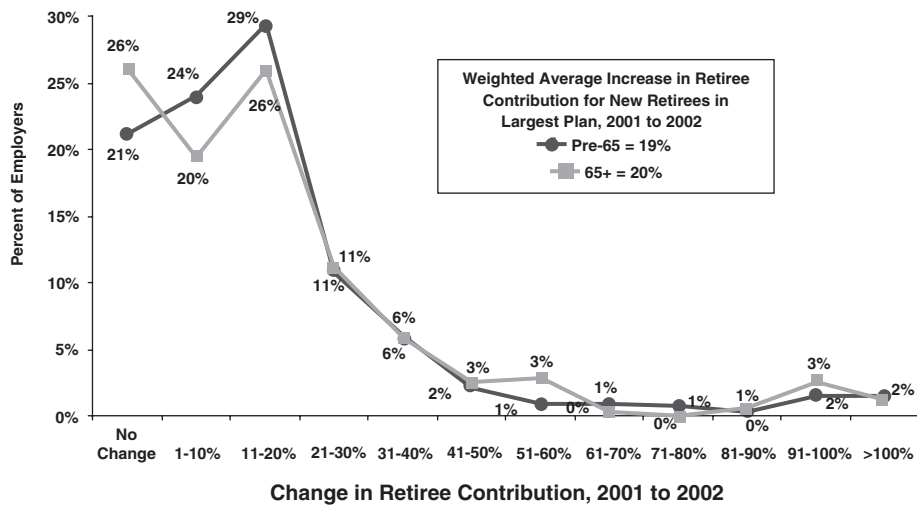
*Includes Medicare+Choice for 65+ retirees.

Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2002, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 13

Distribution of Employers Providing Health Benefits to Pre-65 and 65+ Retirees, by Percent Change in Retiree Average Contribution, 2001 to 2002

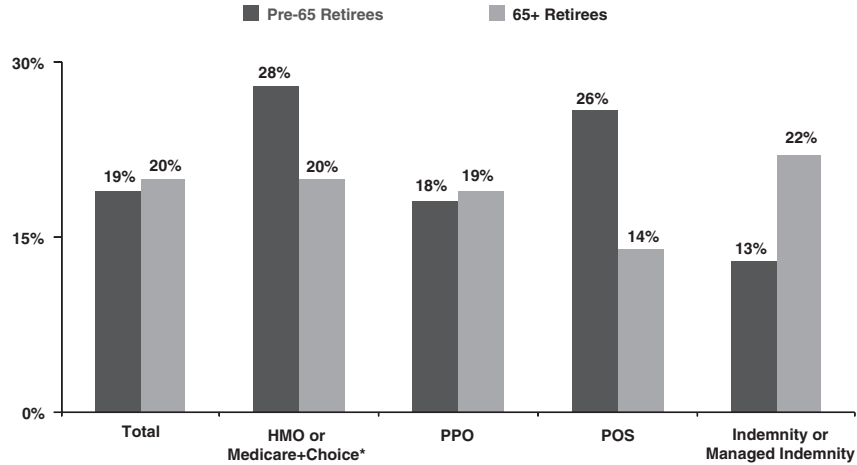


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for new retirees in plans with the largest number of enrolled retirees. 1.2% of firms offering retiree health benefits to 65+ retirees reported a decrease in the retiree contributions to premium (amount not specified).

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 14

Average Annual Increase in Retiree Contributions for New Retirees, by Type of Health Plan, 2001 to 2002



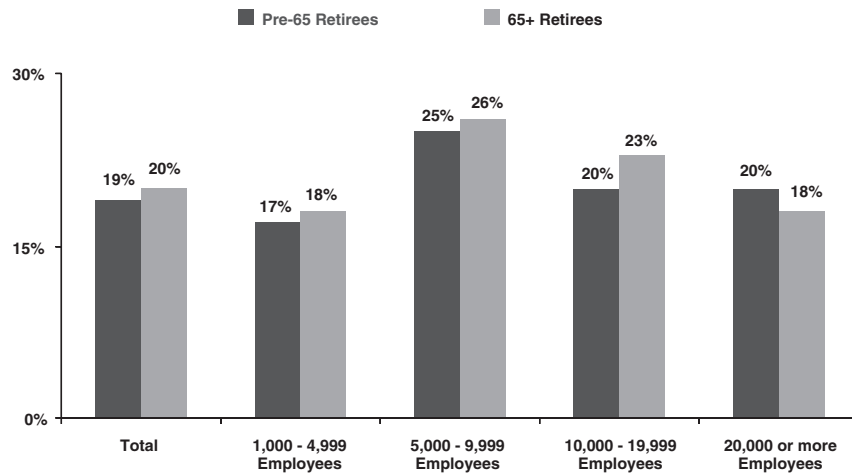
*Medicare+Choice for 65+ retirees only.

Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Average annual increases for new retirees in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2002 on Retiree Health Survey, December 2002.

Exhibit 15

Average Annual Increase in Retiree Contributions for New Retirees, by Firm Size, 2001 to 2002

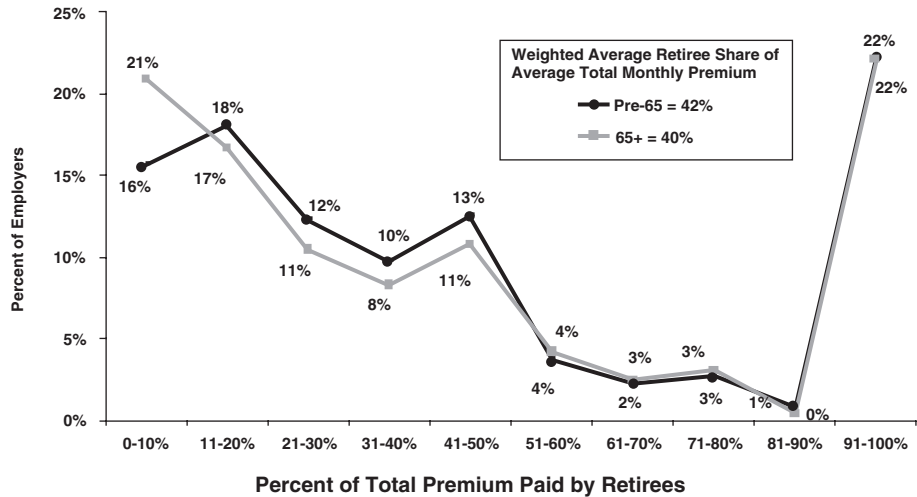


Note: "Total" represents weighted average increase. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Average annual increases for new retirees in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 16

Distribution of Employers Providing Health Benefits to Pre-65 and 65+ Retirees, by Percent of Average Total Premium Paid by Retirees



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2002, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 17

Percentage of Total Premiums Paid by Retirees, 2002

	Pre-65 Retirees	65+ Retirees
Weighted Average	42%	40%
By Firm Size:		
1,000-4,999	46%	42%
5,000-9,999	48%	47%
10,000-19,999	45%	38%
20,000+	40%	40%
By Plan Type:		
HMO*	47%	37%
PPO	45%	38%
POS	37%	23%
Indemnity or Managed Indemnity	49%	46%

*Includes Medicare+Choice for 65+ retirees.

Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2002, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

SECTION 4 PRESCRIPTION DRUGS

PRESCRIPTION DRUGS

Prescription drugs are a critical component of retiree health benefits. For those age 65 and older, employer-sponsored retiree health benefits are the primary source of drug coverage, assisting more than one in three seniors with Medicare.¹² To understand the scope and structure of prescription drug benefits offered to seniors, we asked employers to describe the prescription drug provisions for the plan with the largest number of age 65+ retirees.

Looking at plans with the largest number of enrolled age 65+ retirees:

- The vast majority of employers that offer retiree health benefits (96 percent) provide coverage for prescription drugs. Most (80 percent) offer drug benefits as part of the firm's retiree health benefit plan, while a small share (15 percent) do so as a separate, employer-subsidized stand-alone drug plan. Only 1 percent offer an unsubsidized drug discount card or other program (Exhibit 18).
- The vast majority of surveyed employers (89 percent) provide unlimited drug benefits; the remaining 11 percent have a separate drug benefit limit (Exhibit 19).
- Among plans with the largest number of age 65+ retirees, 31 percent of surveyed employers have plan design features (other than copayments) that are specific to their prescription drug benefit: 17 percent have a separate annual drug deductible and 15 percent have a separate annual out-of-pocket maximum for prescription drug costs. (Exhibit 19).
 - Among the 17 percent of plans with a separate prescription drug deductible, the most common deductible is \$50.
 - Among the 15 percent of plans with a separate annual out-of-pocket maximum (or stop-loss) for pharmacy claims, the most common out-of-pocket limit is \$1,000.
- The vast majority of plans (93 percent) offer both retail and mail-order coverage (Exhibit 20). Among those with a mail-order option, only 14 percent require enrollees to use mail-order.

Employers use a variety of cost-sharing strategies for prescription drug benefits.

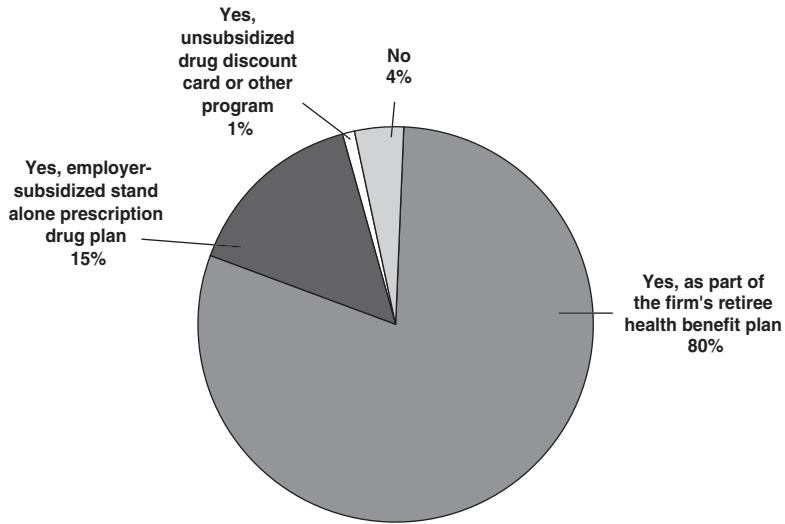
- Sixty-six percent of employers contract directly with a pharmacy benefit manager (PBM) to administer the prescription drug plan that enrolls the largest number of age 65+ retirees.

¹² Laschober, et al., *Health Affairs*, February 2002. Analysis of 1999 Medicare Current Beneficiary Survey Access to Care File, including non-institutionalized beneficiaries with full-year coverage.

- For retiree purchases of prescription drugs at retail pharmacies, 61 percent of surveyed employers require a fixed-dollar copayment amount, 26 percent require a percentage coinsurance, and the remaining 13 percent use a combination of both copayments and coinsurance (Exhibit 21). Typically, for purchases at retail pharmacies, retiree cost-sharing is for a 30-day supply or a lesser amount, as prescribed.
 - Median copayment amounts range from \$8 per prescription (generics) to \$15 (brand-name drugs on formulary/preferred list) to \$25 (brand-name drugs not on formulary/preferred list) (Exhibit 22).
 - Retiree coinsurance for prescriptions filled at retail pharmacies is typically 20 percent for all drug types, generics and brand-name drugs (whether on formulary/preferred list or not).
- Among those offering a mail-order option, 85 percent require retirees to pay fixed-dollar copayments, 9 percent impose a coinsurance, and 6 percent use a combination of copayments and coinsurance. Typically, the amount is for a 90-day supply of medication (Exhibit 21).
 - Median copayment amounts for mail-order range from \$10 per prescription (generics) to \$25 (brand-name drugs on formulary/preferred list) to \$35 (brand-name drugs not on formulary/preferred list) (Exhibit 23).
 - Coinsurance amounts for mail-order, as for retail purchases, tend to be 20 percent for all types of prescriptions filled.

Exhibit 18

Percentage of Large Employers that Offer Prescription Drug Benefits to 65+ Retirees

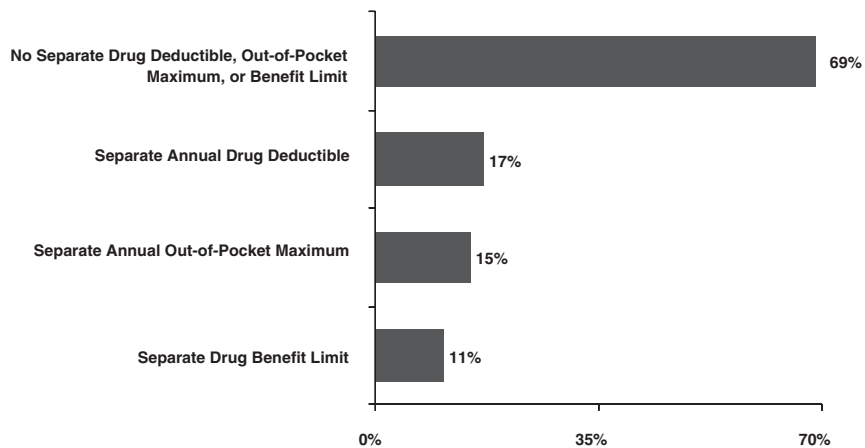


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 19

Prescription Drug Plan Design Features Specific to 65+ Retirees

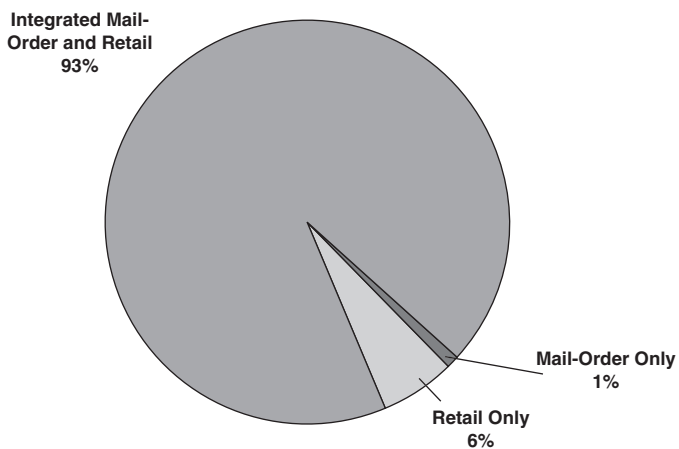


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Percentages do not sum to 100% as some employers reported more than one separate drug feature.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 20

Prescription Drug Delivery Methods For 65+ Retirees

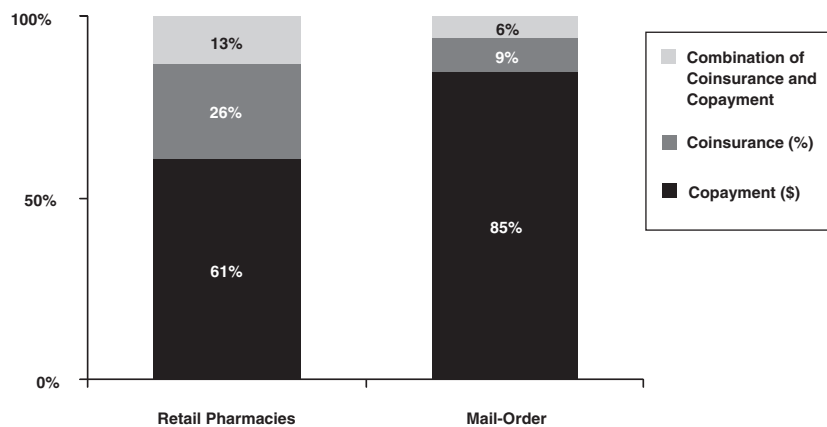


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 21

Prescription Drug Cost-Sharing Approaches for 65+ Retirees

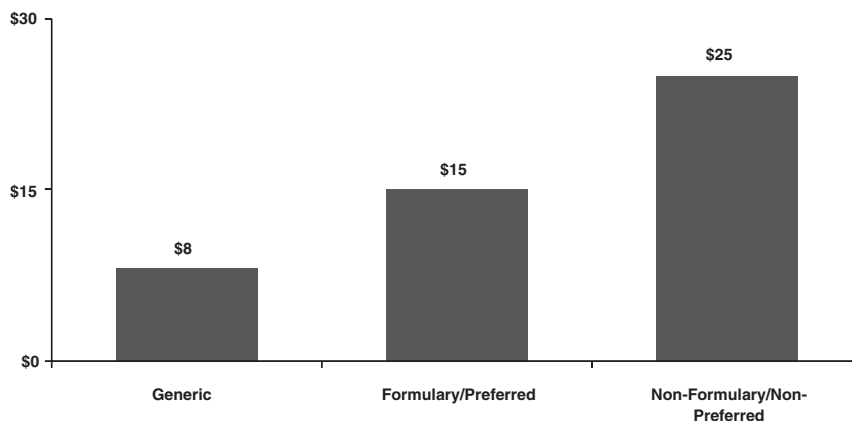


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 22

Median Drug Copayments for 65+ Retirees Filling Prescription at Retail Pharmacies, by Drug Category

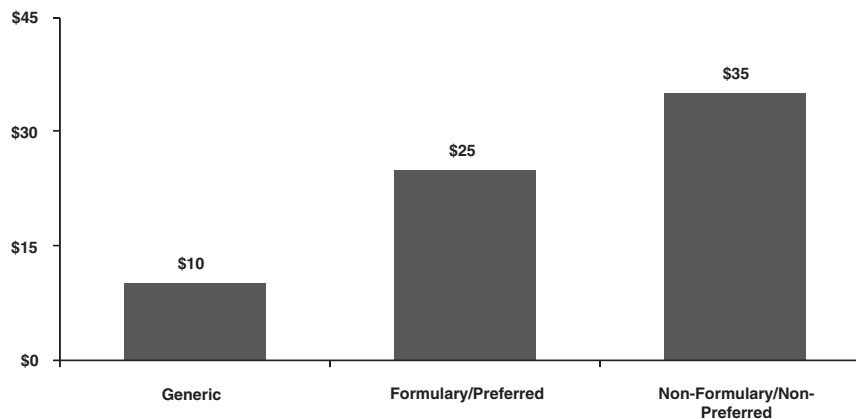


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Retail prescriptions typically cover a 30-day supply of the medication. Generic drugs are no longer covered by patent protection and thus may be produced and/or distributed by many firms. Formulary/preferred drugs are brand name drugs with no generic substitutes. Non-formulary/non-preferred drugs are brand name drugs with no generic substitutes.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 23

Median Drug Copayments for 65+ Retirees Filling Prescription Through Mail-Order Pharmacies, by Drug Category



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Retail prescriptions typically cover a 30-day supply of the medication. Generic drugs are no longer covered by patent protection and thus may be produced and/or distributed by many firms. Formulary/preferred drugs are brand name drugs with no generic substitutes. Non-formulary/non-preferred drugs are brand name drugs with no generic substitutes.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

SECTION 5

CHANGES MADE BY LARGE EMPLOYERS IN THE PAST TWO YEARS

CHANGES MADE BY LARGE EMPLOYERS IN THE PAST TWO YEARS

Employers offering retiree health benefits have made substantial changes in recent years in an effort to control rising costs, and all signs point to sustained efforts to slow the growth in retiree health obligations in the future. In the past two years, surveyed firms have increased retiree contributions to premiums and increased plan design cost-sharing requirements. A much smaller share of employers in this survey have terminated health benefits for future retirees altogether. While most indicators suggest a reduction in benefits for retirees, one in six large employers report having added benefits or improved coverage for retirees in the past two years.

Prescription drug costs are a major focus for employers. In the past two years, employers have looked to higher cost-sharing requirements and new strategies to manage utilization to help rein in cost increases. Still, prescription drug spending by employers is expected to continue increasing at double-digit rates.¹³

Coverage

- Among large, private-sector firms that now provide retiree health benefits, 13 percent have terminated all subsidized health benefits for future retirees in the past two years (Exhibit 24).
- Fourteen percent of surveyed firms report having made a change to provide access-only to group health benefits, with retirees paying 100 percent of the costs.
- Seven percent of surveyed employers have shifted to a defined contribution approach.
- Only 2 percent say they have put in place a catastrophic plan coupled with a medical savings account (not shown).

Retiree Contributions

- Nearly 44 percent of surveyed employers report having increased retiree contributions to premiums in the past two years. More than a quarter (29 percent) report increases in contributions for dependents (Exhibit 24).

Cost-Sharing

- During the past two years, more than a third (36 percent) of surveyed employers report having

¹³ Hewitt Associates, *Health Care Expectations: Future Strategy and Direction*, 2002.

made increases in plan design cost-sharing, which could include deductibles, copayments, and coinsurance for a range of services, including physician, hospital, and prescription drugs, as well as limits on retirees' out-of-pocket spending (Exhibits 25 and 26).

- Increased physician office copayments in the past two years (29 percent)
- Raised deductibles (20 percent)
- Increased out-of-pocket limits (18 percent)
- Increased hospital copayments (16 percent)

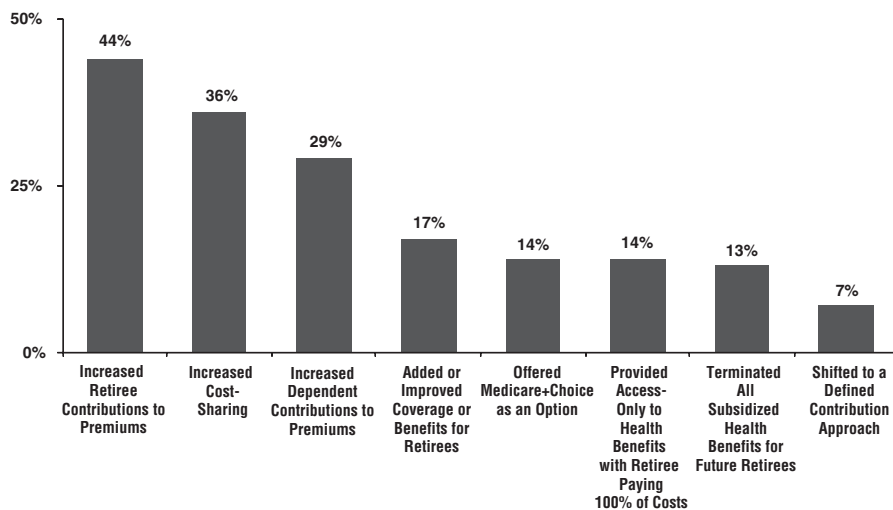
Prescription Drug Benefit Changes

Large employers have implemented a variety of measures to control rising drug costs during the past two years, including plan design changes that increase cost-sharing for retirees as well as strategies to manage utilization of prescription drugs (Exhibit 26).

- Nearly half (49 percent) of surveyed employers have increased drug copayments or coinsurance.
 - Roughly half (48 percent) imposed 3-tiered copayments for pharmaceuticals and another 14 percent imposed 2-tiered copayments. Only 1 percent imposed a 4- or 5-tiered structure (not shown).
- With respect to utilization management strategies, 37 percent have put into place prior authorization requirements, 18 percent have imposed rules related to therapeutic interchange (formulary interventions by pharmacy benefit managers), and 15 percent have implemented closed or partially-closed formularies (Exhibit 26).
- Thirteen percent of employers have implemented step-therapy provisions, meaning that patients receive progressively higher-cost treatments only if lower-cost alternatives are ineffective.
- Eleven percent of employers have replaced dollar copayments for drugs with coinsurance, a potentially significant shift.
- Ten percent have begun requiring mandatory mail-order refills for maintenance drugs.
- Less than one percent of all employers say they have eliminated prescription drug coverage in the past two years (not shown).

Exhibit 24

Percentage of Large Private Employers That Made Changes to Retiree Health Benefits Within the Past Two Years

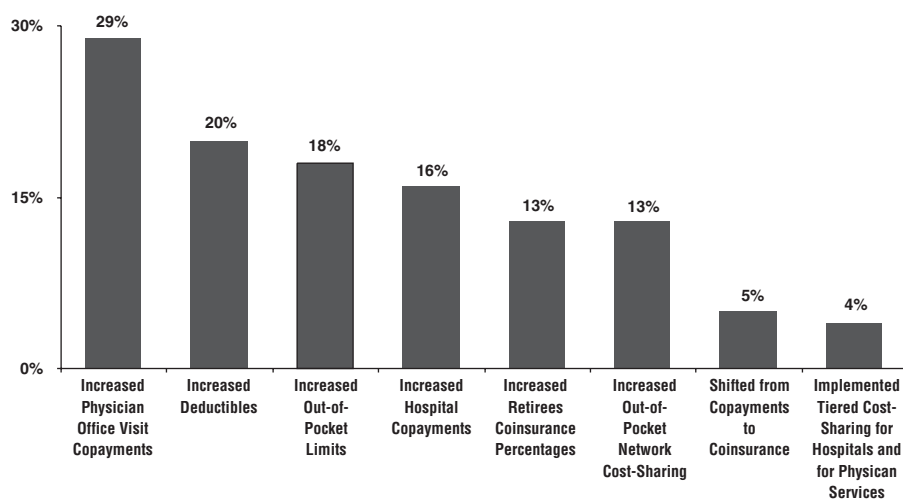


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 25

Percentage of Large Private Employers That Made Cost-Sharing Changes to Retiree Health Benefits Within the Past Two Years

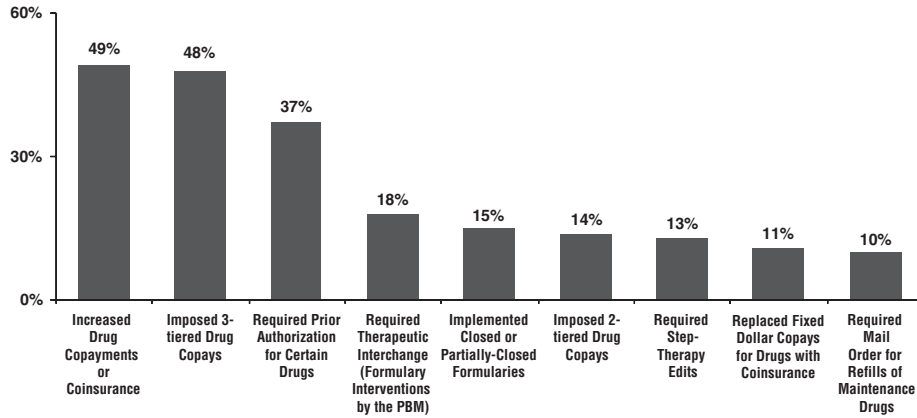


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 26

Percentage of Large Private Employers That Made Changes to Manage Retiree Prescription Drug Costs Within the Past Two Years



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

SECTION 6

LOOKING TO THE FUTURE

LOOKING TO THE FUTURE

Looking to the future, the majority of surveyed employers say they are very or somewhat likely to make changes in their retiree health plans within the next three years. Most of these changes would involve higher contributions and/or cost-sharing for retirees. Despite the implementation of more aggressive prescription drug cost management tools in the past two years, most employers say they are very or somewhat likely to raise retirees' cost-sharing for pharmaceuticals in the next three years and many expect to impose more stringent controls on utilization.

Coverage and Retiree Contributions

- More than eight in ten surveyed employers (82 percent) say they are very or somewhat likely to increase retiree contributions to premiums in the next three years, and two-thirds (66 percent) say they are very or somewhat likely to increase contributions for dependents (Exhibit 27).
- One in four surveyed employers say they are very or somewhat likely to shift to a defined contribution approach (25 percent) or to offer catastrophic benefits coupled with medical savings accounts (24 percent).
- Eighteen percent of surveyed employers say they are very or somewhat likely to offer Medicare+Choice as an option for age 65+ retirees.
- Twelve percent of surveyed firms say they are very or somewhat likely to add or improve benefits for retirees.
- Only 5 percent of surveyed employers say they are very or somewhat likely to terminate all subsidized benefits for current retirees.
 - By contrast, 22 percent say they are very or somewhat likely to terminate all subsidized health benefits for future retirees.

Cost-Sharing

- Three of four surveyed employers (76 percent) say they are very or somewhat likely to increase cost-sharing requirements for retirees (Exhibits 27 and 28):
 - Increase deductibles (75 percent)
 - Increase physician copayments (71 percent)
 - Raise out-of-pocket limits (64 percent)

- Increase cost-sharing for out-of-network care (58 percent)
- Increase hospital copayments (58 percent)
- Implement tiered cost-sharing for hospitals and/or physicians (31 percent)

Changes to Manage Prescription Drug Costs

A number of prescription drug benefit design changes are likely over the next three years. Less than 4 percent of all surveyed employers say they are very or somewhat likely to eliminate prescription drug coverage in the next three years (Exhibit 27). Instead, other changes appear more likely (Exhibit 29).

- More than eight in ten surveyed employers (85 percent) say they are very or somewhat likely to increase retiree copayments or coinsurance for prescription drugs.
- Roughly four in ten surveyed employers (42 percent) say they are very or somewhat likely to shift from fixed copayments to coinsurance for prescription drugs. Coinsurance approaches expose retirees to higher out-of-pocket spending as the cost of drugs rise. They also may provide stronger financial incentives for retirees to choose generic drugs where available.
- Employers say they are very or somewhat likely to impose tiered cost-sharing for prescription drugs within the next three years:
 - 3-tiered cost-sharing for retirees (53 percent)
 - 4-tiered cost-sharing for retirees (22 percent)
- Although 17 percent of the largest plans offering prescription drug coverage to age 65+ retirees impose separate deductibles for prescription benefits in 2002, more than one-third (37 percent) of employers say they are very or somewhat likely to impose specific deductibles for pharmaceuticals within the next three years.

In addition to prescription drug cost-sharing changes:

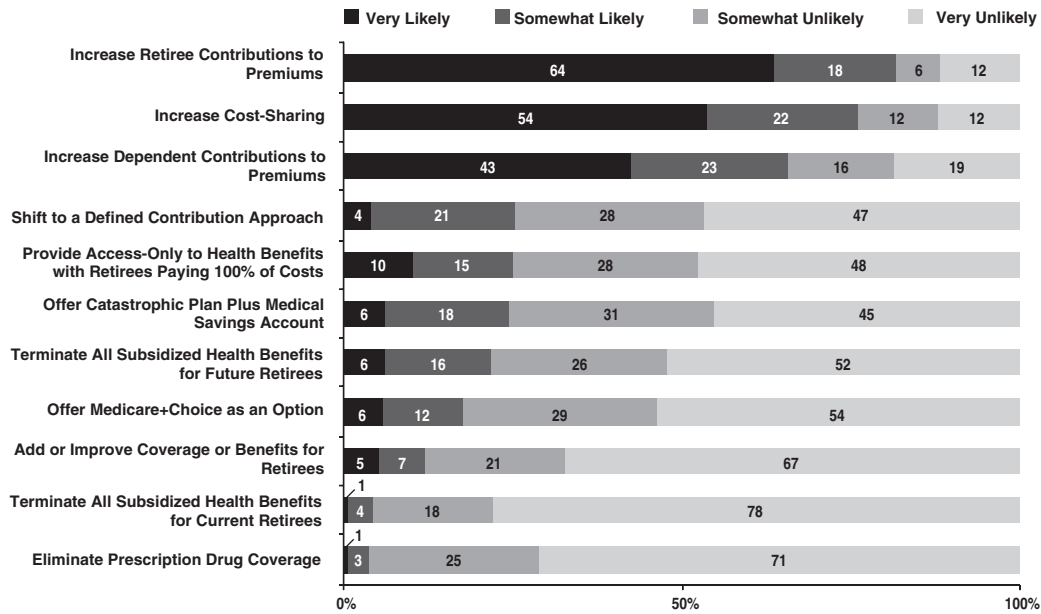
- More than half (54 percent) say they are very or somewhat likely to require use of mail order for maintenance drugs in the next three years.
- Nearly half (47 percent) say they are very or somewhat likely to impose prior authorization requirements for prescriptions in the next three years.
- Four in ten (42 percent) say they are very or somewhat likely to use closed or partially closed formularies in the next three years.

Summary

Providing retiree health benefits is a difficult balancing act for many large employers. Under tough economic conditions, surveyed large employers are struggling to maintain meaningful retiree health coverage. However, they must weigh this objective against the priorities, competitive pressures, and bottom line financials of their companies. These considerations often include striking a balance between the costs of providing health care to active employees versus retirees and between pension benefits and retiree health care. Employers' decisions will have important implications for current and future generations of retirees.

Exhibit 27

Likelihood of Making Changes to Retiree Health Benefits within the Next Three Years

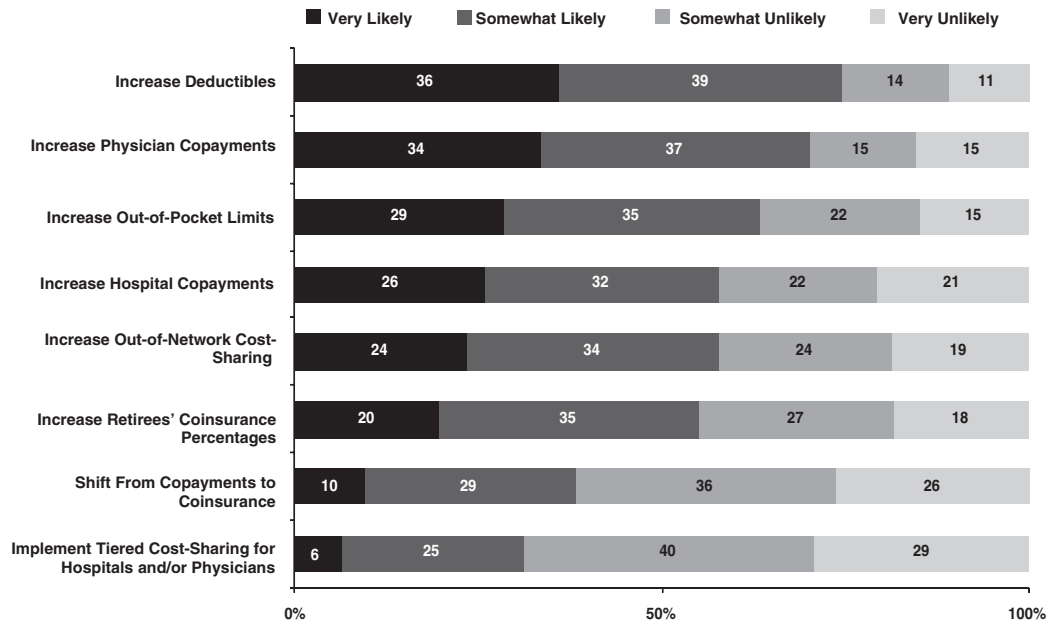


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Due to rounding, numbers may not sum to 100%.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 28

Likelihood of Making Changes to Cost-Sharing for Retiree Health Benefits Within the Next Three Years

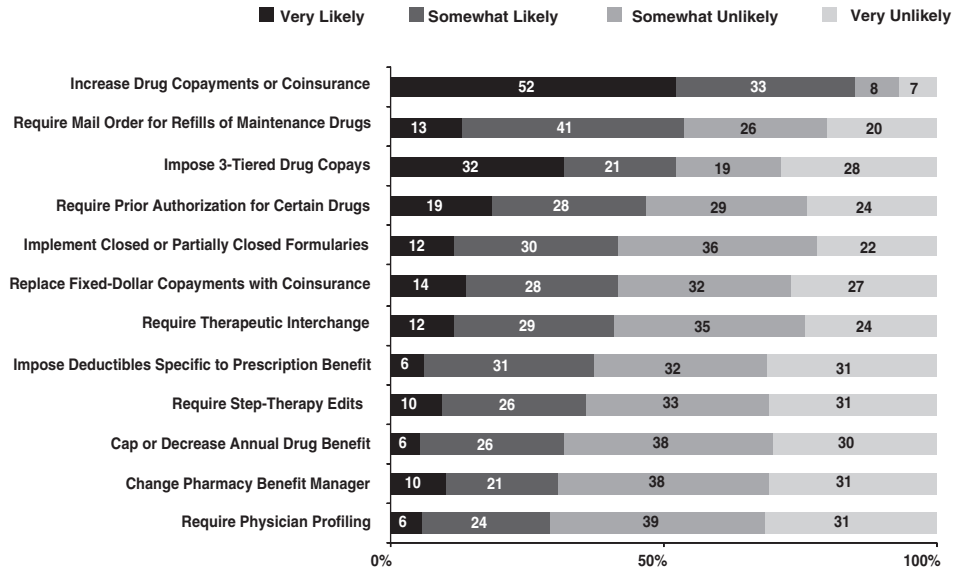


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Due to rounding, numbers may not sum to 100%.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 29

Likelihood of Making Changes to Manage Retiree Drug Costs Within the Next Three Years



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Due to rounding, numbers may not sum to 100%.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

SECTION 7

ATTITUDES ABOUT THE MEDICARE PRESCRIPTION DRUG DEBATE

ATTITUDES ABOUT THE MEDICARE PRESCRIPTION DRUG DEBATE

Employer-sponsored plans were the primary source of drug coverage for about 12 million people on Medicare in 1999.¹⁴ Concerns about the rising cost of pharmaceuticals for seniors today, coupled with concerns about the likely erosion of benefits from all sources in the future, have fueled interest in the national debate over a Medicare drug benefit.

Given the critical role that employer plans now play in financing drug coverage for retirees, this survey includes questions to assess employers' perceptions of the ongoing Medicare debate. A previous study by Hewitt for The Kaiser Family Foundation projected that in 2003, under certain retiree health plan designs, as much as 80 percent of retiree health costs for age 65+ retirees would be attributable to prescription drugs.¹⁵

- In 2002, the majority of employers surveyed (61 percent) say they think their firm would save money if a Medicare prescription drug benefit were enacted and 16 percent do not think their firm would save money. The remaining 23 percent say they do not know (Exhibit 30).

The survey also asked how employers would likely respond if a Medicare drug benefit were enacted. Many of the major legislative proposals under discussion in the 107th Congress would have offered incentives for employers to maintain some level of retiree health drug coverage, including indirect subsidies, direct subsidies, and/or reinsurance payments. This survey sought to learn whether employers would more likely continue drug coverage or instead terminate their plans.

The survey asked how employers would respond if Congress approved a Medicare drug coverage for 2005 with a deductible, coinsurance, and 100 percent stop-loss coverage for seniors with out-of-pocket expenses above \$4,000. Surveyed employers responded as follows:

- Seventy-eight percent of employers say their firm would be most likely to retain drug coverage if a Medicare drug benefit were enacted (Exhibit 31).
 - Sixty-two percent say they would retain prescription drug coverage as a supplement to Medicare.
 - Thirteen percent say they would retain primary prescription drug coverage and accept the subsidy from Medicare.

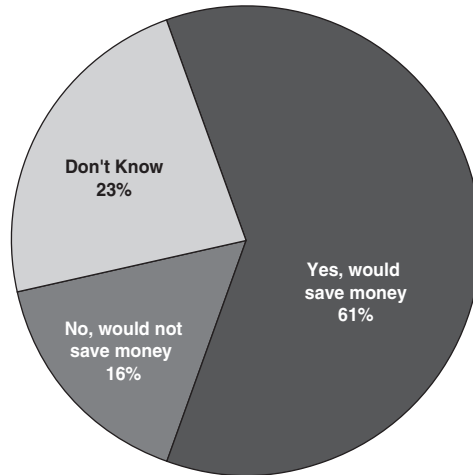
¹⁴ Congressional Budget Office, *Issues in Designing a Prescription Drug Benefit for Medicare*, October 2002.

¹⁵ Hewitt Associates for The Henry J. Kaiser Family Foundation, *The Implications of Medicare Prescription Drug Proposals for Employers and Retirees*, July 2000.

- Three percent say they would retain prescription drug coverage as a supplement to Medicare, and pay the retirees' added Medicare premium.
- Twenty-three percent of employers say they would be most likely to eliminate drug coverage for retirees age 65+ if a Medicare drug benefit were enacted (Exhibit 31).
 - Eighteen percent say they would most likely eliminate drug coverage.
 - Five percent say they would be most likely to eliminate drug coverage but pay the retiree's added Medicare premium.

Exhibit 30

Percentage of Large Private Employers Who Say They Think Their Firm Would Save Money if a Medicare Drug Benefit Were Enacted

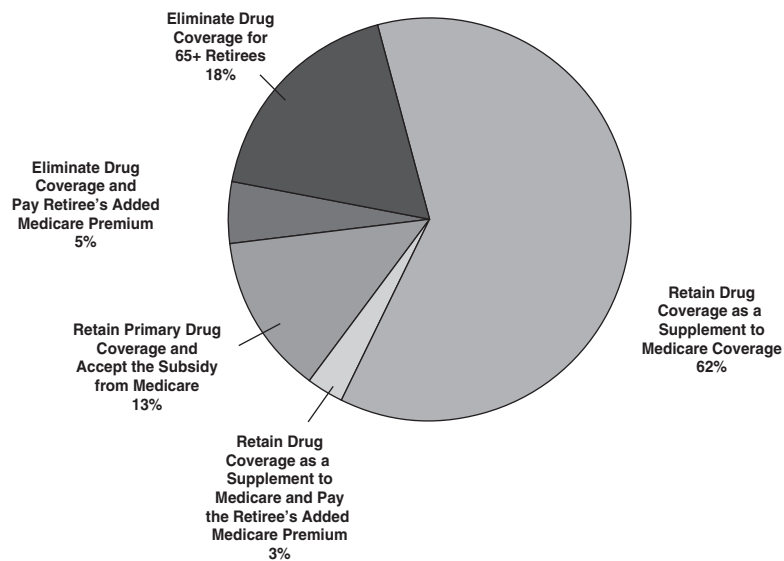


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Exhibit 31

Reactions of Large Private Employers if Congress Were to Approve a Medicare Rx Benefit with a Significant Direct or Indirect Subsidy for Employers Sponsoring Retiree Health Programs



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Due to rounding, numbers may not sum to 100%.

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

APPENDIX I

METHODS

METHODS

Survey Approach

This survey, conducted by Hewitt Associates and The Henry J. Kaiser Family Foundation, was designed to capture information on retiree health programs offered to pre-65 and Medicare-eligible retirees by large private-sector employers (i.e., employers having at least 1,000 employees). The survey focuses on large employers because large employers are significantly more likely than small and mid-sized employers to offer retiree health benefits. According to the 2002 Kaiser/HRET Annual Employer Health Benefits Survey, retiree health benefits are offered by roughly 50 percent of firms with 1,000 employees, 30 percent of firms with 200–999 employees, 16 percent of firms with 50–199 employees, and 5 percent or less of firms with fewer than 50 employees.¹⁶

By design, the Hewitt/Kaiser survey focused exclusively on those large private employers that currently provide retiree health coverage, versus surveying all employers, many of which do not offer coverage. This survey is based on a convenience sample of large employers because there is no database that identifies all private-sector firms from which we could draw a random sample. A list of 2,112 employers identified as potentially offering retiree health coverage was compiled based on data from respondents to Hewitt's previous employer surveys and data from Hewitt's proprietary client databases, supplemented by other employers drawn from a public database called Standard & Poor's Research Insight.SM In addition, a notice about the survey was published on Hewitt's website, and the Washington Business Group on Health notified its members about the survey and encouraged their participation.

The survey was conducted between July 2, 2002 and September 9, 2002. Employers were mailed a letter inviting them to participate in the survey. The letter provided them with the link to a website through which the employers could complete the survey online. Employers were also given the option of completing and returning a printed questionnaire. Invitees were sent multiple reminder notices by mail and by e-mail. Overwhelmingly, employers chose the online survey route, with 89 percent completing the survey in that manner, versus 11 percent that completed and returned the printed questionnaire.

Employer attitudes toward the future of retiree health benefits may have been influenced by the economic downturn during which this survey was conducted.

Characteristics of Participating Employers

Overall, 558 employers responded to the survey. Employers not providing coverage, employers with

¹⁶ *Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2002.*

fewer than 1,000 employees, and governmental employers were excluded, leaving a total of 435 large private employers whose responses are included in the survey analysis. The surveyed employers include more than half (51 percent) of the 100 companies with the largest retiree health liabilities in 2001. These employers represent 36 percent of Fortune 100 companies and 28 percent of Fortune 500 companies.

Most of the surveyed employers (395) provide retiree health coverage to both pre-65 and age 65+ retirees, but some only provide coverage to either pre-65 retirees or to age 65+ retirees, but not both. In this survey, 435 employers provide pre-65 coverage and 401 provide coverage to age 65+ retirees.

The overwhelming majority (92 percent) of surveyed employers are multi-state employers that represent a broad range of manufacturing (44 percent) and non-manufacturing (56 percent) industries. Eighteen percent of the total are large subsidiaries of a parent organization.

These 435 surveyed employers together reported having 7,413,185 employees, with an average of 17,042 employees per employer and a median of 6,200 employees. Using a typical ratio of family members to employees (2.5) identified by Hewitt actuaries, the surveyed employers provide benefits that impact the lives of about 18.5 million employees and family members.

In terms of the overall distribution of firms, 42 percent have between 1,000 and 4,999 employees and 58 percent have 5,000 or more employees (Table A1).

The surveyed employers together reported a total of 3,291,055 retirees, with an average of 7,636 retirees and a median of 1,517 retirees. Using a typical ratio of family members to retirees (1.65) identified by Hewitt actuaries, the surveyed employers provide retiree health benefits that impact the lives of approximately 5.4 million retirees and family members.

Number of Employees	Number of Respondents	Percent of Respondents
1,000 - 4,999	182	41.8%
5,000 - 9,999	83	19.1%
10,000 - 19,999	73	16.8%
20,000 or more	97	22.3%
Totals	435	100.0%

SOURCE: Kaiser/Hewitt 2002 Retiree Health Survey, December 2002.

Total Cost of Retiree Health Benefits in 2001

Among surveyed employers, the total cost (employer and employee share) of providing retiree health benefits to pre-65 retirees, age 65+ retirees, and dependents was \$12.52 billion in 2001. The total was derived by taking the average total cost by size of firm for the 387 surveyed employers who responded to the total cost question, and then applying that average cost per size of firm to the 48 employers who did not respond to the question. This resulted in a total cost of \$1.65 billion for the 48 non-responding employers added to the \$10.87 billion for the 387 responding employers.

Premiums

In this report, we use the term “total premium” as including both the employer contribution and the retiree contributions. “Premium equivalent” refers to the employer and retiree contributions for plans that are self-insured. Since the vast majority of firms in the survey are multi-state employers (92 percent), one would expect a large percentage of these retiree health plans to be self-insured, versus insured plans where the appropriate term is “premium.” For convenience, however, we use the term “premium” to include “premium equivalents” as well.

The total premium and retiree contribution information is gathered with respect to the surveyed employers’ retiree health plan with the largest enrollment of pre-65 retirees and age 65+ retirees, respectively. Large employers typically offer more than one health plan for a given group and different plans may be offered across the firm’s various locations and business lines. Requesting premium information for the largest plan is therefore the most administratively feasible request to which large employers would respond. In addition, the retirees in the largest plan represent the majority of all retirees with health coverage among the surveyed employers (Table A2).

The premium and retiree contribution information is gathered with respect to employees retiring on or after January 1, 2002, to capture the most recent available information. We determined during pre-testing of the questionnaire that providing an average premium for all retirees in the largest plan is too burdensome for most large employers. For example, an employer may have previous retirees with multiple generations of retiree contributions, depending on the period during which the retiree contributions were bargained between the employer and the labor union. Additional feedback also suggested that the average premium for new retirees is of greater interest to employers. In addition, the retirees of the largest plan represent the majority of all retirees with health coverage among the surveyed employers. Table A3 presents additional information, comparing mean and median premiums by firm size.

To address the variation in retiree and employee populations among firms in the survey sample, we weighted the average total premium per retiree and the average retiree contribution toward the total premium per retiree by employer size and number of retirees in the employer’s largest plan. By doing so, the premiums of larger firms with the greater number of retirees are weighted more heavily than the relatively smaller firms that have fewer retirees. The average percentage increase in retiree contributions in 2002 over 2001 is similarly weighted.

Finally, the retirees’ share of the total premium was computed by dividing the reported 2002 new retirees’ contribution by the reported 2002 total premium for new retirees.

Table A2

Retiree Enrollment in Plan with Largest Participation, by Firm Size

	1,000-4,999 Employees	5,000-9,999 Employees	10,000-19,999 Employees	20,000 or more Employees
Pre-65 Retirees				
Average Number of Pre-65 Retirees in Largest Plan	222	642	1,001	4,425
Average Percent of Pre-65 Retirees Covered in Largest Plan	64%	60%	57%	52%
Age 65+ Retirees				
Average Number of Age 65+ Retirees in Largest Plan	567	1,238	2,899	9,133
Average Percent of Age 65+ Retirees Covered in Largest Plan	77%	70%	70%	71%
<p>Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. SOURCE: Kaiser/Hewitt 2002 on Retiree Health Survey, December 2002.</p>				

Table A3

Retiree Enrollment in Plan with Largest Participation, by Firm Size

	1,000-4,999 Employees	5,000-9,999 Employees	10,000-19,999 Employees	20,000 or more Employees
Pre-65 Retirees				
Total Premium				
Median	\$314	\$338	\$357	\$373
Mean	\$330	\$355	\$364	\$370
Average Retiree Contribution				
Median	\$100	\$105	\$122	\$102
Mean	\$151	\$170	\$162	\$149
Age 65+ Retirees				
Total Premium				
Median	\$185	\$195	\$198	\$181
Mean	\$197	\$204	\$189	\$194
Average Retiree Contribution				
Median	\$56	\$66	\$59	\$56
Mean	\$82	\$95	\$72	\$78
<p>Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. SOURCE: Kaiser/Hewitt 2002 on Retiree Health Survey, December 2002.</p>				

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

Appendix II

DEFINITIONS OF HEALTH PLANS

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Health Maintenance Organizations (HMOs)

HMOs provide prepaid benefits for most health care needs, with no bills or claims forms for the enrollee to submit. The enrollee chooses a primary care physician (PCP) from a list of providers. Often the enrollee must contact the PCP to be referred to a specialist. If care is received from a doctor or facility other than the selected PCP or without being referred by the PCP, HMOs may not provide any benefits coverage for those expenses, even if the doctor or facility is in the HMO network.

Indemnity Plans

Indemnity plans provide the same coverage no matter which doctor or hospital the enrollee uses. The plan reimburses for covered medical services, as long as the expenses are reasonable and customary. The enrollee may need to file claim forms to be reimbursed. Coverage levels are usually lower in indemnity plans when compared with the in-network benefits of other plan types. Indemnity plans allow the enrollee to use any licensed doctor or provider for covered care.

Managed Indemnity Plans

Managed Indemnity plans are a lot like traditional indemnity plans. What usually makes managed indemnity different is pre-certification, which means that some of the care members receive is subject to pre-approval. Like most indemnity plans, the enrollee may need to file claim forms to be reimbursed, and is allowed to use any licensed doctor or provider for covered care.

Medicare+Choice (M+C) Plans

Medicare+Choice plans are private plans under contract with Medicare that offer a prepaid package of Medicare-covered benefits and perhaps other benefits as well, as opposed to the “traditional” fee-for-service Medicare plan. The vast majority of M+C plans are HMOs.

Point-of-Service (POS) Plans

POS plans maintain networks (lists) of participating doctors and hospitals. If the enrollee lives in an area that the POS network supports, he/she must choose a primary care physician (PCP) from the network when they enroll. When the PCP coordinates all the care, the level of benefits is highest and the enrollee avoids having to file his/her own claims. Benefits coverage is typically lower if the enrollee chooses to go out of network for care.

Preferred Provider Organizations (PPOs)

PPOs maintain networks of participating doctors and hospitals. If the enrollee lives in an area that the PPO network supports, the enrollee has the choice of using in-network or out-of-network providers. When in-network providers are used, the level of benefits is highest and the enrollee avoids having to file claims. A primary care physician (PCP) is not required to coordinate care.

THE CURRENT STATE OF RETIREE HEALTH BENEFITS

**Findings from the Kaiser/Hewitt
2002 Retiree Health Survey**

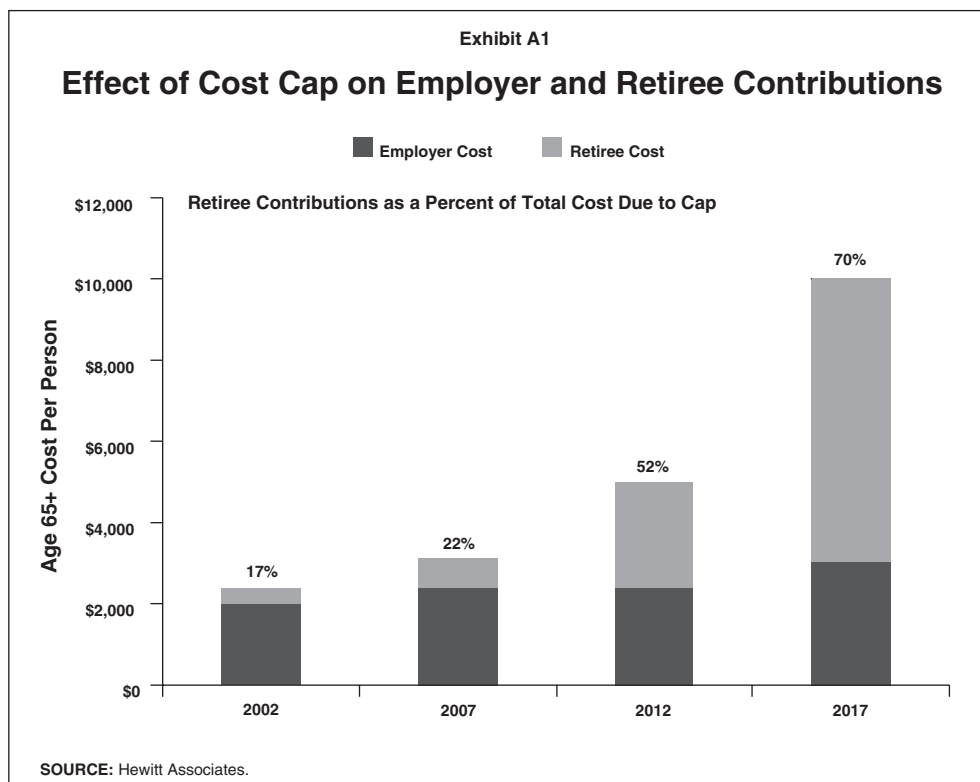
APPENDIX III

EMPLOYER CAP CASE STUDY

EMPLOYER CAP CASE STUDY

XYZ Company adopted a limit on their subsidy of their retiree health plan that caps their annual cost at 1.5 times their cost per person in 2002. They did not change the design of the plan so that, if costs increase to more than 1.5 times the 2002 cost in the future, retirees would pay for the entire increase in cost—XYZ would pay nothing more.

Their 2002 total cost for age 65+ retirees is \$2,400 per person per year. Of that total, XYZ pays \$2,000 (83 percent of the total) and the retiree pays \$400 (17 percent of the total). XYZ will continue to pay 83 percent of the cost of the plan until the cap is reached, i.e., until the employer cost reaches \$3,000 per person (1.5 times \$2,000). In this hypothetical illustration, between 2002 and 2017, the age 65+ total cost per person ultimately increases from \$2,400 to \$10,016, assuming annual health care cost increases of 10 percent during that time period. As a result of the cap, the hypothetical retiree's share of total costs ultimately increases from 17 percent in 2002 to 70 percent in 2017 (because the employer share remains fixed at \$3,000 per the cap). This assumes that plan design remains constant over the 15-year period and that the employer does not raise the cap along the way whereas, as this report illustrates, many changes in plan design, retiree contributions, and cost-sharing are anticipated over the next few years.



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