

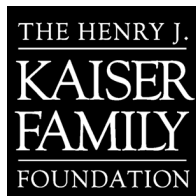
---

Chartpack

# Retiree Health Benefits Now and in the Future

Findings from the Kaiser/Hewitt 2003 Retiree Health Survey

January 2004



Hewitt

---

This chartpack presents a summary of findings from the Kaiser/Hewitt 2003 Retiree Health Survey. Complete survey findings are presented in the full report, *Retiree Health Benefits Now and in the Future* (Publication #6105), available on the Kaiser Family Foundation's website at <http://www.kff.org/medicare/retiree.cfm>. A related article, entitled, "Large Firms' Retiree Health Benefits Before Medicare Reform: 2003 Survey Results," was released electronically in the journal *Health Affairs* on January 14, 2004, and is available online at [www.healthaffairs.org](http://www.healthaffairs.org). Findings from the 2002 Kaiser/Hewitt survey of large private-sector employers are available at <http://www.kff.org/medicare/retiree.cfm>.

**Hewitt Associates** ([www.hewitt.com](http://www.hewitt.com)) is a global human resources outsourcing and consulting firm. Hewitt provides services from offices in 38 countries.

**The Henry J. Kaiser Family Foundation** is an independent, national health philanthropy dedicated to providing information and analysis on health issues to policymakers, the media, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.

# Retiree Health Benefits

## Pre-65 Retirees:

- Employer plans provide health coverage to more than 3 million retirees ages 55-64, assisting nearly 6 in 10 retirees in this age group
- Retiree health insurance bridges gap in coverage until Medicare eligibility

## Age 65+ Retirees:

- Employer plans assist 1 in 3 seniors by supplementing Medicare
- Typically, Medicare is the primary payer
  - Employer plans help pay for benefits not covered by Medicare, such as Rx drugs
  - Also assist retirees with Medicare's cost-sharing requirements

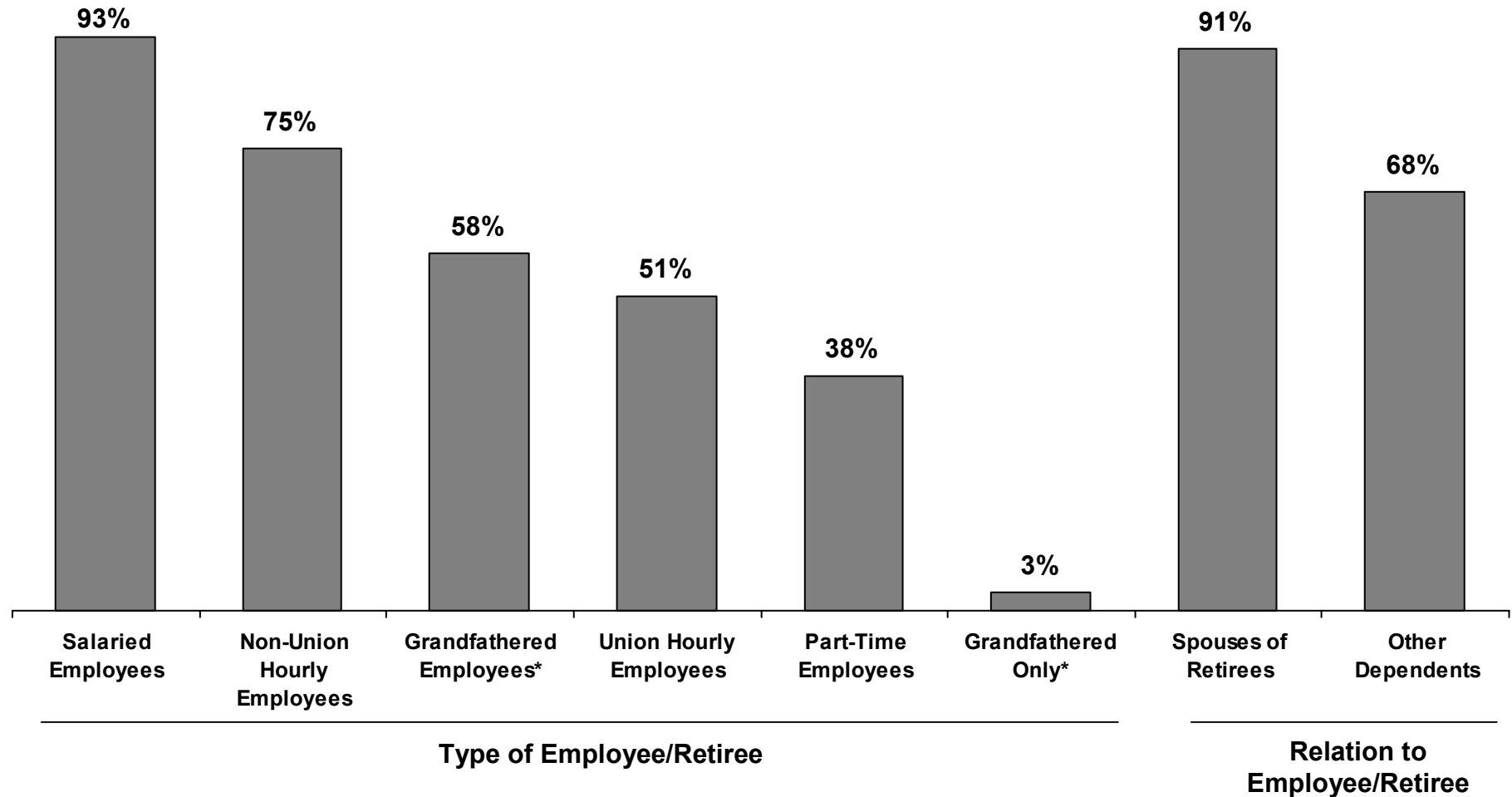
## Scope of 2003 Survey

- Detailed baseline of retiree health benefits prior to Medicare reform
- 408 large, private-sector firms, with 1,000+ employees, surveyed online between June 24 and September 12, 2003
- Included only companies offering retiree health plans
- Majority of firms are multi-state employers (90%), publicly traded (72%), and represent range of manufacturing (45%) and non-manufacturing (55%) industries
- Sample represents 45% of Fortune 100 companies and 30% of Fortune 500 companies
- Benefits impact 20.8 million employees and family members and 5.9 million (pre-65 and 65+) retirees and family members
- Estimated 3.9 million Medicare-eligible retirees and spouses – about 1/3 of the 12 million non-federal retirees with employer health coverage

# Coverage and Benefits

Exhibit 3

# Who is Offered Retiree Health Benefits in Large Firms?



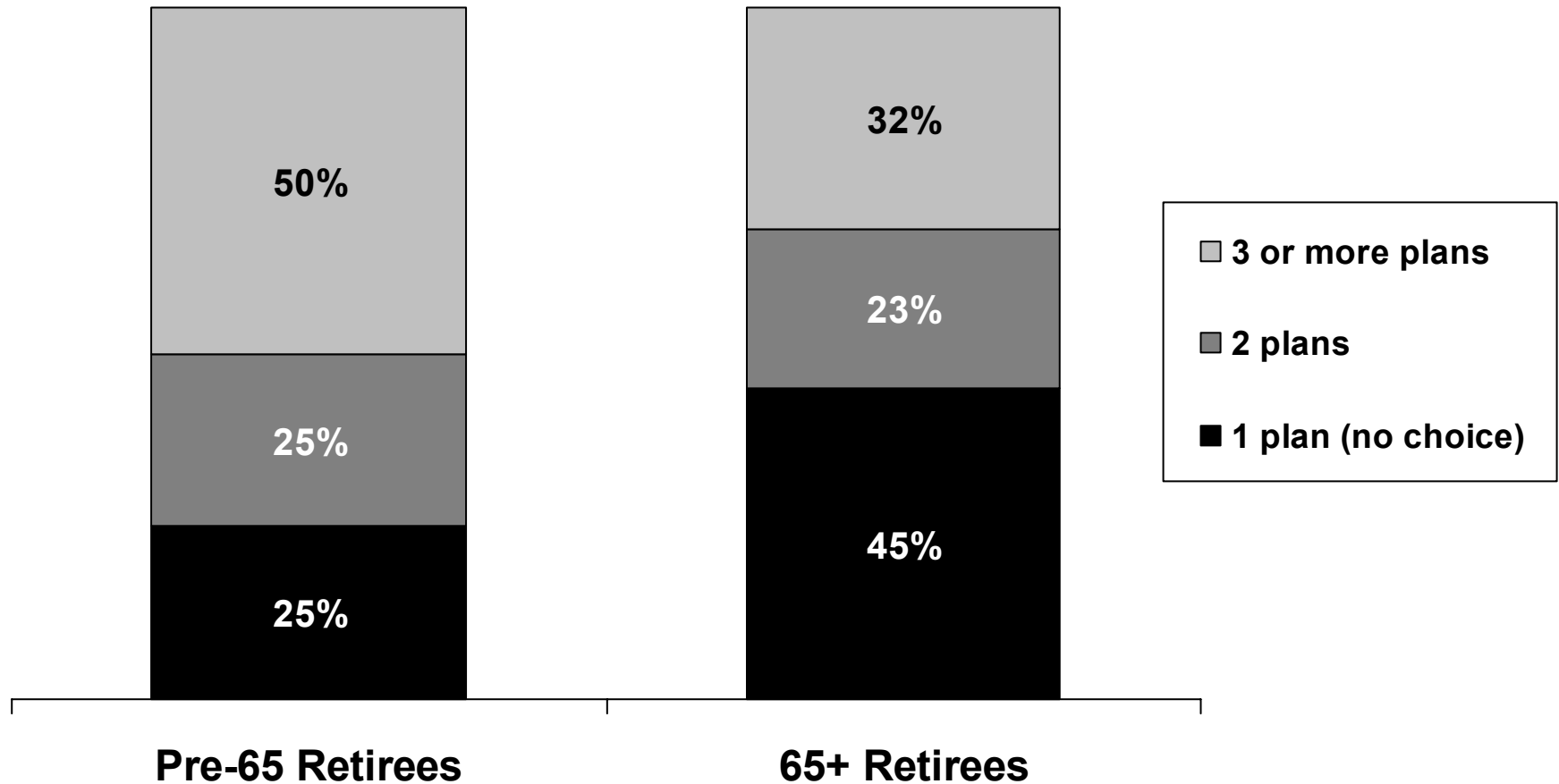
\*Grandfathered employees or retirees are those who retain retiree health benefits from a previously established plan that is no longer offered to current employees or retirees.

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

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 4

# Choice of Health Plans Offered to Retirees

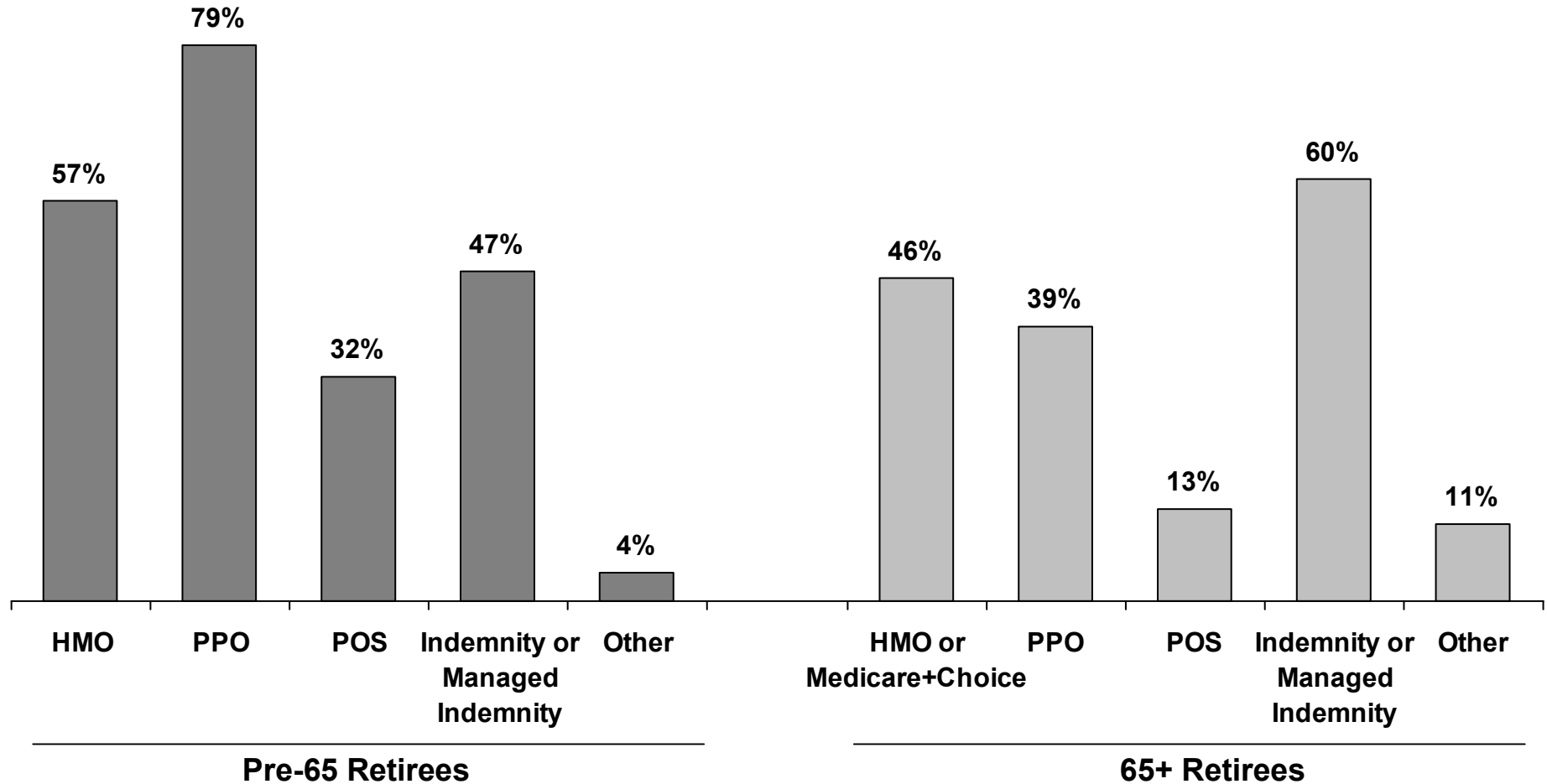


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Choice of health plans for full-time employees retiring on or after January 1, 2003.

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 5

# Type of Health Plans Offered 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, 2003.

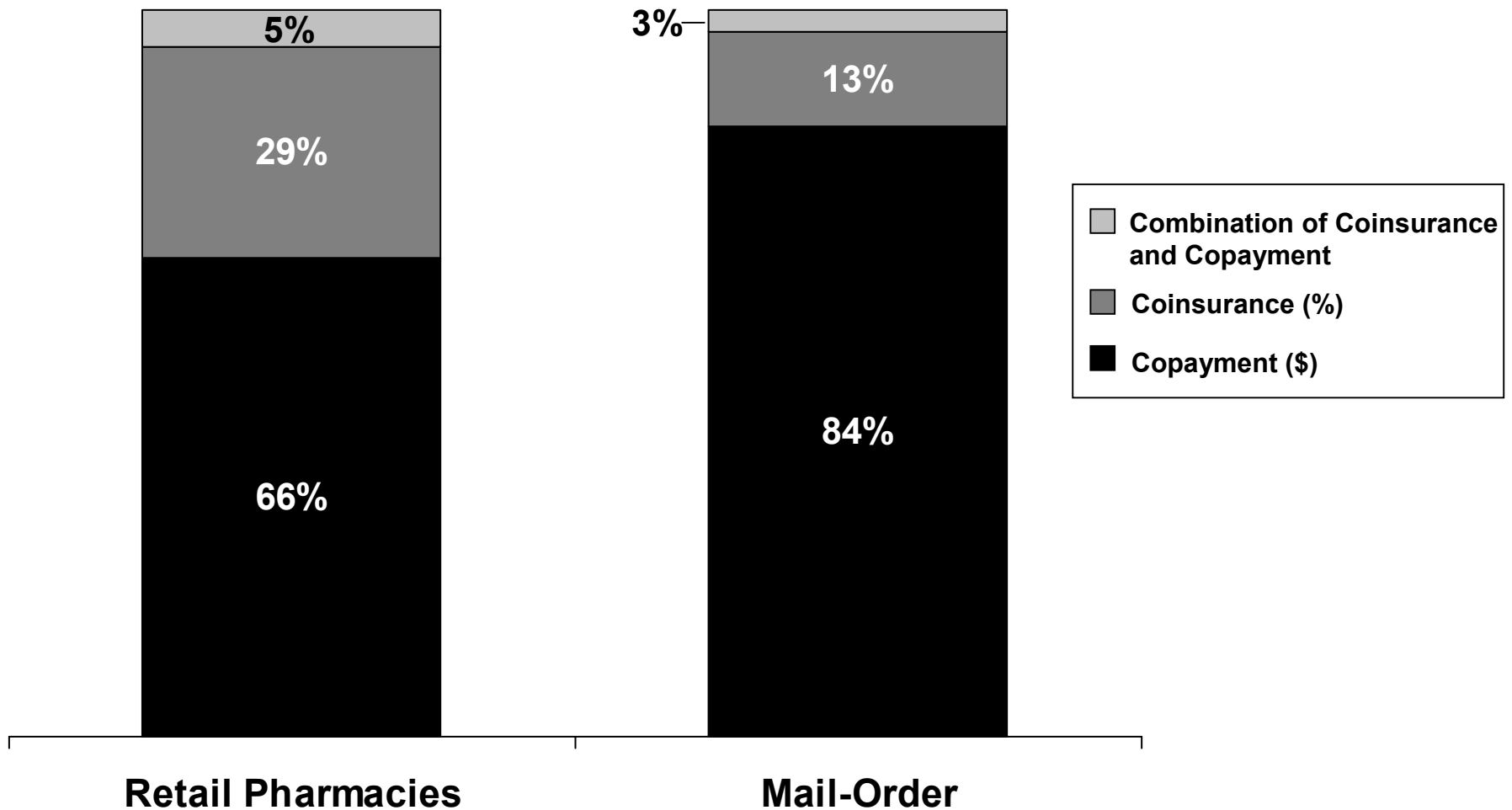
SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

# Typical Retiree Health Benefits

- **More than three-quarters of the largest age 65+ plans have an annual deductible**
  - \$250 for retirees/\$500 for retirees and spouses
  - Deductible counts toward out-of-pocket limit for majority of plans
- **Most have a limit on out-of-pocket spending for covered services**
  - \$1,500 for retirees/\$3,000 for retirees and spouses
- **Nearly all employers that provide health benefits to age 65+ retirees cover prescription drugs (93%)**
  - Typically, as part of firm's retiree health plan, rather than stand-alone plan
  - 26% have separate Rx deductibles
  - 15% have separate Rx out-of-pocket maximum
- **Benefit limits for prescription drugs are uncommon**
  - 8% have separate limits on Rx benefit

Exhibit 7

# Prescription Drug Cost-Sharing Approaches for 65+ Retirees in Plans with 3-Tiered Cost-Sharing

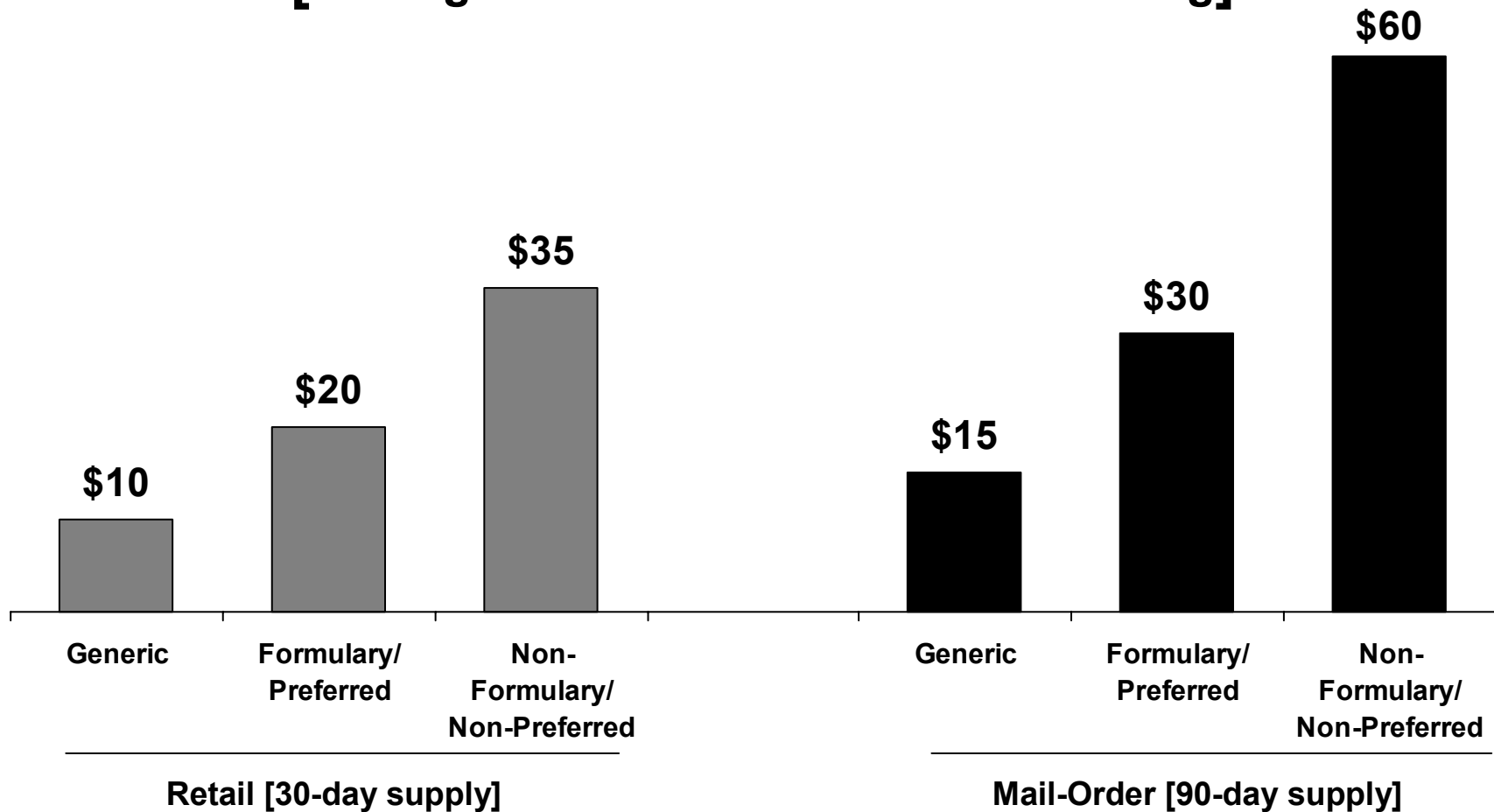


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 8

# Median Drug Copayments for 65+ Retirees, by Drug Category and Pharmacy Type [Among Plans with 3-Tiered Cost-Sharing]



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 medication, while mail-order typically cover 90-day supply.

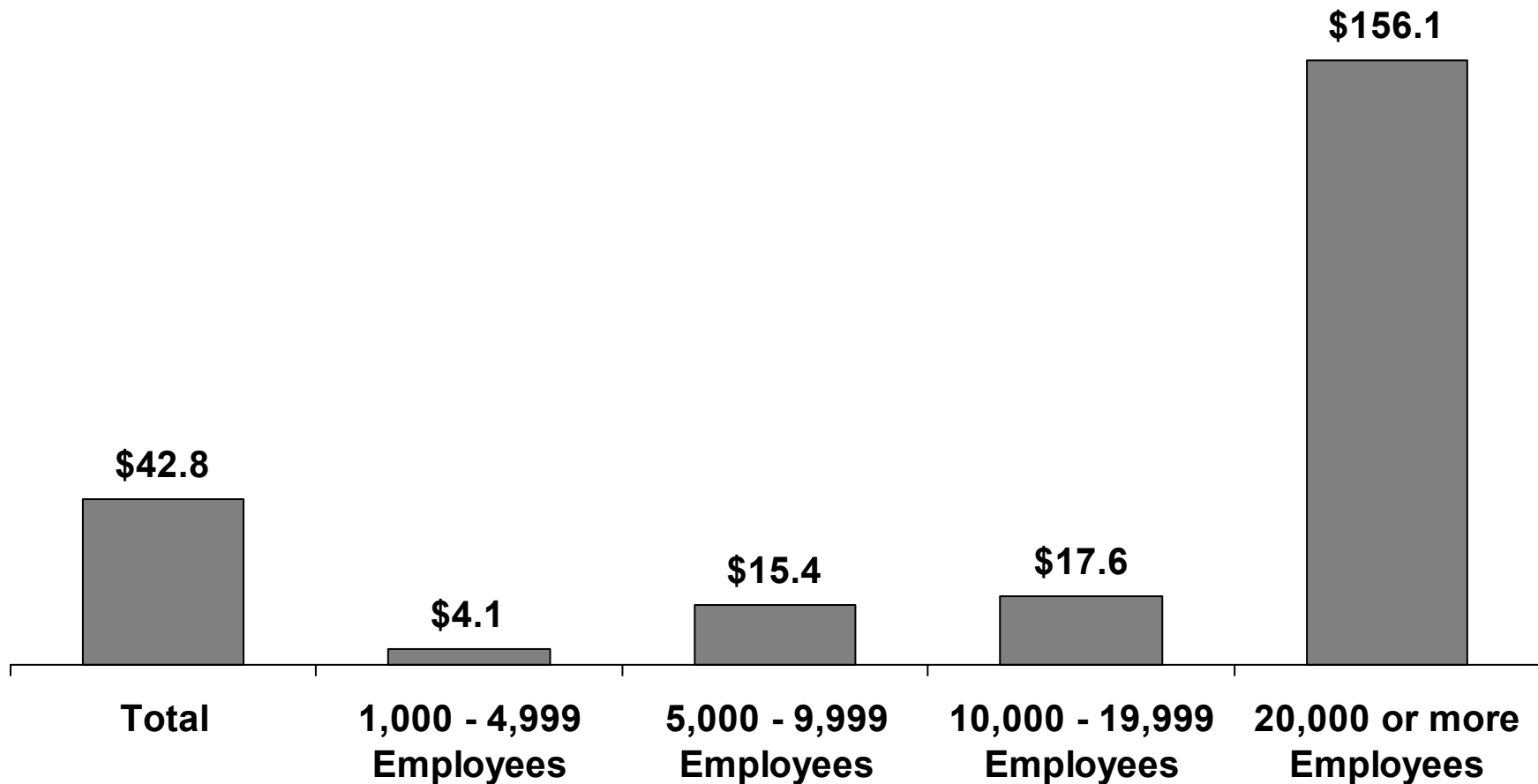
SOURCE: Kaiser/Hewitt 2003 Retiree Health Survey, January 2004.

# The Cost of Retiree Health

Exhibit 9

# Average Annual Total Cost of Providing Retiree Health Benefits, by Firm Size, 2002

(in millions)

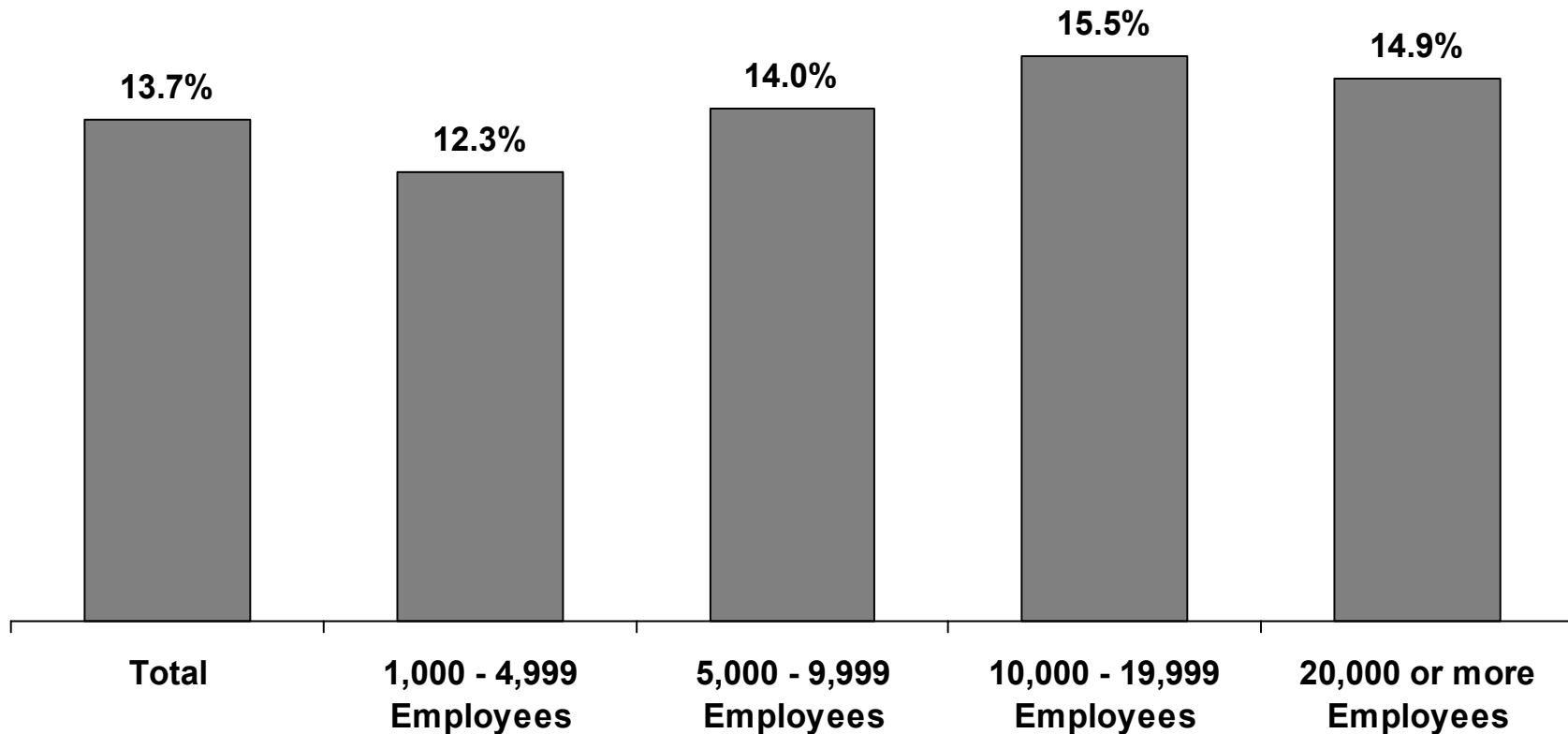


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 10

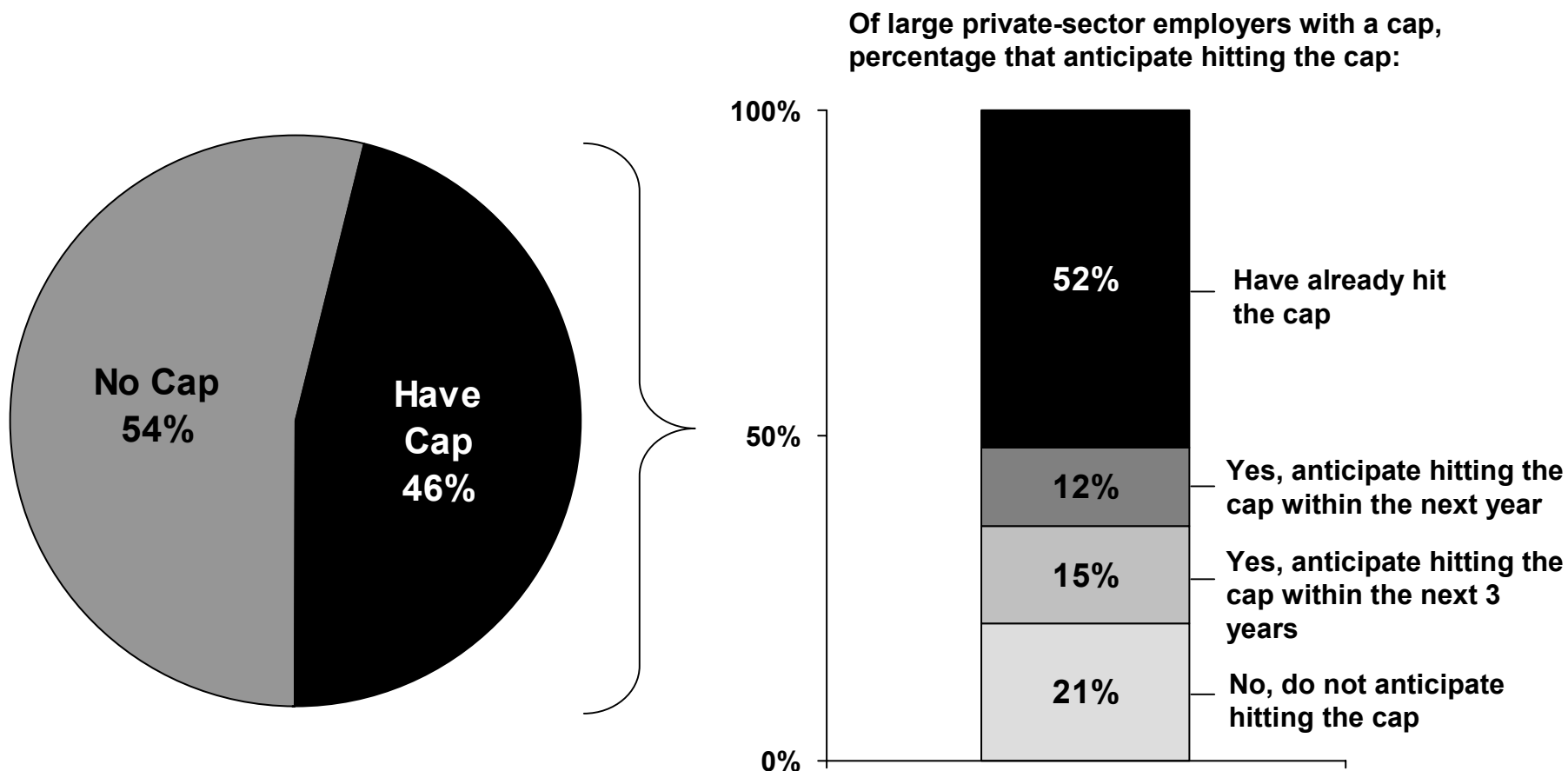
# Total Retiree Health Cost Increases, by Firm Size, 2002-2003

Total Costs of Retiree Health Benefits  
for All Surveyed Firms,  
2002 = \$18.1 billion  
2003 = \$20.6 billion



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

# Caps on Employer Contributions to Retiree Health Benefits For 65+ Retirees



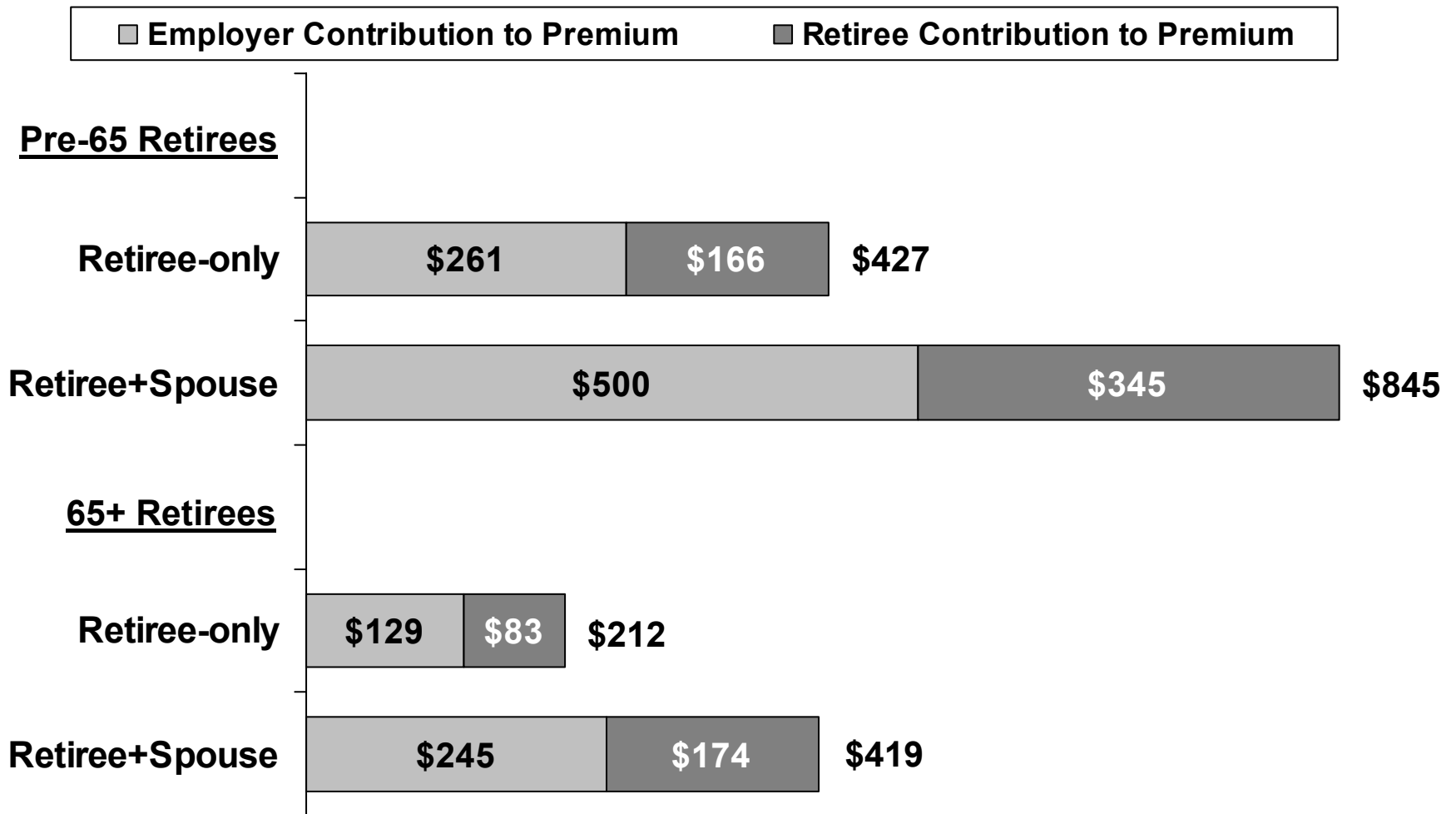
Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Premiums

# Premiums

- **Premiums vary by a number of factors**
  - **Demographics of retirees (e.g., age), geography, and firm size**
  - **Plan type and plan design**
  - **Years of service**
  - **Date of retirement**
- **Premiums typically higher for pre-65 retirees because employer plans are sole source of coverage**
  - **For 65+ retirees, employer plan is typically secondary to Medicare**
- **New retirees may pay substantially more than previous generations of retirees**

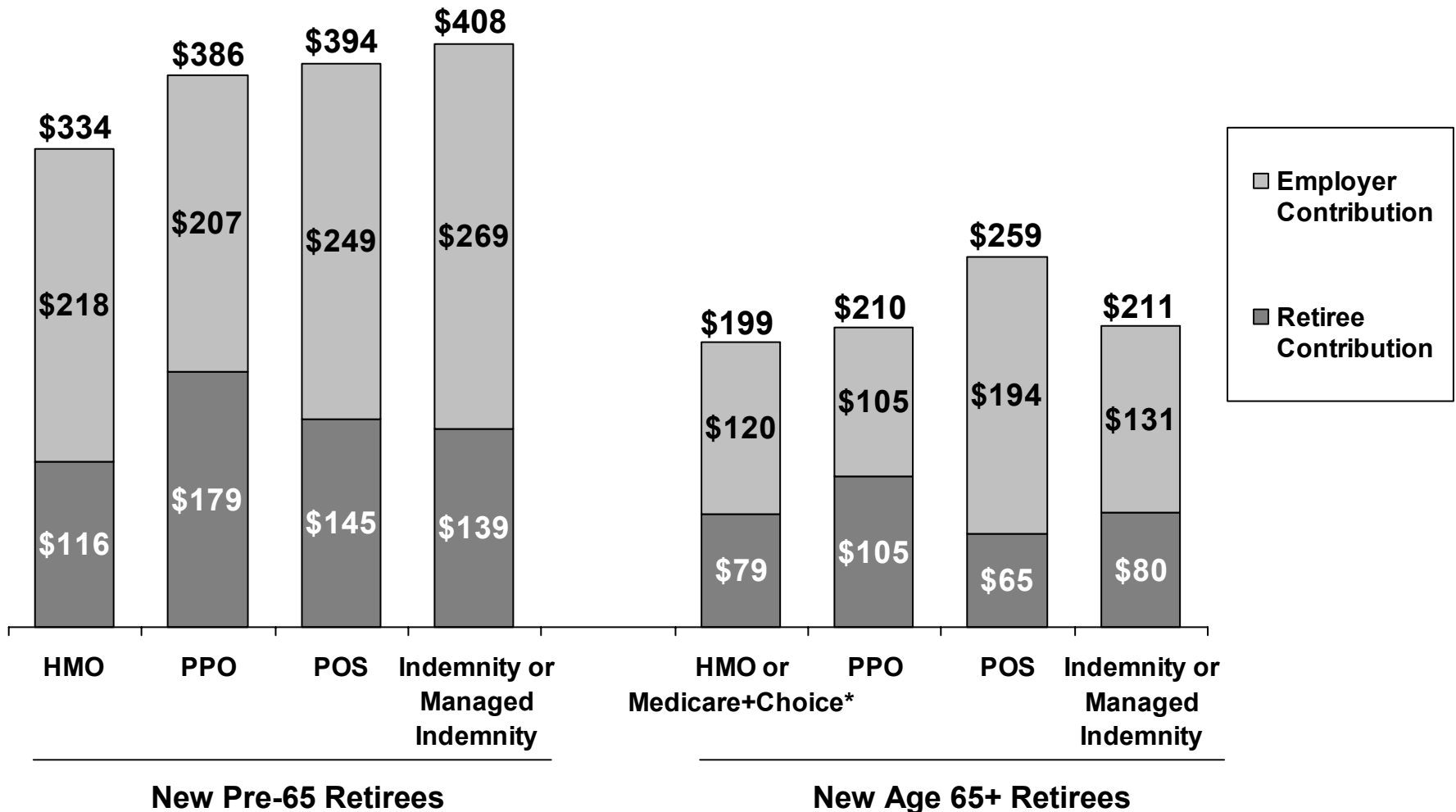
# Average Monthly Premiums for Those Retiring in 2003



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, 2003, in plans with the largest number of enrolled retirees. Premiums are weighted by employer size and number of retirees in employers' largest plan. Includes firms that do not require retirees to pay any portion of the premium.

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

# Average Monthly Premiums for Those Retiring in 2003, by Plan Type



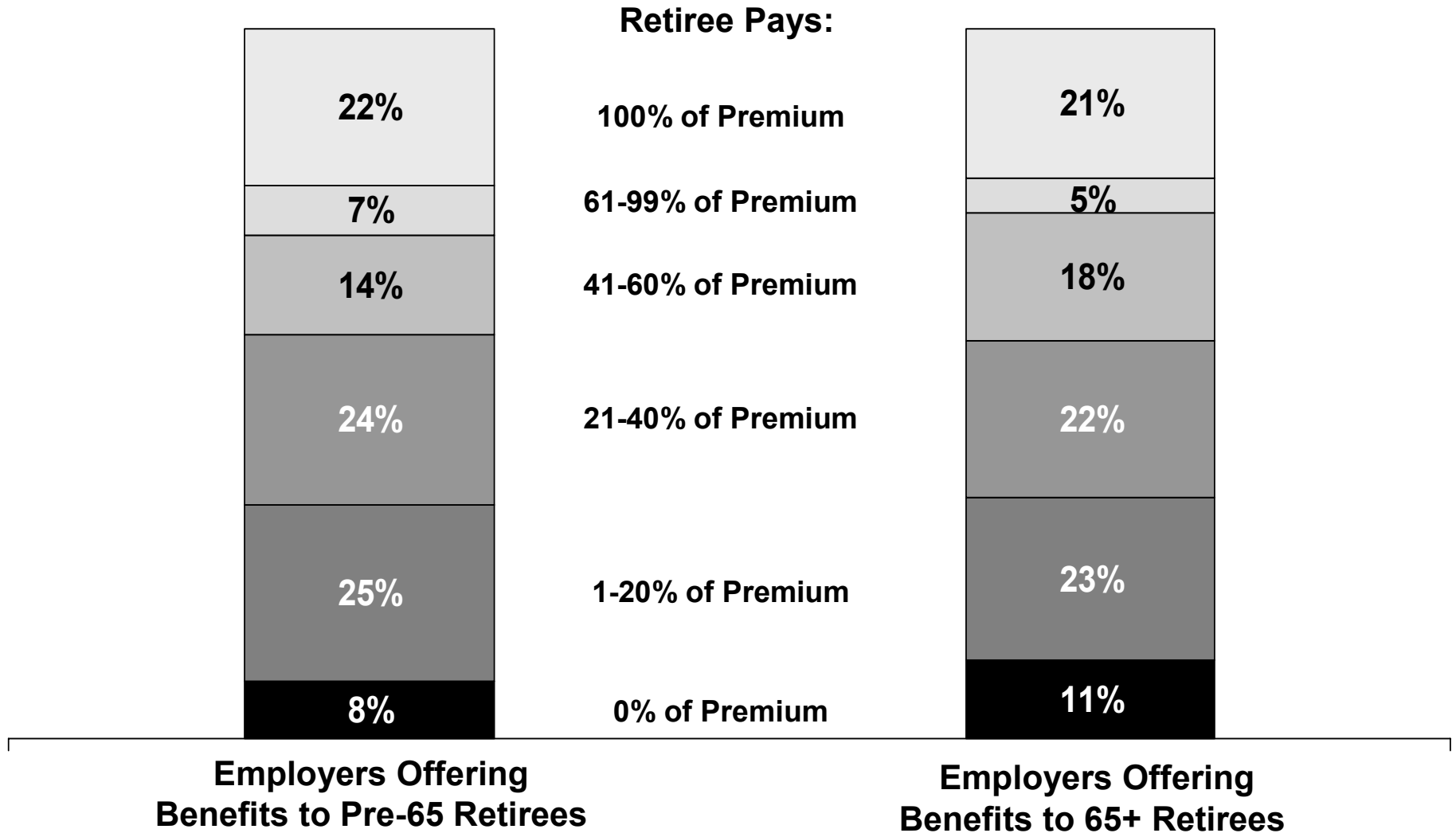
\*Medicare+Choice for 65+ retirees only.

Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003, in plans with the largest number of enrolled retirees. Includes firms that do not require retirees to pay any portion of the premium.

SOURCE: Kaiser/Hewitt 2003 Retiree Health Survey, January 2004.

# Distribution of Employers by Share of Premium Paid by Retirees

On average, retirees pay 39% of the total premium

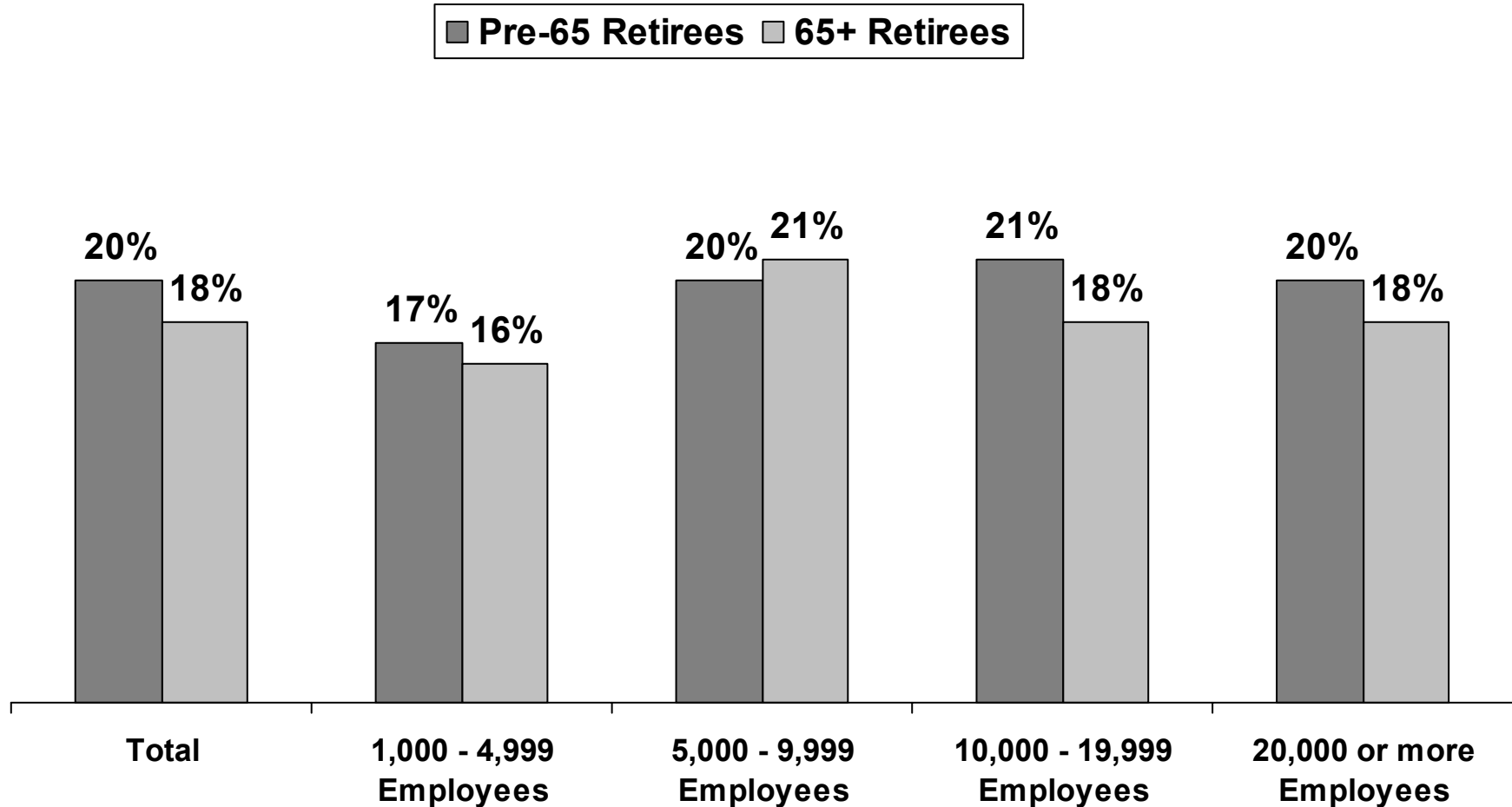


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 16

# Average Annual Increase in Retiree Contributions for Those Retiring in 2002 vs. Those Retiring in 2003, by Firm Size



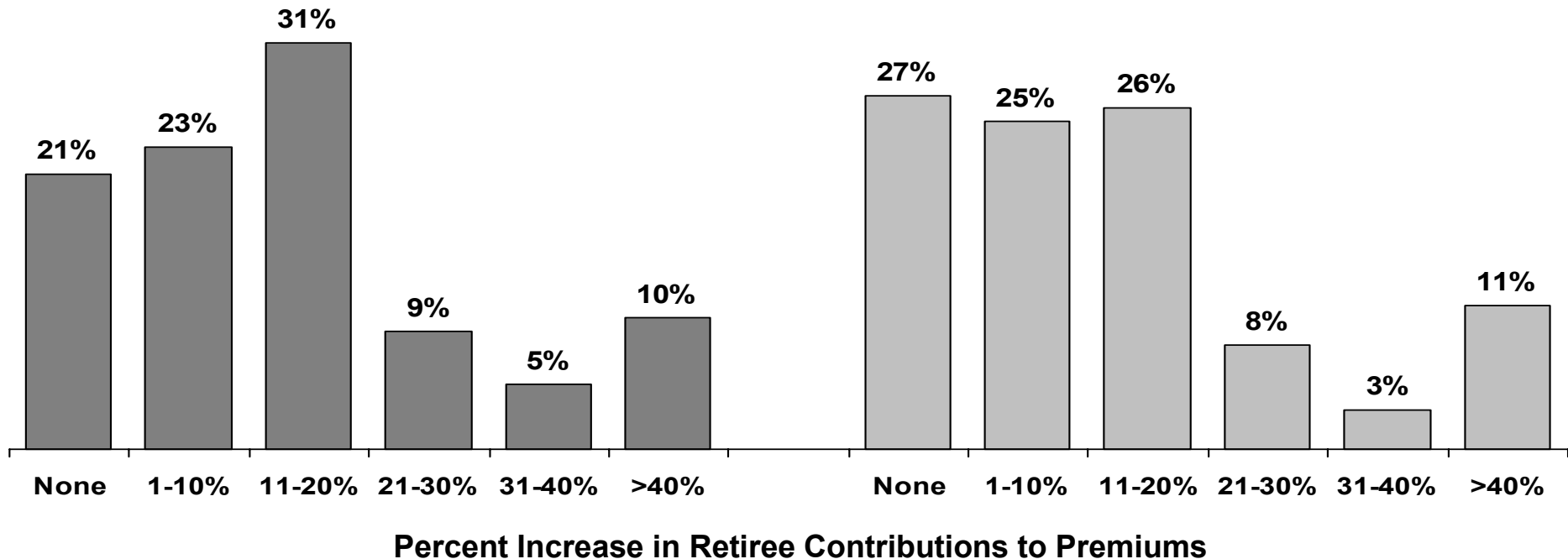
Note: "Total" represents weighted average increase. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees newly retiring in 2002 and 2003, respectively, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

# Share of Employers by Percent Increase in Retiree Contributions to Premiums for Those Retiring in 2002 vs. Those Retiring in 2003

**Pre-65 Retirees:**

**Age 65+ Retirees:**



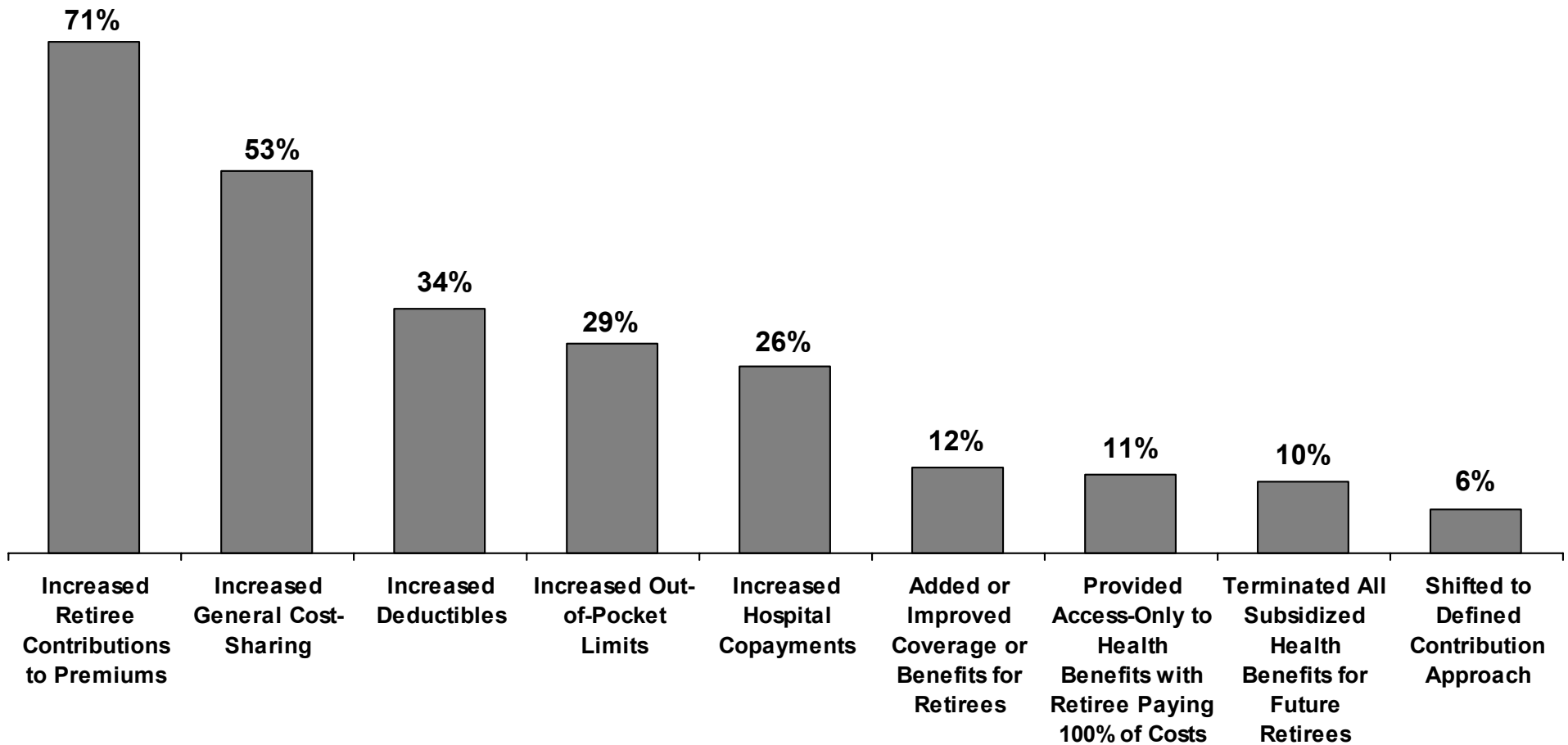
Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees newly retiring in 2002 and 2003, respectively, in plans with the largest number of enrolled retirees. Figures do not add to 100% due to rounding.

SOURCE: Kaiser/Hewitt 2003 Retiree Health Survey, January 2004.

# Past and Future Changes

# Changes to Retiree Health Benefits in the Past Year

Percentage of large private-sector employers making the following changes:

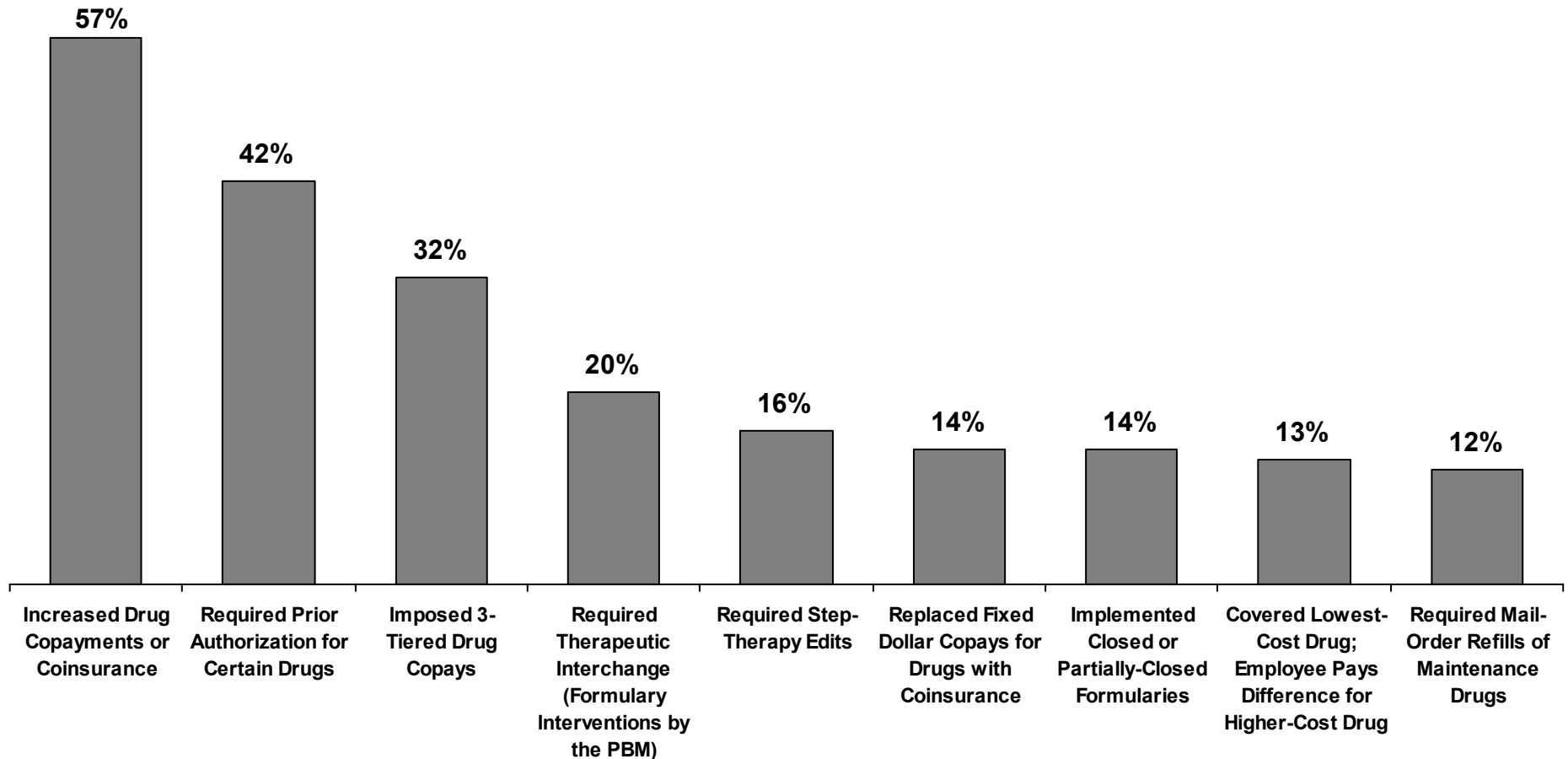


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
 SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 19

# Changes to Manage Retiree Prescription Drug Costs in the Past Year

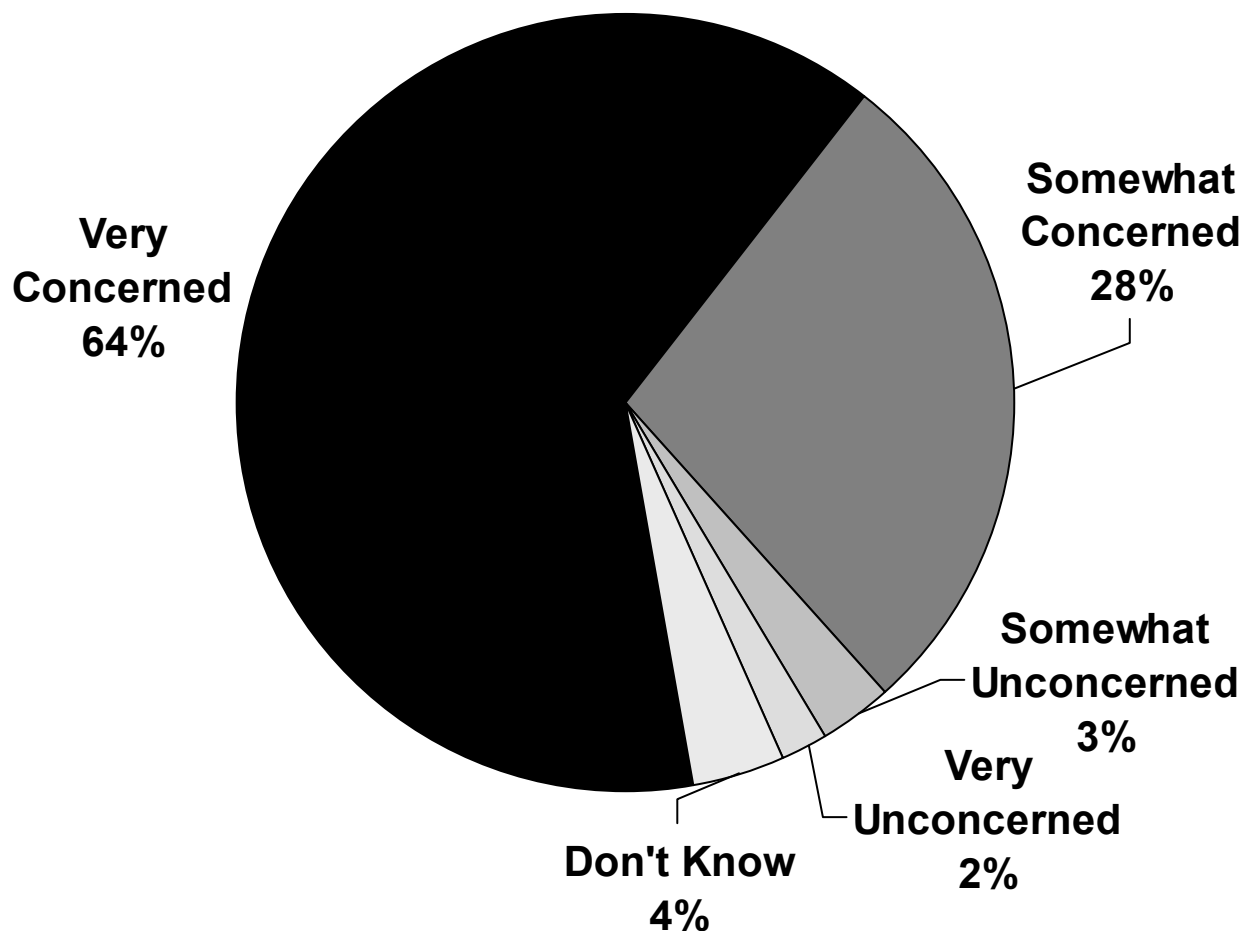
Percentage of large private-sector employers making the following changes:



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 20

# How Concerned Are CEOs About Retiree Health Costs?

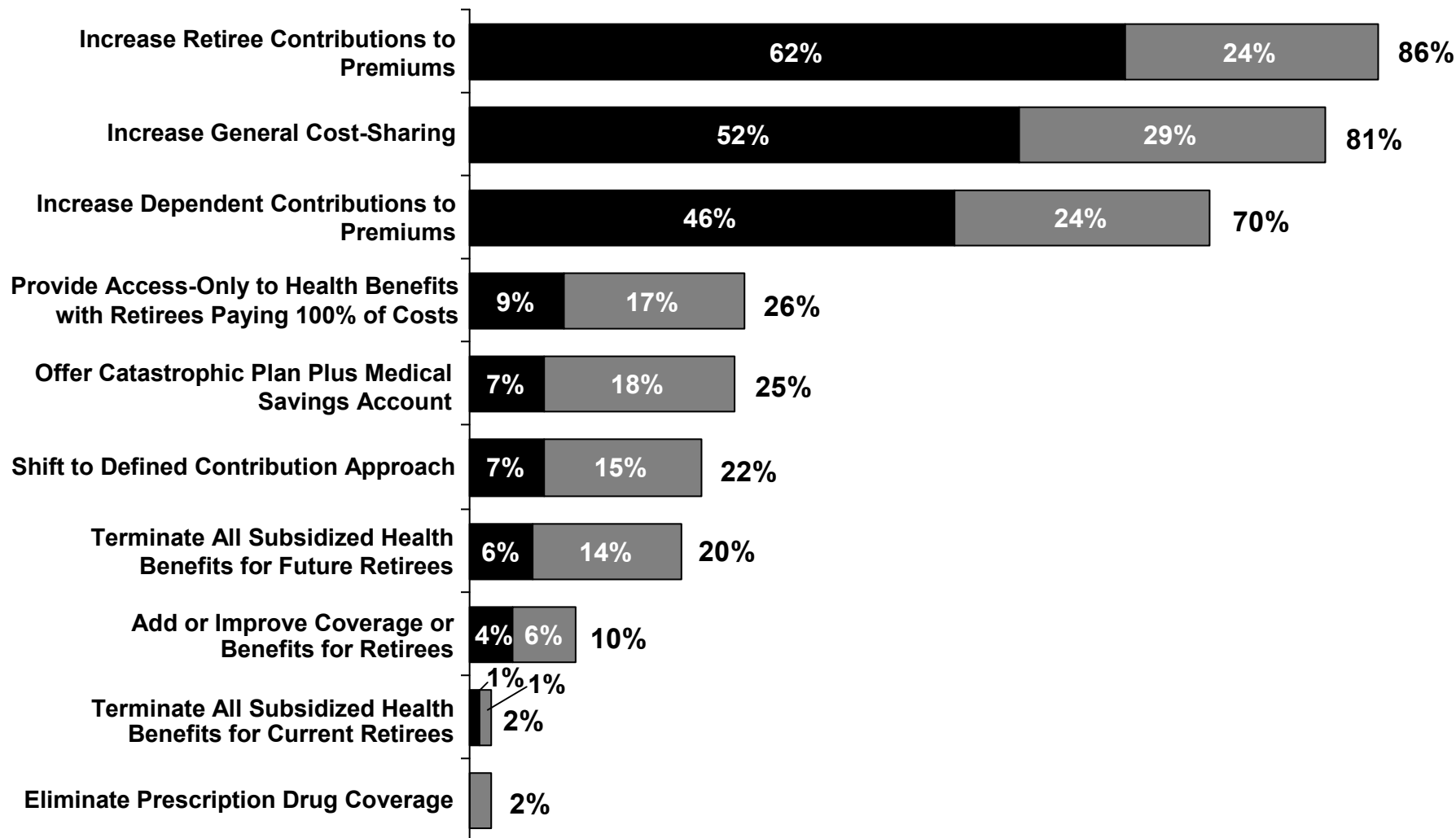


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Reflects responses to the question, "To the best of your knowledge, how much would you say your firm's CEO is concerned about retiree health care costs?" Figures do not add to 100% due to rounding.  
SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 21

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

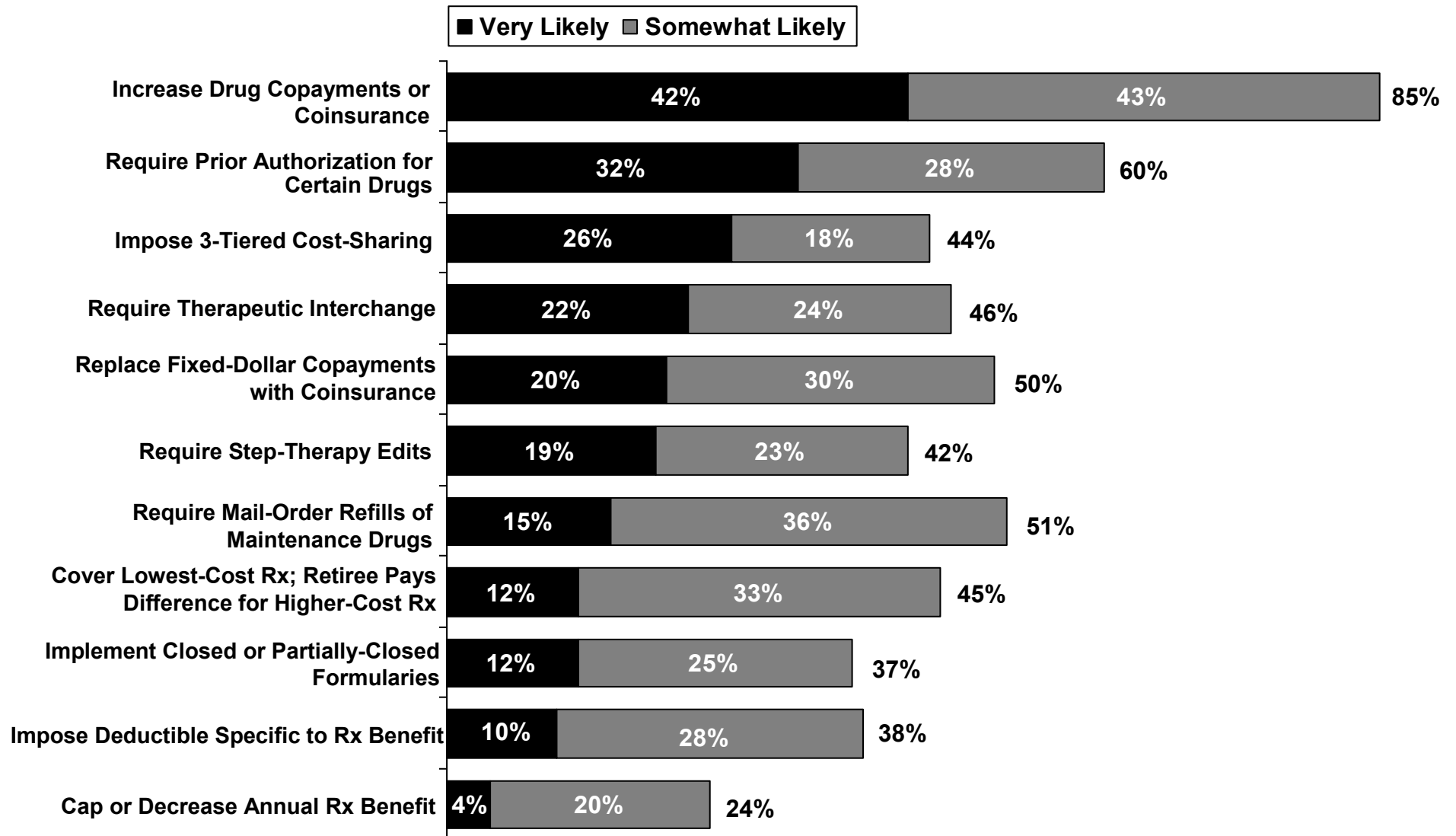
■ Very Likely ■ Somewhat Likely



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
 SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 22

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



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
 SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

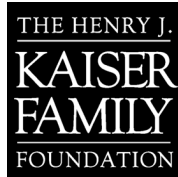
## Conclusion/Perspectives

- **In 2003 – before enactment of Medicare law – retiree plans offer generous benefits valued by retirees, but increasingly costly to maintain**
  - **Pressure on companies to balance retiree health costs with business needs, costs of other employee benefits, and global competition**
  - **Demographic pressures as well: 2:1 worker/retiree ratio**
- **Current retirees appear largely shielded from terminations, but future uncertain for current workers (future retirees)**
  - **Many will see plan design changes in the near future**
  - **20% of employers say they are likely to terminate subsidized benefits for future retirees (often new hires)**
- **Employer reactions to new Medicare legislation are still being formulated and will play out over several years**
  - **Tax-free subsidies may help alleviate some cost pressure**
  - **Policymakers will be closely tracking subsequent trends**

## Survey Methods

The Kaiser Family Foundation/Hewitt Associates 2003 Survey of Retiree Health Benefits reports findings from a survey of 408 large private-sector firms (with 1,000 or more employees) that currently offer health benefits to retirees. These firms employ 8.3 million employees and have 3.6 million retirees, and provide health benefits that impact the lives of an estimated 20.8 million workers and family members and 5.9 million retirees and family members. These employers provide health benefits to an estimated 3.9 million Medicare-eligible retirees and their spouses, representing a third of the roughly 12 million nonfederal retirees with employer-sponsored health coverage. The overwhelming majority (90 percent) are multi-state employers that represent a broad range of manufacturing (45 percent) and non-manufacturing (55 percent) industries. In terms of employee size, 42 percent of surveyed companies have 1,000 to 4,999 employees, 19 percent have 5,000 to 9,999 employees, 15 percent have 10,000 to 19,999 employees, and 24 percent have 20,000 or more employees.

The survey was conducted online between June and September 2003. All premium and benefit design information presented in this report reflects responses for the surveyed employers' retiree health plans with the largest number of enrolled retirees. Such plans represent the majority of retirees with health coverage among surveyed employers. Premium information presented is for individuals who retire on or after January 1, 2003 – referred to as “new retirees.” 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.



# Hewitt

**The Henry J. Kaiser Family Foundation**  
2400 Sand Hill Road  
Menlo Park, CA 94025  
Phone: (650) 854-9400 Fax: (650) 854-4800

Washington Office:  
1330 G Street, NW  
Washington, DC 20005  
Phone: (202) 347-5270 Fax: (202) 347-5274

[www.kff.org](http://www.kff.org)

**Hewitt Associates**  
100 Half Day Road  
Lincolnshire, IL 60069  
(847) 295-5000

[www.hewitt.com](http://www.hewitt.com)

Additional copies of this publication (#6113) are available on  
the Kaiser Family Foundation's website at [www.kff.org](http://www.kff.org).