

PROSPECTS FOR RETIREE HEALTH BENEFITS AS MEDICARE PRESCRIPTION DRUG COVERAGE BEGINS

**Findings from the Kaiser/Hewitt 2005
Survey on Retiree Health Benefits**

**APPENDIX
METHODS**

Appendix: Methods

Survey Approach

This survey, conducted by Kaiser Family Foundation and Hewitt Associates, was designed to capture information on retiree health programs offered to Medicare-eligible retirees by large private-sector employers having at least 1,000 employees. The survey focuses on large employers because they are significantly more likely than small and mid-sized employers to offer retiree health benefits.

By design, the Kaiser/Hewitt survey focused exclusively on large private employers that currently provide retiree health coverage, rather than surveying employers who do not offer coverage. This survey is based on a non-probability sample of large employers because there is no database that identifies all private-sector firms offering retiree health benefits from which a random sample could be drawn. A list of approximately 1,800 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

Despite interest in examining trends in this area, comparisons between the new 2005 findings and results from the 2004 Kaiser/Hewitt survey are somewhat limited. Given the nonrandom nature of this sample and the fact that the samples each year include different companies offering different plans, study findings may not be strictly comparable from year to year.

The survey was conducted between June 21 and October 7, 2005 and completed by human resources professionals at each of the firms. Most employers were e-mailed a note inviting them to participate in the survey; the remaining employers were invited via a letter. Both the e-mail note and the letter provided employers with a link to a website through which they 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 e-mail. Overwhelmingly, employers chose the online survey, with 97 percent completing the survey in that manner, versus 3 percent that completed and returned the printed questionnaire.

Characteristics of Participating Employers

Overall, 335 employers responded to the survey. Employers not providing coverage, those with fewer than 1,000 employees, and government employers were excluded, leaving a total of 300 large private employers whose responses are included in the survey analysis. These employers represent 32 percent of Fortune 100 companies and 33 percent of Fortune 500 companies. The surveyed employers include one-quarter (27 percent) of the Fortune 500 companies with the largest retiree health liabilities in 2004.

Most (279) of the surveyed employers provide retiree health coverage to both pre-65 and age 65+ retirees, but some only provide coverage to either pre-65 or age 65+ retirees, but not both. There are 297 employers that provide pre-65 coverage and 282 that provide coverage to age 65+

retirees. The overwhelming majority (87 percent) of surveyed employers are multi-state companies that represent a broad range of manufacturing (44 percent) and non-manufacturing (56 percent) industries. Sixteen percent of surveyed employers are large subsidiaries of a parent organization.

The 300 surveyed employers reported having 6,322,442 employees, with an average of 21,075 employees per employer and a median of 7,550 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 15.8 million employees and family members.

The surveyed employers reported a total of 3,446,024 pre-65 and age 65+ retirees, with an average of 11,487 retirees and a median of 1,800 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 5.7 million retirees and family members. The employers in this sample provide health benefits to an estimated 3.9 million Medicare-eligible retirees and their spouses, representing more than a quarter of the roughly 12 million retirees on Medicare with employer-sponsored health coverage.

In terms of the overall distribution of firms, 36 percent have 1,000 to 4,999 employees, 22 percent have 5,000 to 9,999 employees, 19 percent have 10,000 to 19,999 employees, and 23 percent are “jumbo” firms with 20,000 or more employees (Table A1).

Total Cost of Retiree Health Benefits in 2004

Among surveyed employers, the total cost (employer and retiree share) of providing retiree health benefits to pre-65 retirees, age 65+ retirees, and dependents was \$20.8 billion in 2004. The total was derived by taking the average total cost by firm size for the 253 surveyed employers who responded to the total cost question, and applying that average cost per size of firm to the 47 employers who did not respond to the question. This resulted in a total cost of \$3.2 billion for the 47 non-responding employers added to the \$17.6 billion for the 253 responding employers.

The total cost of retiree health coverage of firms in this study represents more than a quarter (29 percent) of the total estimated cost of health coverage for active workers, retirees, and dependents. To calculate this estimate, the total dollar expenditures for the respondents were estimated assuming that the premium for the largest retiree plan is a fair representation of the cost for the other retiree plans offered. The total retiree premium was therefore set equal to the total retiree count times the premium for the largest plan. Given that, for most respondents, the largest retiree plan represents a significant portion of retirees (79 percent, on average), this should provide a reasonable proxy of total cost. The cost for active employees was estimated assuming that the active participating employer had costs equal to the average active employee cost in Hewitt Associates' 2005 Hewitt Health Value Initiative (HHVI) survey that collects detailed active employee plan costs for over 400 major employers. Using this active employee cost (\$6,707 per employee) multiplied by the total employee count provided by respondents yields the expected medical plan premiums for workers.

Premiums

In this report, the term “total premium” includes both the employer and 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 (84 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, the term “premium” includes “premium equivalents.”

The total premium and retiree contribution information is gathered with respect to the surveyed employer’s retiree health plan with the largest enrollment of age 65+ retirees. 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 newly retiring on or after January 1, 2005, to minimize survey burden on respondents and maximize the number of responses. 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 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 facilitate employer responses, the survey questions asked employers to indicate where the total premiums and retiree contributions fell within a fairly narrow range of premium amounts, and the analysis is conducted based on the midpoint of the ranges. For example, an employer might indicate that their monthly total premium ranged between \$301 and \$350 and that the percentage that the retiree contributes toward the premium ranged between 41 percent and 50 percent.

To address the variation in retiree and employee populations among firms in the survey sample, the average total premium per retiree and the average per retiree contribution toward the total premium were weighted 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 2005 over 2004 is weighted similarly.

In this year’s report, the weighted average retiree contribution toward the total premium is calculated and reported in two ways. First, the study reports an average that includes the contribution amount reported by every firm, including contributions of \$0 (some firms do not require their retirees to pay any portion of the monthly premium). In addition, the survey reports a second average retiree contribution, which excludes from the calculation those firms whose retirees pay nothing (or \$0) towards the premium. This second reported average sheds some additional light on the issue of retiree costs, particularly among the vast majority of firms that

require retirees to pay part of the monthly premium. Finally, the retirees' share of the total premium was computed by dividing the 2005 retiree contribution reported for new retirees by the 2005 total premium reported for new retirees.

Medicare Cost Savings

The survey asked employers to indicate the average dollar savings per individual retiree that would result from the Medicare drug benefit in 2006. Employers reported their savings per individual retiree within pre-defined ranges (e.g., \$600 to \$649/year). Using the midpoint of these ranges, we calculated average savings across employers, weighted by firm size and the average number of age 65+ retirees. By doing so, the average savings per individual retiree of larger firms with a greater number of retirees is weighted more heavily than the relatively smaller firms that have fewer retirees. Employers that reported no savings attributable to their Medicare strategy were excluded from the analysis.

For companies that report using multiple strategies in response to the Medicare drug benefit (9 percent of surveyed employers), their savings were allocated to the 28 percent retiree drug subsidy and supplement calculations, respectively, based on the percentage of retirees included in each strategy, as reported by the surveyed companies. For example, if a company had 10,000 age 65+ retirees and said that 80 percent of retirees would be under the subsidy strategy and 20 percent under the supplement, we included 8,000 retirees and their savings under the subsidy analysis and 2,000 under the supplement analysis.

Medicare savings as a percentage of total retiree health costs was calculated by taking the total savings for each employer (i.e., savings per individual retiree multiplied by the total number of the employer's age 65+ retirees) and dividing that sum by that employer's estimated 2005 total cost (employer and retiree share) of providing retiree health benefits to pre-65 and age 65+ retirees. We then calculated the median percentage savings among these companies.

Table A1

| 2005 Sample Characteristics, by Firm Size | | | | | |
|--|--------------|----------------------------------|----------------------------------|------------------------------------|-------------------------------------|
| | Total | 1,000-4,999 Employees | 5,000-9,999 Employees | 10,000-19,999 Employees | 20,000 or More Employees |
| Number of Firms | 300 | 109 | 66 | 57 | 68 |
| Firms as a Percent of Total | 100% | 36% | 22% | 19% | 23% |
| Number of Retirees | 3,446,024 | 129,805 | 200,657 | 324,834 | 2,790,728 |
| Number of Workers | 6,322,442 | 272,749 | 468,617 | 789,519 | 4,791,557 |

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

SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005

Table A2

| Age 65+ Retiree Enrollment in Plan with Largest Participation, by Firm Size, 2005 | | | | | |
|--|--|----------------------------------|----------------------------------|------------------------------------|-------------------------------------|
| | All Retirees Largest Plan | 1,000-4,999 Employees | 5,000-9,999 Employees | 10,000-19,999 Employees | 20,000 or More Employees |
| Average Number of Retirees in Largest Plan | 5,189 | 456 | 1,407 | 2,224 | 18,730 |
| Average Percent of Retirees Covered in Largest Plan | 79% | 84% | 81% | 72% | 75% |

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

SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005.

Table A3

| Total Premiums and Age 65+ Retiree Contributions, by Firm Size, 2005 (Median and Mean) | | | | |
|---|----------------------------------|----------------------------------|------------------------------------|-------------------------------------|
| | 1,000-4,999 Employees | 5,000-9,999 Employees | 10,000-19,999 Employees | 20,000 or more Employees |
| Total Premium | | | | |
| Median | \$325 | \$275 | \$325 | \$275 |
| Mean | \$412 | \$321 | \$380 | \$355 |
| Average Retiree Contribution | | | | |
| Median | \$124 | \$99 | \$124 | \$99 |
| Mean | \$188 | \$129 | \$157 | \$123 |

Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2005, in plans with the largest number of enrolled retirees. Retiree contribution amounts include firms that do not require retirees to pay any portion of the premium. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005.