

PROSPECTS FOR RETIREE HEALTH BENEFITS AS MEDICARE PRESCRIPTION DRUG COVERAGE BEGINS

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

SECTION 1

RETIREE HEALTH COVERAGE

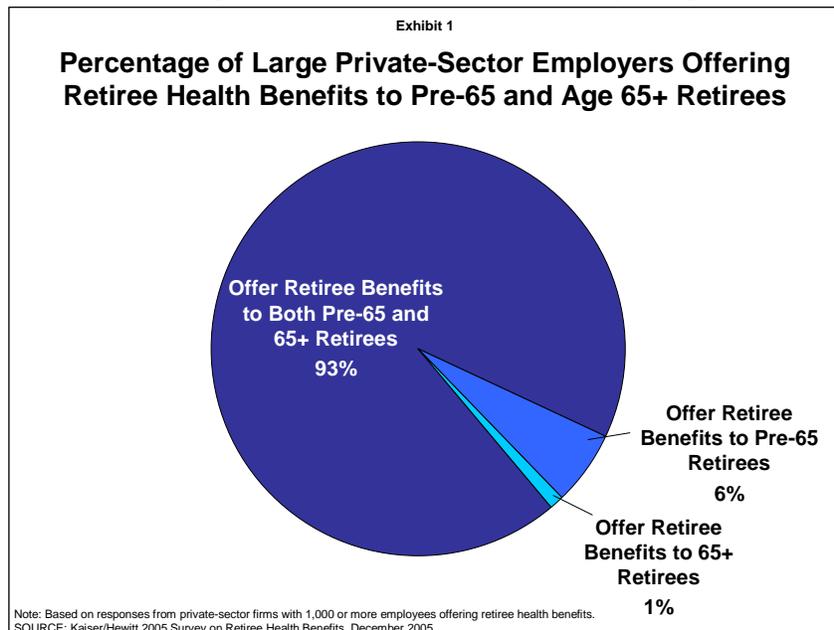
Retiree Health Coverage

The vast majority of large private-sector firms that offer retiree health benefits provide coverage to both their pre-65 and age 65+ retirees. Today, an estimated 3.6 million early retirees between the ages of 55 to 64 and their spouses receive health coverage from a former employer or union.⁹ For early retirees, employer-sponsored plans are typically the primary and only source of health insurance coverage. For more than 12 million retirees on Medicare,¹⁰ employer-sponsored plans supplement benefits covered under Medicare and provide additional cost-sharing protections, such as limiting retiree out-of-pocket expenses, which traditional Medicare fee-for-service does not provide. Employer plans have been the primary source of outpatient prescription drug coverage for people on Medicare prior to the availability of Medicare drug coverage in 2006.

Among firms that have both non-union and union employees, the majority offer retiree health coverage to salaried, hourly, and grandfathered employees. Part-time employees, however, are far less likely to be offered retiree health benefits. The majority of firms in this survey say they offer retiree health benefits to employees newly hired as of January 1, 2005. Typically, employees must meet specific age and service criteria to qualify for retiree health benefits. In addition to retired workers, surveyed employers generally offer health benefits to spouses and other dependents.

Retiree Health Coverage for Pre-65 and Age 65+ Retirees

- 93 percent of surveyed employers providing retiree health benefits offer this coverage to both pre-65 and age 65+ retirees, 6 percent of employers offer retiree health benefits only to pre-65 retirees, and 1 percent offers such benefits only to age 65+ retirees (Exhibit 1).

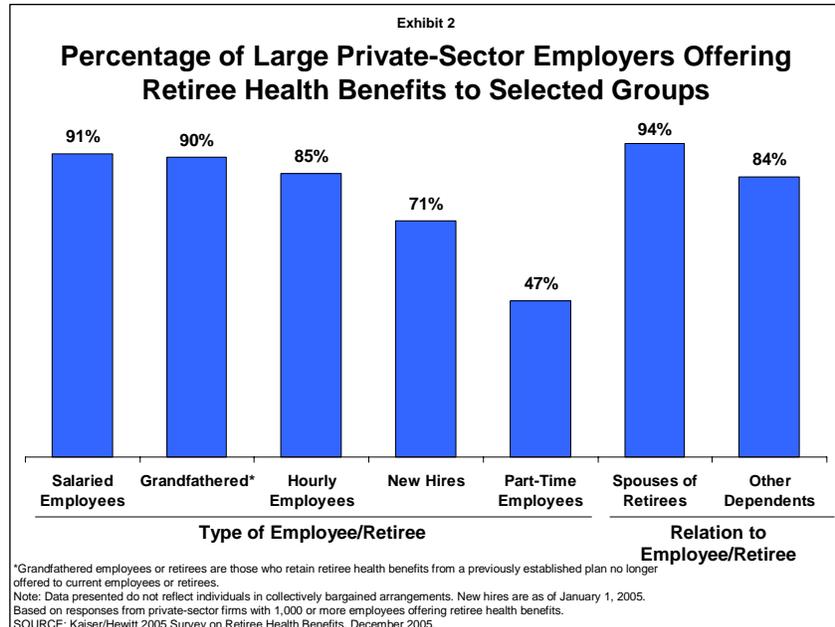


9 Kaiser Commission on Medicaid and the Uninsured and Urban Institute Analysis of the March 2005 Current Population Survey, 2005.

10 Kaiser Family Foundation analysis of 2002 Medicare Current Beneficiary Survey Cost and Use File. Of the 14.7 million Medicare beneficiaries with employer sponsored coverage, 12.6 million were not working.

Who Is Offered Retiree Health Coverage?

- The vast majority of surveyed firms offer retiree health benefits to the following non-union employees and dependents (Exhibit 2):



- Salaried employees (91 percent of employers);
 - Hourly employees (85 percent);
 - Spouses (94 percent) and other dependents (84 percent); and
 - Grandfathered employees or retirees (90 percent). Grandfathered employees or retirees are those who retain retiree health coverage under the terms of a previously established employer-sponsored health plan that is no longer offered to current employees or retirees.
- Seven in 10 employers (71 percent) offer retiree health benefits to employees that are newly hired as of January 1, 2005.
 - About half of surveyed firms (47 percent) offer retiree health benefits to their non-union part-time workers.

With respect to surveyed firms with collectively bargained agreements (union employees):

- Employers generally provide retiree health benefits to their hourly employees, grandfathered employees or retirees, spouses and other dependents, and union employees newly hired as of January 1, 2005.
- A smaller share of surveyed employers offer retiree health benefits to union employees who work part-time.