

# **PROSPECTS FOR RETIREE HEALTH BENEFITS AS MEDICARE PRESCRIPTION DRUG COVERAGE BEGINS**

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

**SECTION 4  
PREMIUMS**

## Premiums

Total premiums for retiree health benefits – the sum of both employer and retiree contributions – vary widely.<sup>16</sup> As noted in previous Kaiser/Hewitt retiree health surveys, premiums are typically higher for pre-65 retirees, where the employer plan is generally the sole source of coverage, than for those age 65+, where the employer plan is typically secondary to Medicare. This 2005 survey gathers premium data solely for employees retiring at age 65 or older in 2005.

Retiree contributions to premiums can and often do vary widely depending on 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. 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 retirees.

Within the same firm, retiree contributions often differ based on the retiree's years of service with the company. In firms with service-related contributions, retirees with fewer years of employment typically pay a larger share of the total premium than others in the same firm with more years of service. Thus, employees retiring in the same year who are the same age and have the same health plan options could be subject to different retiree contributions.

All premium information collected in this survey refers solely to age 65+ retirees retiring in 2005 (referred to throughout as “new retirees”), 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 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.

Because there can be wide variations in premiums for retiree health coverage within the same firm, large employers were asked to provide an average total premium and average retiree contribution for those retiring on or after January 1, 2005 (new retirees) in the plan with the largest enrollment of age 65+ retirees. 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.<sup>17</sup>

In this section, we use two approaches to examine total premiums and retiree contributions to premiums. We present weighted average premiums to describe the experiences of retirees, and thus weight premiums and retiree contributions to premiums by firm size and number of retirees in each firm's largest health plan. We use the weighted average when presenting the average total

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<sup>16</sup> 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 (87 percent), one would expect a large percentage of these retiree health plans to be self-insured, rather than insured plans.

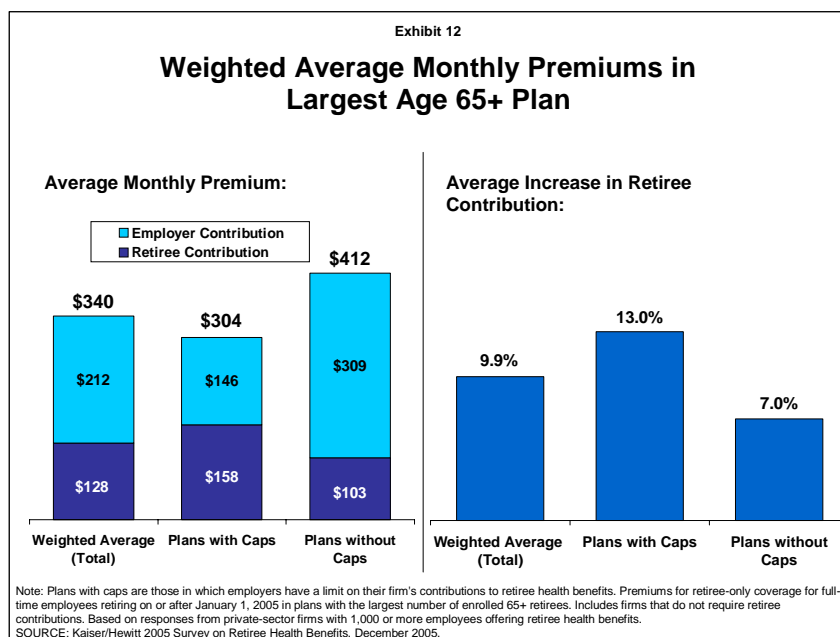
<sup>17</sup> For example, an employer might indicate that their monthly total premium ranged between \$301 and \$350, and that the percentage that the retiree contributes toward the premium ranged between 41 percent and 50 percent.

premium, the average retiree contribution to premium, the average share of total premiums paid by retirees, and the average annual increase in retiree contributions to premiums from 2004 to 2005.

We also present unweighted averages for some purposes. We use the unweighted average to show the distribution of employers by the share of premium paid by new retirees in the largest plan; the distribution of employers by the average annual increase in retiree contributions to premiums, 2004 to 2005; and the average annual increase in retiree contributions to premiums, by firm size, 2004 to 2005.

## Total Premiums

- The average weighted total premium (employer and retiree contributions combined) in 2005 is \$340 per month for new age 65+ retirees in the firms' largest plan (Exhibit 12).
  - The average weighted total monthly premium for new age 65+ retirees in the largest plan is lowest for firms with 5,000-9,999 employees (\$321 per month) and highest for smaller firms with 1,000-4,999 employees (\$412 per month).

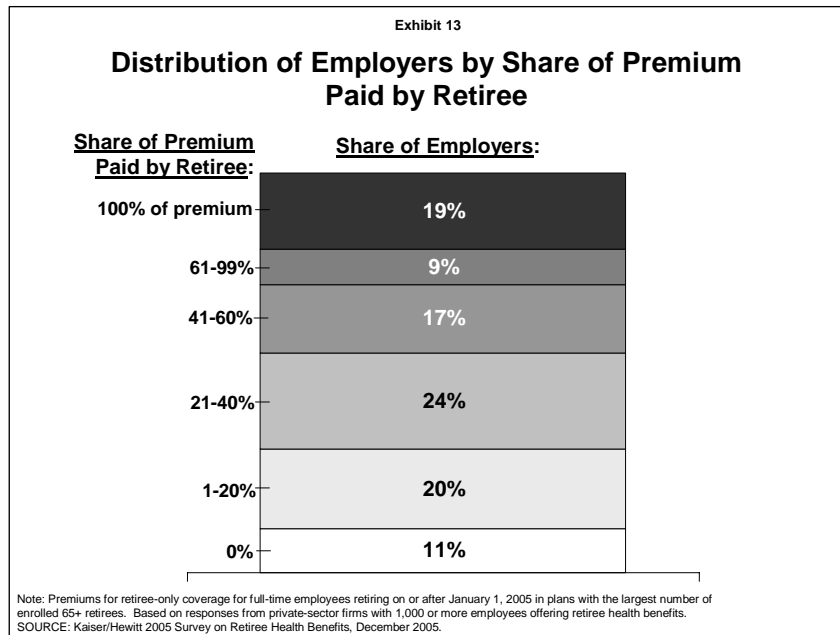


## Retiree Contributions

Nearly all employers require new age 65+ retirees to share in the cost of retiree health coverage by contributing to the total monthly premium; however, the share of the total premium and the actual contribution varies considerably across firms.

- 89 percent of surveyed firms report that new age 65+ retirees enrolled in the firms' largest plan make a contribution to the total monthly premium; 11 percent do not require retirees to contribute to the total premium (Exhibit 13).

- 19 percent of surveyed firms report that new age 65+ retirees in the largest plan pay 100 percent of the total premium for their health insurance coverage.



- The weighted average retiree contribution for new age 65+ retirees in 2005 is \$128 per month for retiree-only coverage in health plans with the largest number of age 65+ retirees (Exhibit 12). When firms that do not require retirees to pay any portion of the premium are excluded, the weighted average contribution for new age 65+ retirees increases to \$156 per month.
  - On average, retiree contributions for age 65+ retirees vary by firm size, with higher retiree contributions in firms with 1,000-4,999 employees (\$188) than in firms with 20,000 or more employees (\$123).<sup>18</sup>
  - Weighted average retiree contributions to premiums are higher in plans that are capped (\$158/month) than in plans that are not capped (\$103/month) (Exhibit 12).
- New age 65+ retirees in the largest plan pay an average of 38 percent of the total premium, when weighted by the number of retirees across all surveyed firm.
  - As expected, retiree contributions as a share of total premium are higher among plans that have a financial cap on the employer obligation. The weighted average retiree contribution is 52 percent of the total premium in the largest plans with caps, versus 25 percent in the largest plans not subject to caps.

<sup>18</sup> Except as otherwise noted average 65+ retiree contribution amounts and retiree contributions as a share of total premiums include firms that do not require retirees to pay any portion of the total premium.

## **Increase in Retiree Contributions**

- The weighted average increase in retiree contributions between 2004 and 2005 was 9.9 percent for new age 65+ retirees in plans with the largest number of retirees (Exhibit 12).<sup>19,20</sup>
  - The average increase in retiree contributions was slightly higher for firms with fewer than 10,000 employees (12 percent) than it was for larger firms.
  - The average increase in retiree contributions was also greater in firms with a financial cap on the employer's obligation: 13 percent versus 7 percent for retirees in plans without a cap (Exhibit 12).

## **Distribution of Employers by Change in Retiree Contributions, 2004 to 2005**

- Nearly one-third (31 percent) of employers report no change in age 65+ retiree contributions in the largest health plan between 2004 and 2005 (Exhibit 14). However:
  - 27 percent report an increase of 10 percent or less;
  - 26 percent report an increase of between 11 and 20 percent for new retirees;
  - 9 percent report an increase of between 21 and 30 percent, and
  - 6 percent report an increase in retiree contributions of 30 percent or more.
- More than half of surveyed employers (58 percent) increased retiree contributions to premiums at the same rate or at a lower rate than total costs increased between 2004 and 2005.
- Among the remaining 42 percent of employers, retiree contributions increased at a faster rate than did total premiums between 2004 and 2005. In these firms, however, retirees tended to pay a lower share of the total premium (34 percent on average, in 2004) than did retirees whose contributions to premiums grew at a slower rate than total premiums (50 percent on average).

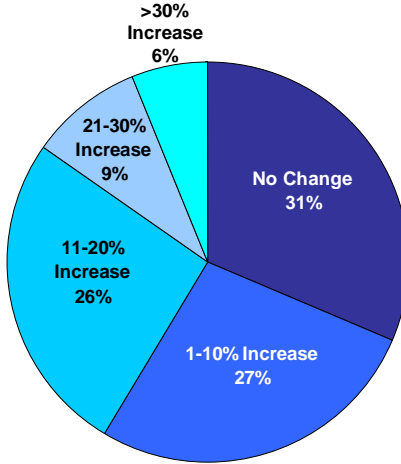
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<sup>19</sup> The 65+ weighted average increases reported in this section include those firms that reported no change, i.e., a zero percent increase, in retiree contributions from 2004 to 2005.

<sup>20</sup> In general, the average increase in retiree contributions is lower than in previous years most likely because the underlying trend in 2004 was better than many had projected, allowing for something of a correction in 2005. Other participating companies may have been reluctant to increase premiums sharply in 2005 on top of significant retiree contribution increases in prior years, especially given the reduction in the overall cost trend between 2004 and 2005.

Exhibit 14

### Distribution of Employers by Reported Change in Retiree Contributions to Premiums, 2004 to 2005



Note: Numbers do not total 100% due to rounding. Retiree contributions to premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004 and January 1, 2005, respectively, in plans with the largest number of enrolled 65+ retirees. 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.