PROSPECTS FOR RETIREE HEALTH BENEFITS AS MEDICARE PRESCRIPTION DRUG COVERAGE BEGINS

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

SECTION 5

CHANGES MADE BY LARGE EMPLOYERS BETWEEN 2004 AND 2005

Changes Made by Large Employers Between 2004 and 2005

Under increasing pressure from cumulative rising costs, large employers as a group have, for years, been making annual changes to slow the growth in retiree health obligations. Not surprisingly, employers offering retiree health benefits made substantial changes to their retiree health benefit plans between 2004 and 2005. As observed in previous years, the majority of surveyed firms have increased retiree contributions to premiums, and over a third have increased general cost-sharing requirements for health care services in the past year. A much smaller share of employers in this survey – about one in eight – say they have terminated subsidized health benefits for future retirees entirely. While most reported changes suggest a reduction in benefits for retirees, 9 percent of surveyed employers report having added benefits or improved coverage for retirees between 2004 and 2005.

With nearly all large firms (99 percent) offering prescription drug benefits to age 65+ retirees, prescription drug costs have become a major focus of cost containment for large employers. As in prior years, large employers report having implemented a number of specific strategies to control rising drug costs. Nearly four in 10 surveyed employers report increasing copayments or coinsurance for retirees' prescription drugs between 2004 and 2005.

Coverage Changes Between 2004 and 2005

- Among large, private-sector firms currently offering retiree health benefits, 12 percent terminated all subsidized health benefits for <u>future</u> retirees between 2004 and 2005 (Exhibit 15).[21]

  – Three out of four employers that report they terminated coverage indicate that it was for non-union employees; one out of four employers terminating coverage report it was for union employees.

  – Most of the terminations reported by these employers primarily affect employees *hired* after a specific date rather than employees who will *retire* after a specific date.

  – Two out of three employers that say they terminated benefits for future retirees also indicate that they will provide access to health benefits, with these retirees paying 100 percent of the cost.

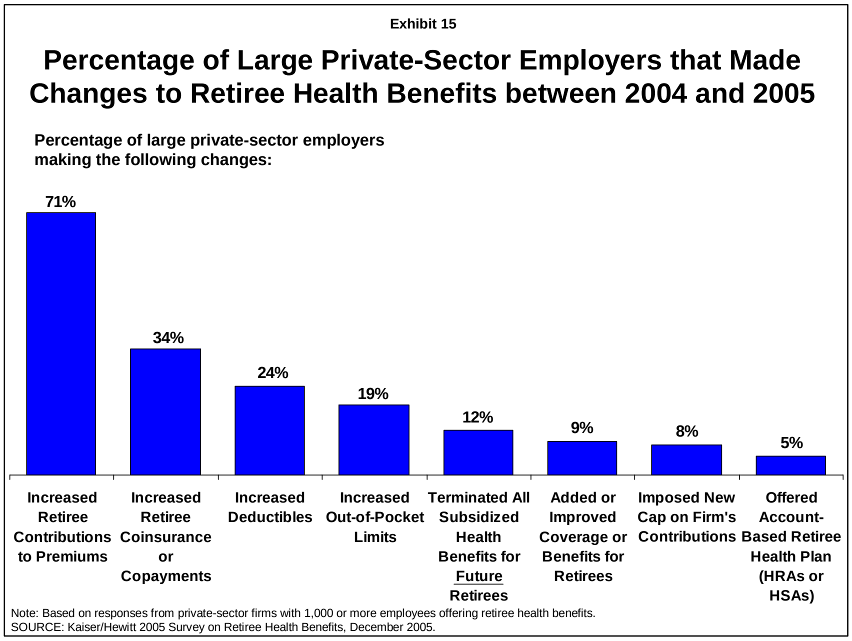
- 1 percent of surveyed employers say they terminated all subsidized retiree health benefits for current retirees in one or more plans offered. Eliminating dependent coverage is not a strategy used by surveyed firms.

- 5 percent say they offered an account-based retiree health plan, such as an HRA (health reimbursement arrangement) or HSA (health savings account).

[21] Between 2000 and 2005, a total of 127 companies in the annual Kaiser/Hewitt retiree health surveys have terminated subsidized health benefits for *future* retirees.

Cap on Firm Contributions Imposed Between 2004 and 2005

- In response to the rising cost of providing retiree health benefits, employers have imposed financial caps on their retiree health obligations. Eight percent of large employers say they imposed a new cap on their firm's contribution for a group of retirees for which there previously was no cap.



Retiree Contributions to Premiums

- 71 percent of surveyed employers report having increased retiree contributions to premiums in one or more plans between 2004 and 2005.

Cost Sharing

- Between 2004 and 2005, over one-third (34 percent) of surveyed employers report increases in retiree cost sharing in the form of copayments and coinsurance for a range of health care services.

- Surveyed employers made the following additional cost-sharing changes between 2004 and 2005:

  - 24 percent raised deductibles.

  - 19 percent raised retiree out-of-pocket limits.

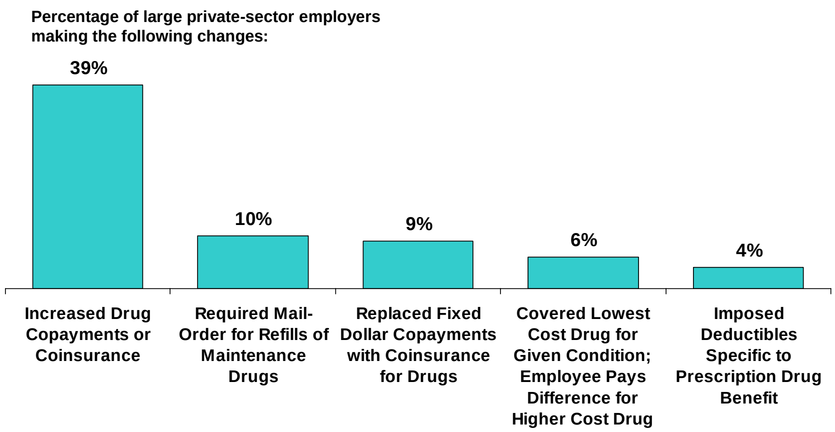
Prescription Drug Benefit Changes Between 2004 and 2005

Large employers implemented a variety of measures to control rising drug costs, including plan design changes that increase cost sharing for retirees, as well as strategies to manage utilization of prescription drugs (Exhibit 16).

- 39 percent of surveyed employers increased prescription drug copayments or coinsurance.
- 10 percent required mandatory use of mail-order for prescription refills or maintenance drugs.
- 9 percent replaced fixed dollar copayments with coinsurance for drugs, a potentially significant shift for retiree out-of-pocket spending and a potential incentive for retirees to use generic or lower-cost brand-name drugs.
- 6 percent covered the lowest-cost drug for a given condition and made the retiree pay the difference for a higher-cost drug.
- Imposing deductibles specific to the prescription drug benefit was far less common, with 4 percent of employers reporting this strategy.
- Firms did not move toward capping their annual drug benefit or covering only generic drugs, with less than one half of one percent of surveyed employers reporting that they made such changes.

Exhibit 16

Percentage of Large Private-Sector Employers that Made Changes to Retiree Prescription Drug Costs between 2004 and 2005



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005.