

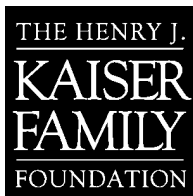
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Chartpack

# Prospects for Retiree Health Benefits as Medicare Drug Coverage Begins

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

December 2005



Hewitt

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This chartpack presents a summary of findings from the Kaiser/Hewitt 2005 Survey on Retiree Health Benefits. Complete survey findings are presented in the full report, *Prospects for Retiree Health Benefits as Medicare Drug Coverage Begins* (Publication #7439), available on the Kaiser Family Foundation's website at <http://www.kff.org/medicare/retiree.cfm>.

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# Purpose and Scope of Survey

## Context and Purpose for Survey

- **Retiree health plans are a critical source of relatively generous benefits**
  - Supplement to Medicare for more than 12 million retirees
  - Primary source of coverage for 3 million retirees 55-64
- **Declining share of companies are offering retiree health benefits**
  - Share of large employers offering retiree health benefits has declined from 66% in 1988 to 33% in 2005 (Kaiser/HRET)
  - Medicare Modernization Act hoped to stem erosion of coverage
- **Purpose of 2005 survey**
  - Provide a baseline of retiree health benefits and costs prior to Medicare drug coverage
  - Identify employer strategies in response to Medicare drug coverage in 2006 and subsequent years
  - Identify potential issue for retirees

## Exhibit 2

# Scope of 2005 Survey

- 2005 Kaiser/Hewitt survey includes 300 large (1,000+ employees) private-sector companies that offer retiree health benefits
- Sample represents 32% of Fortune 100 companies and 33% of Fortune 500 companies
- Survey focuses on coverage for age 65+ retirees on Medicare
- Online survey conducted between June and October 2005
- Benefits impact 5.7 million retirees and family members
  - Nearly 4 million are Medicare-eligible retirees and spouses
- Total retiree health costs among surveyed employers was \$20.8 billion in 2004
  - Estimated \$22.9 billion in 2005

## Overview of Retiree Health Coverage

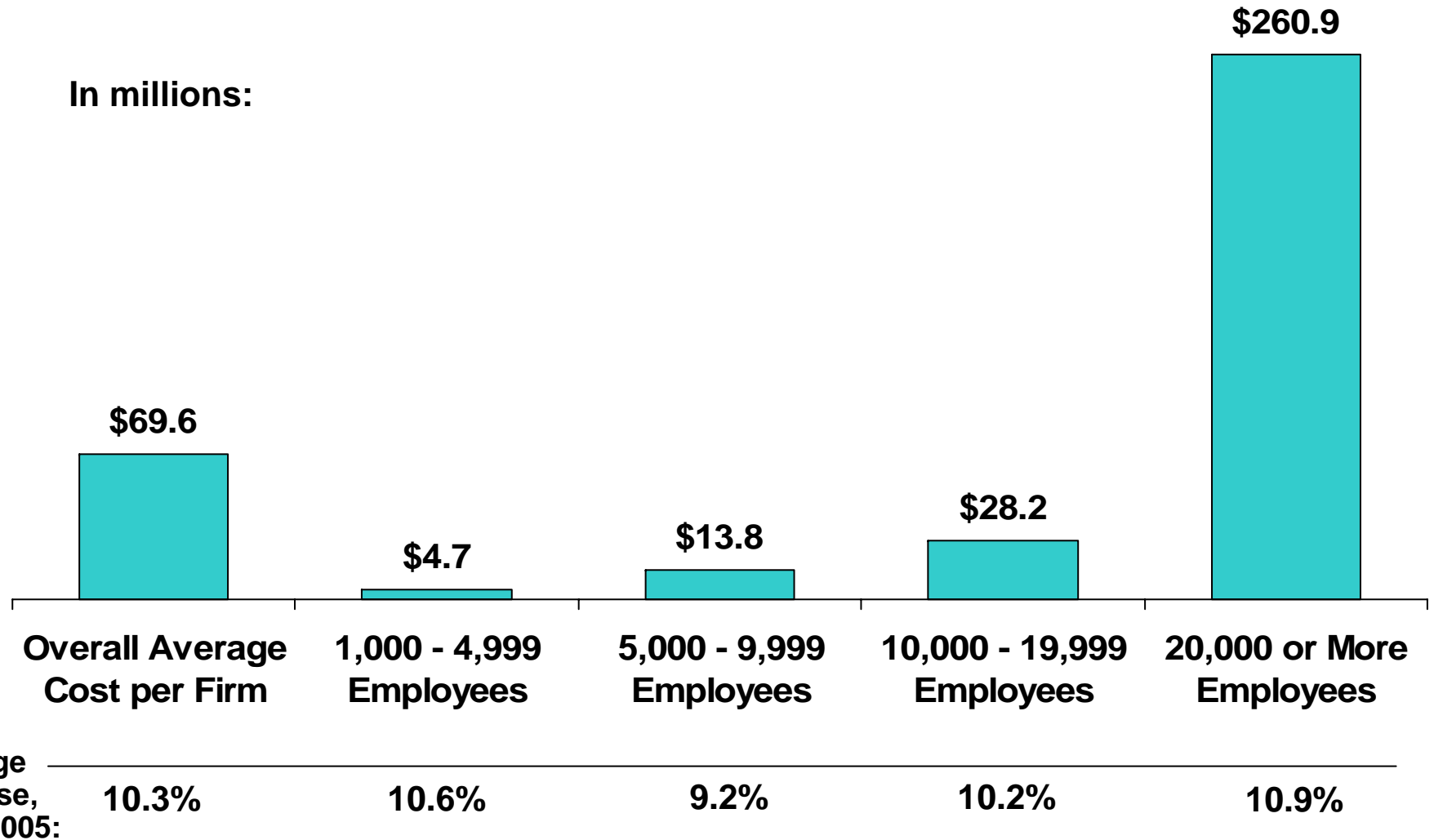
- **Who is offered retiree health coverage?**
  - Most surveyed employers cover both pre-65 and 65+ retirees (93%), salaried employees (91%) and hourly employees (85%)
  - Most offer to spouses (94%) and other dependents (84%)
  - Less than half offer retiree health to part-time workers (47%)
- **What benefits are typically offered to retirees?**
  - Most have an annual deductible (\$250 most common)
  - Most have out-of-pocket limits (\$1,500 most common)
  - Virtually all offer prescription drug coverage (99%)

# Cost of Retiree Health Benefits

Exhibit 4

# Average Total Retiree Health Costs, by Firm Size, 2004

In millions:

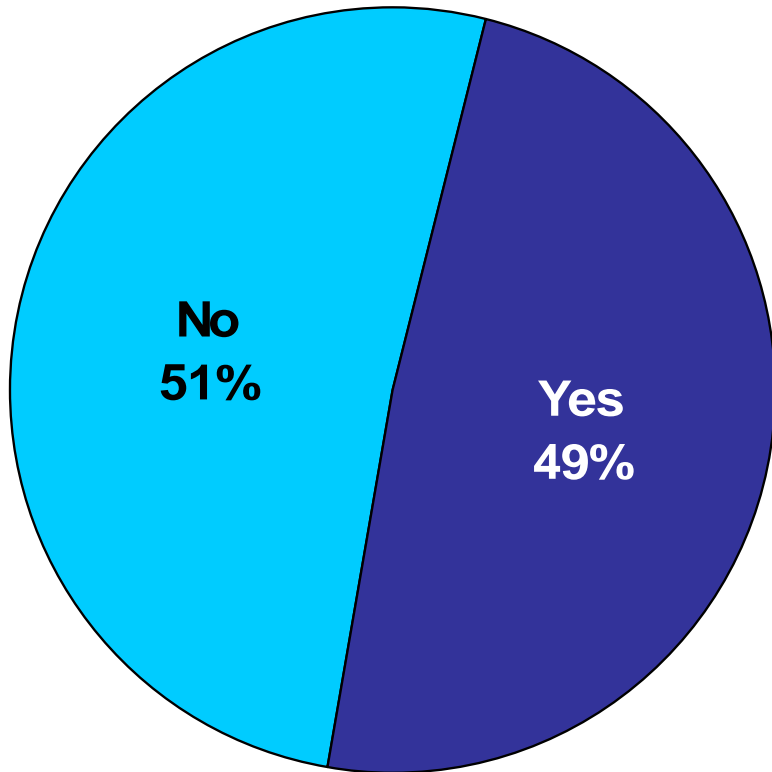


Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.  
SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005.

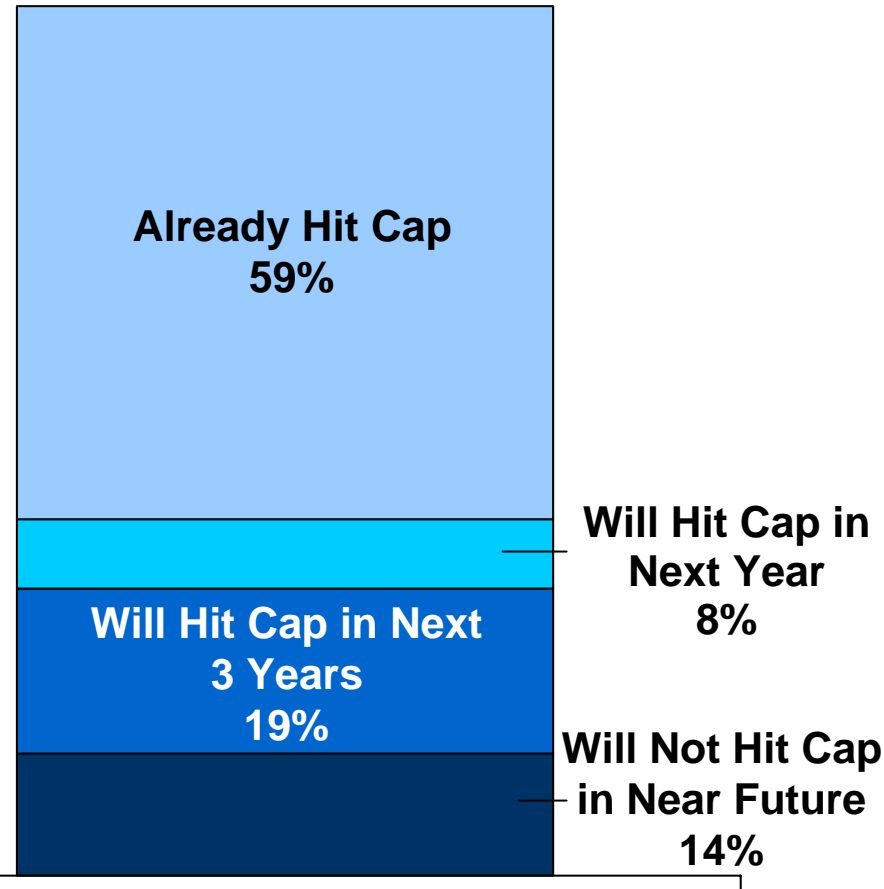


# Percentage of Employers With Cap on Their Contribution to Retiree Health Benefits for Age 65+ Retirees in Largest Plan

Of large private-sector employers, percentage with a cap on their largest plan:



Of large private-sector employers with a cap on their largest plan, percentage that anticipate hitting the cap:



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.

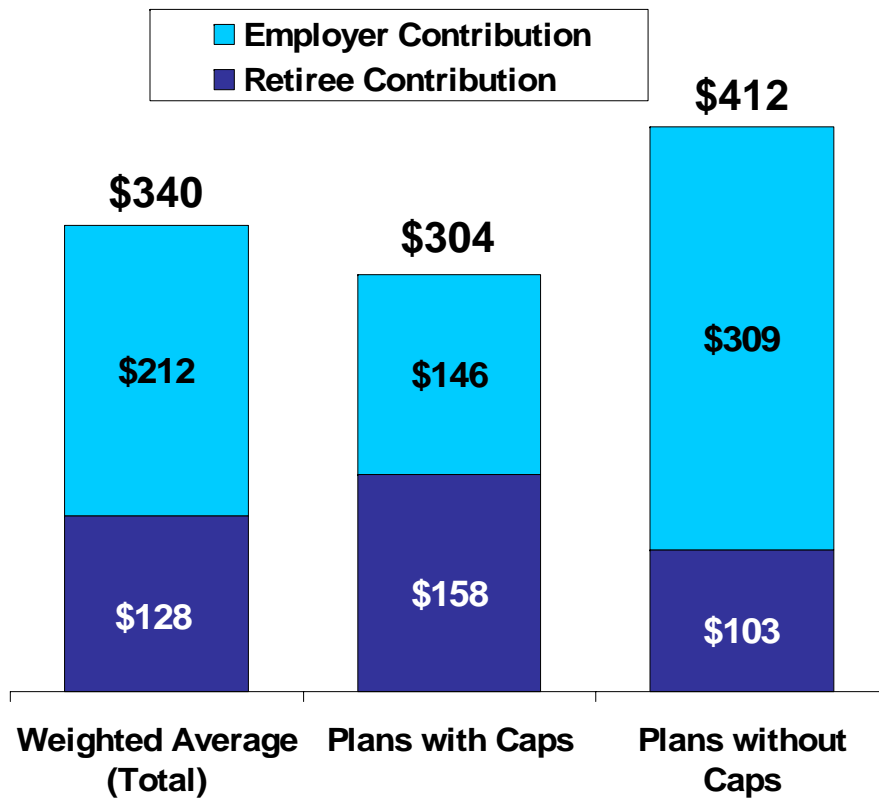
Premiums

## Premiums

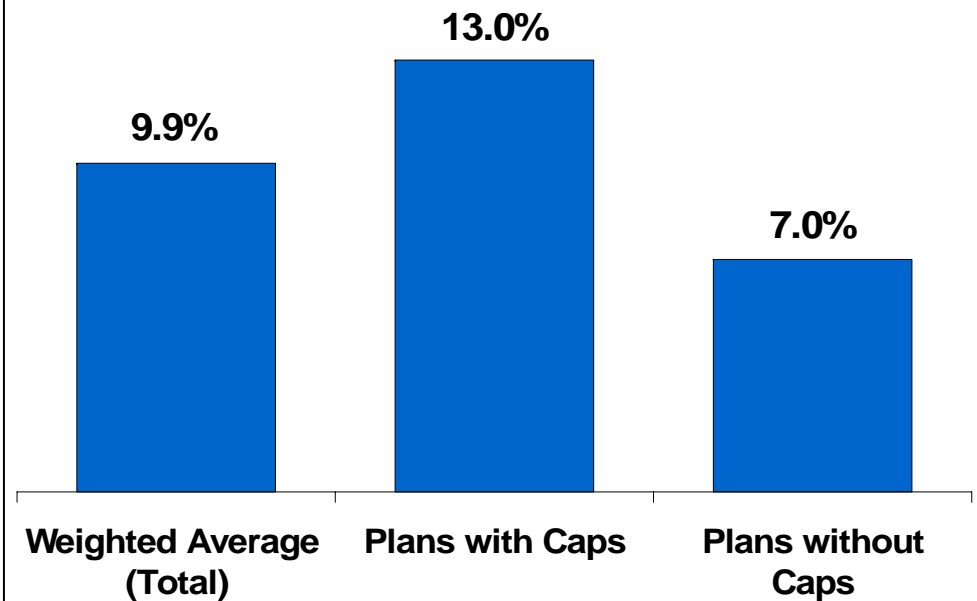
- **Premiums and retiree contributions vary by a number of factors**
  - Demographics of retirees (e.g., age, gender, geography)
  - Health status and utilization
  - Firm size
  - Plan type and plan design
  - Years of service
  - Date of retirement
- **This survey presents premium information for new retirees (e.g., retiring in 2005) in plans with the largest retiree enrollment**
  - New retirees may pay substantially more than others who retired in the past

# Weighted Average Monthly Premiums in Largest Age 65+ Plan

## Average Monthly Premium:



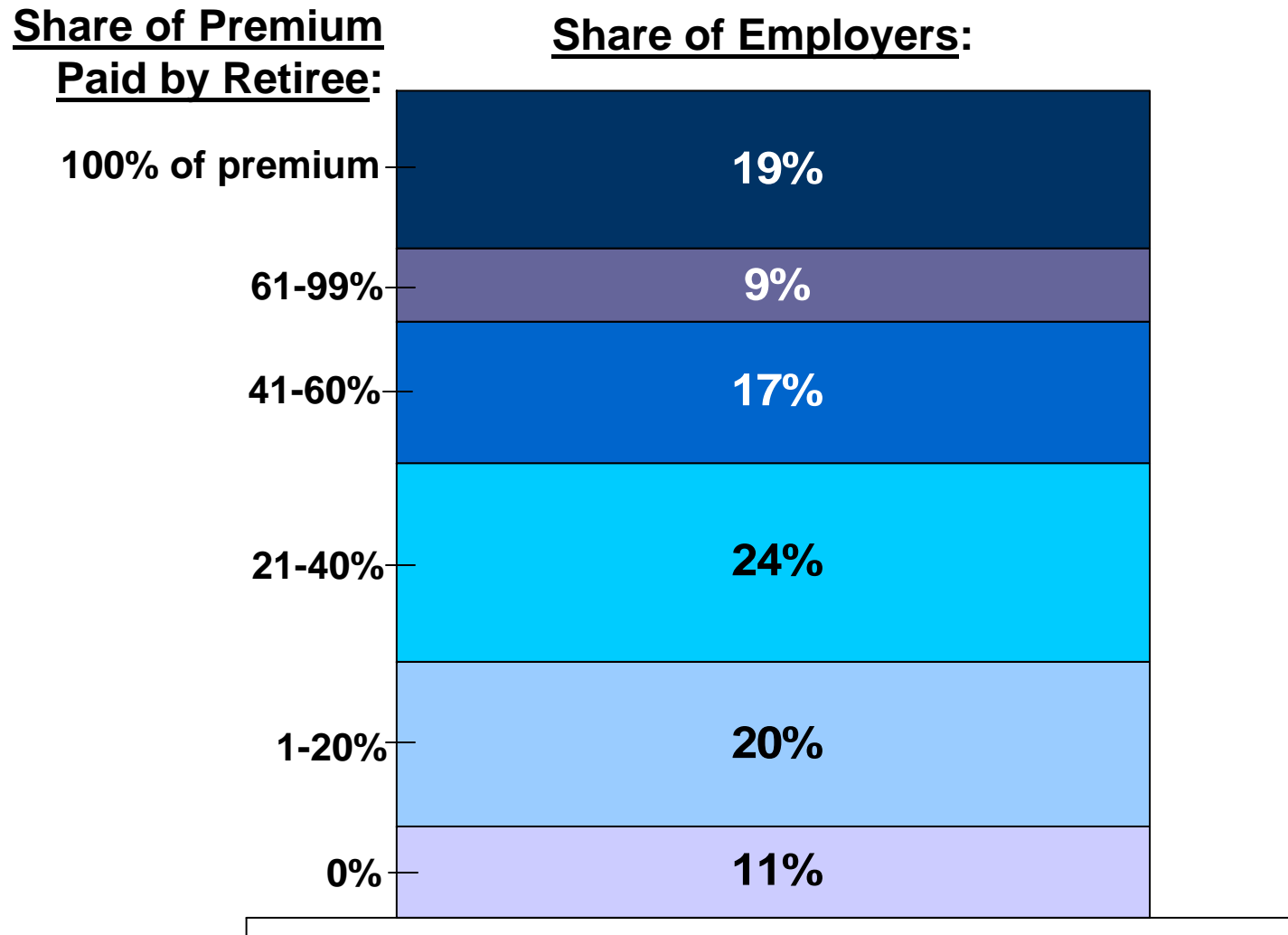
## Average Increase in Retiree Contribution:



Note: Plans with caps are those in which employers have placed a limit on their firm's contributions to retiree health benefits. 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.

Exhibit 8

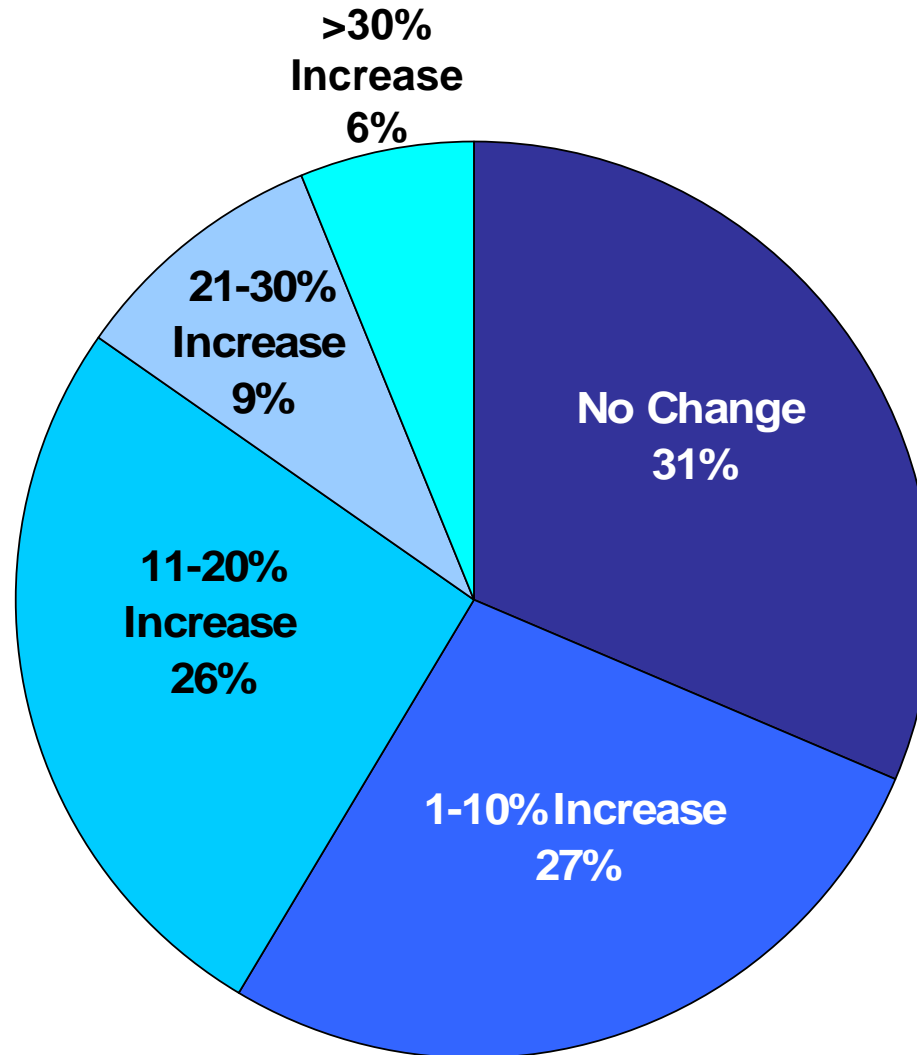
# Distribution of Employers by Share of Premium Paid by Retiree



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.

Exhibit 9

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

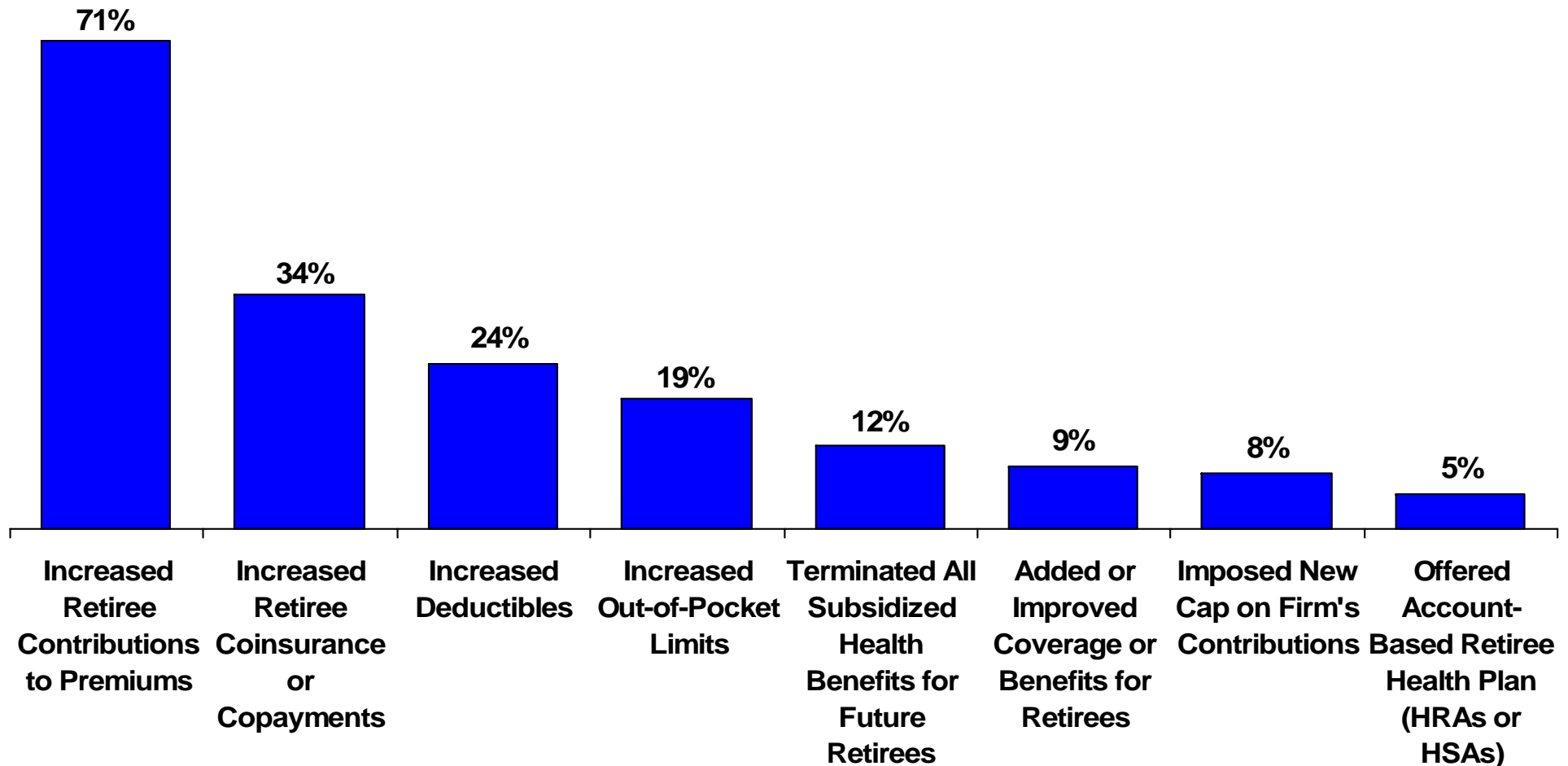


Note: Numbers do not total 100% due to rounding. Retiree contributions to premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004 and January 1, 2005, respectively, in plans with the largest number of enrolled 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

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

# Changes Between 2004 and 2005

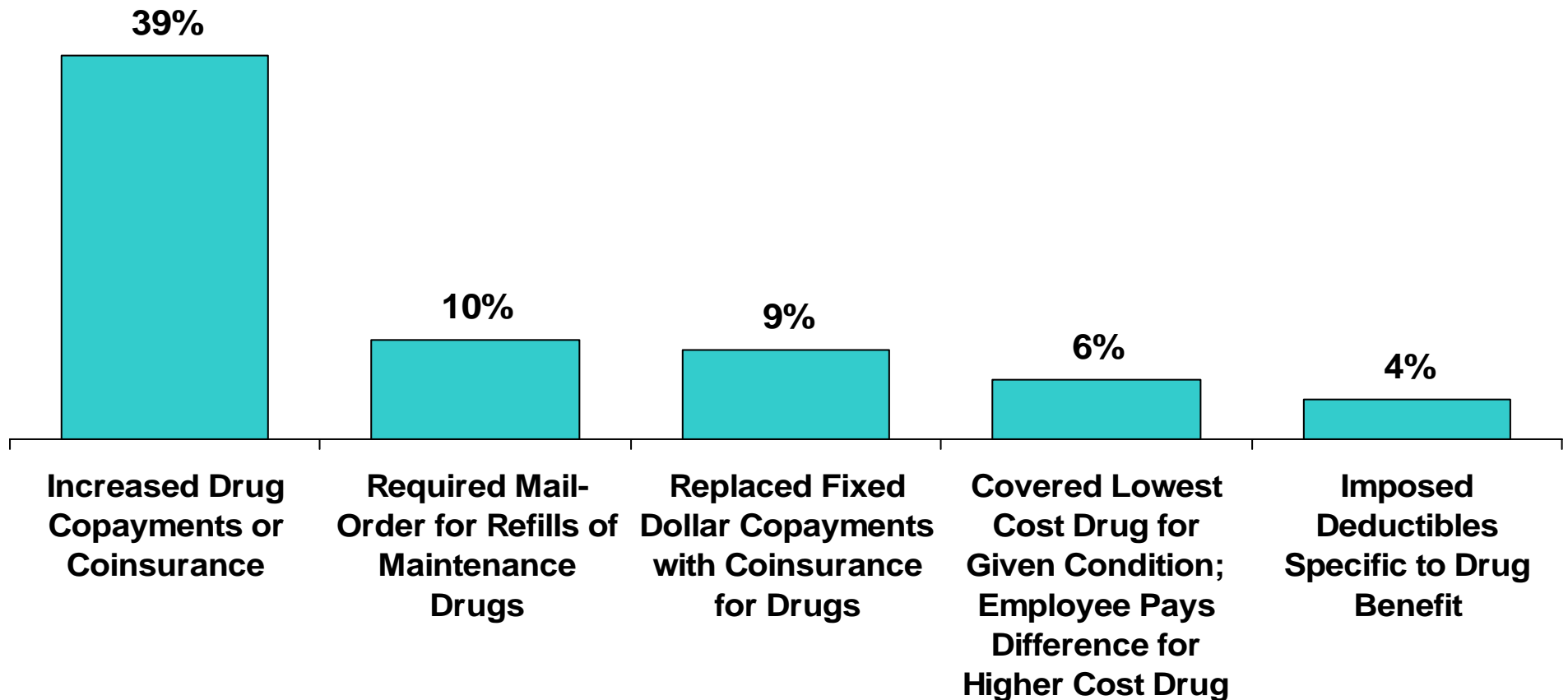
# Percentage of Employers that Made Changes to Retiree Health Benefits between 2004 and 2005



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.



## Percentage of 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.

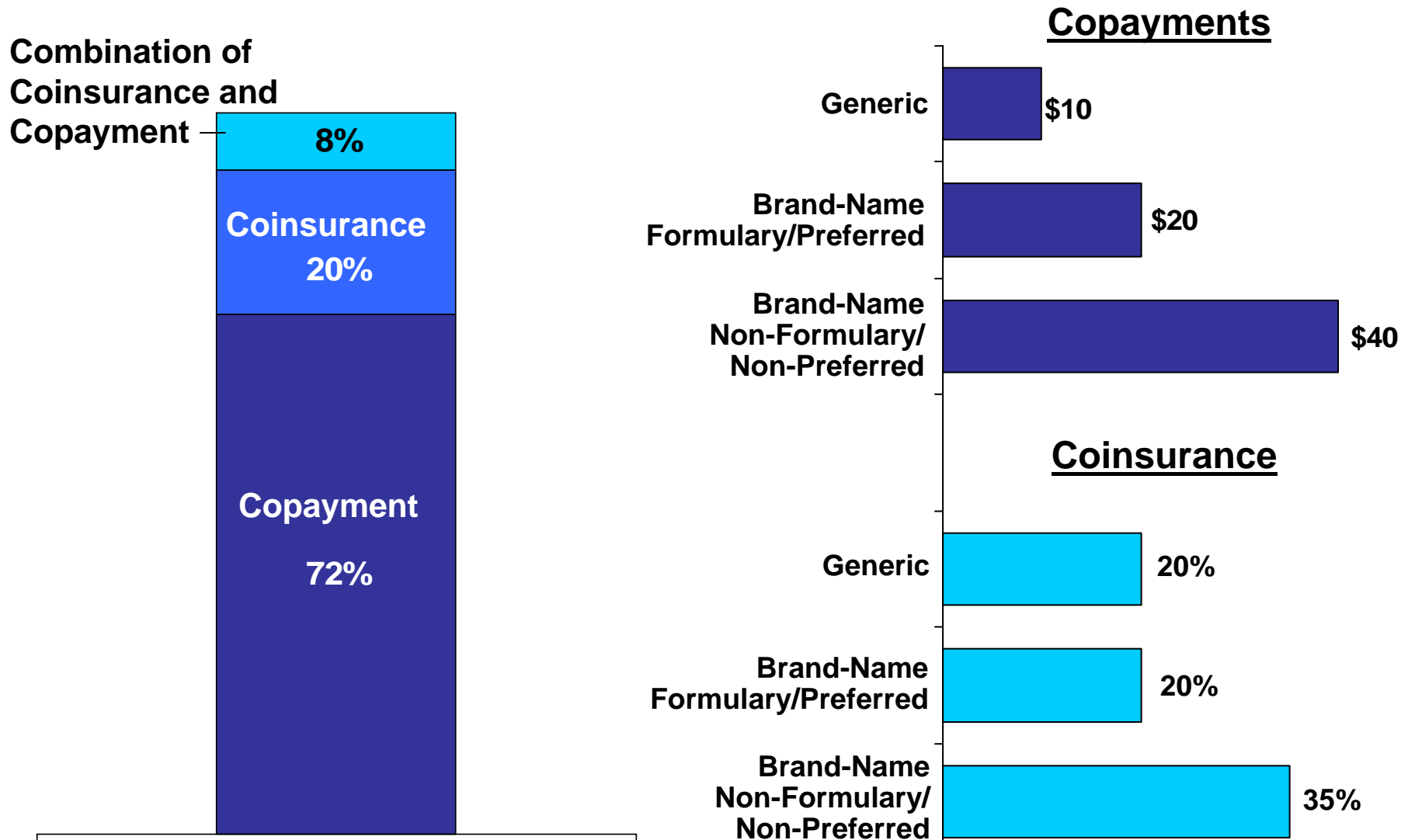
# Retiree Health and the Medicare Drug Benefit

## Typical Retiree Prescription Drug Benefits

- **Nearly all employers that provide health benefits to 65+ retirees cover prescription drugs**
  - Typically, as part of firm's retiree health plan (94%)
  - Others as a stand-alone drug plan (4%)
- **Separate premiums, deductibles, and benefit limits uncommon**
  - 19% have separate Rx deductibles
  - 14% have separate Rx out-of-pocket maximum
  - 7% have separate cap on Rx expenses
  - 3% have separate Rx premiums

Exhibit 13

# Prescription Drug Cost-Sharing Approaches for Age 65+ Retirees in Three-Tiered Plans for Retail Purchases, Up to 30-Day Supply



Note: Median copayment and coinsurance amounts are shown. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

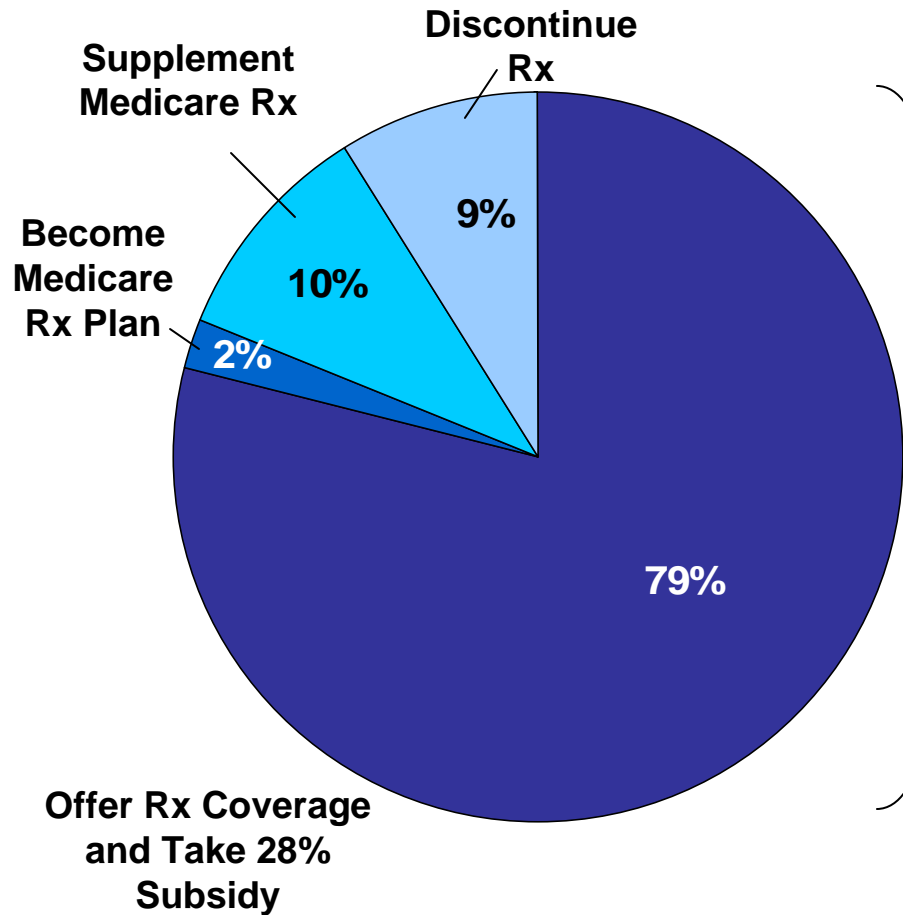
SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005.

## **Employer Options with Respect to the Medicare Drug Benefit**

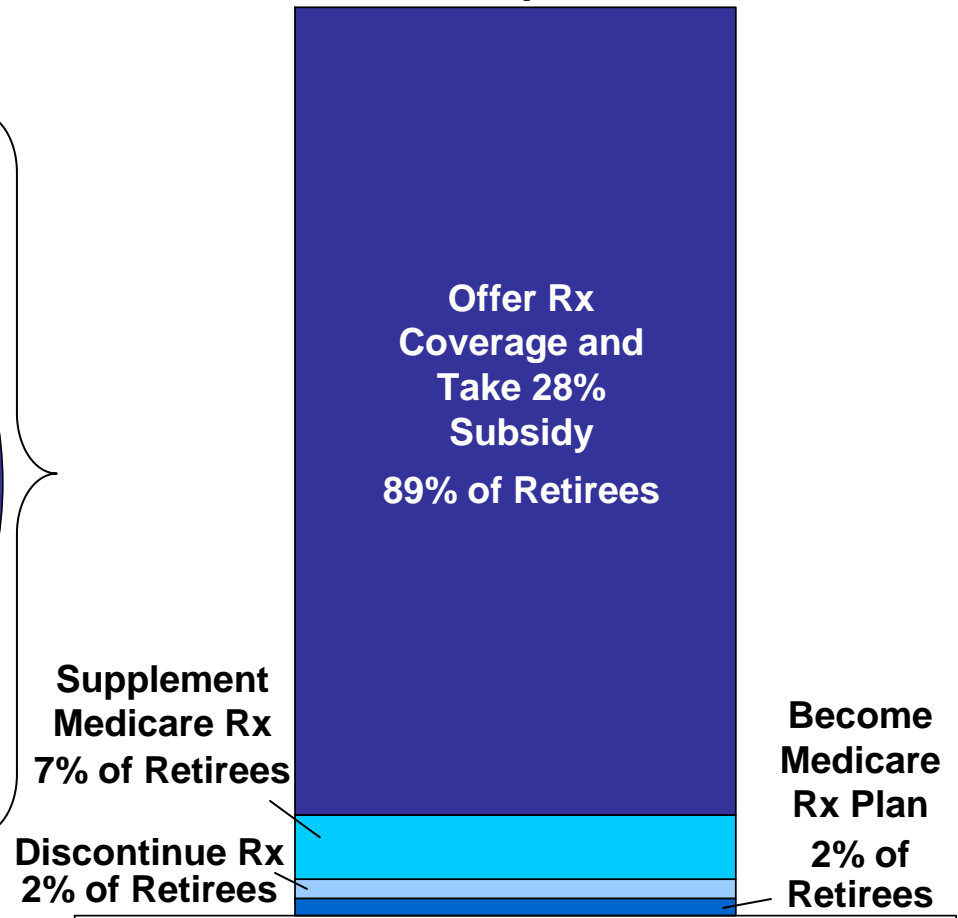
- **Continue to provide benefits at least actuarially equivalent to new Part D benefit, and receive tax-free subsidy**
  - 28% of allowable costs between \$250 and \$5,000 (indexed) per retiree
- **Supplement Medicare drug benefit by coordinating benefits or contracting with a Medicare drug plan**
- **Become a Medicare drug plan and contract directly with Medicare**
- **Discontinue drug coverage**

# Strategies Employers Are Likely to Choose for 2006 in Response to the Medicare Drug Benefit

Strategies firms are likely to choose under the Medicare drug law for largest 65+ plan:



Percent of retirees in largest 65+ retiree plan:



Note: Rx = prescription drug. Applies to plan with the largest number of Medicare-eligible retirees. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

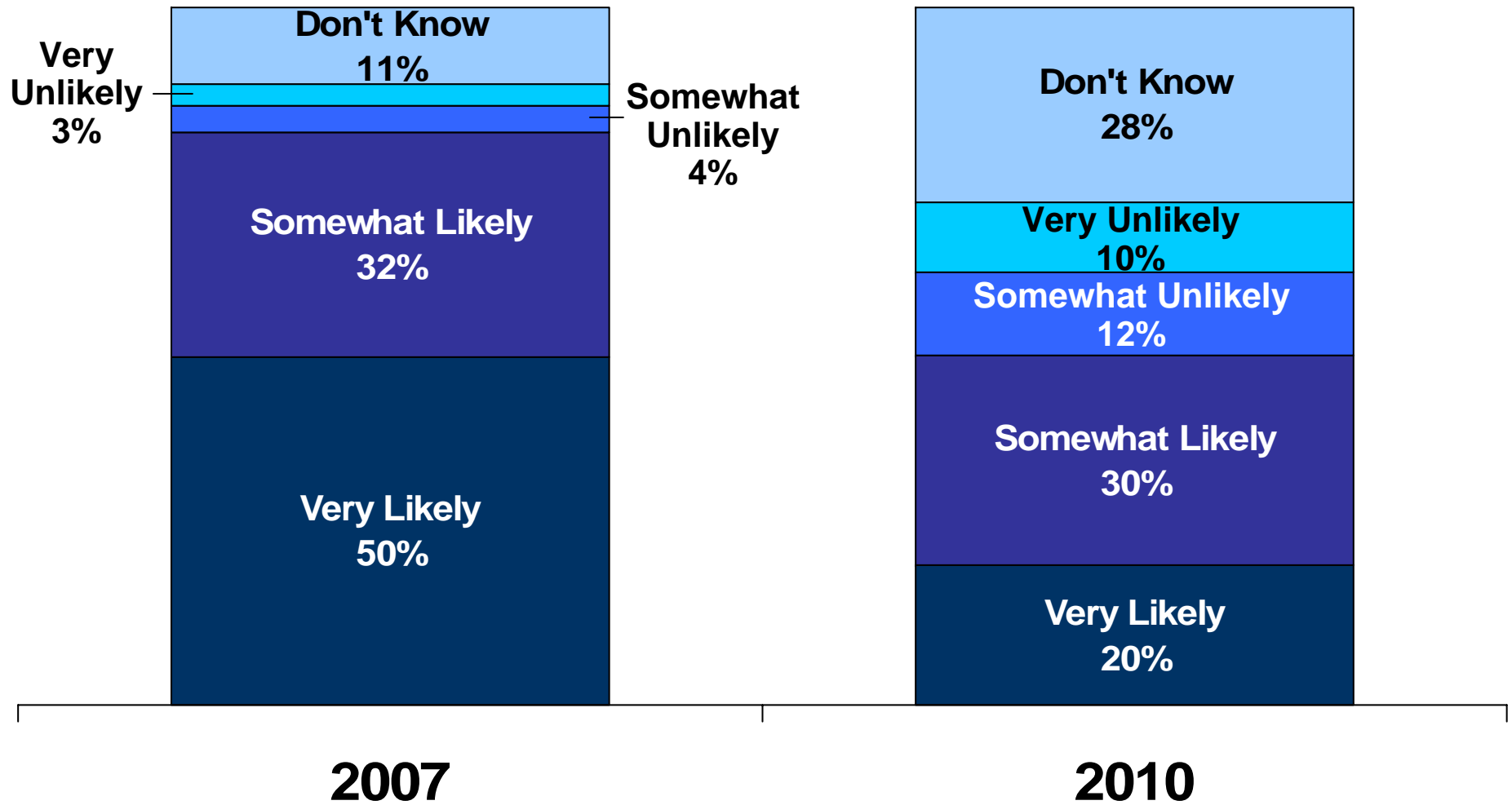
SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005.

## **Employers' Estimated Savings from Medicare Drug Benefit**

- **Estimated weighted average savings per individual retiree**
  - \$644 for all employer strategies reported
  - \$626 for employers taking 28% retiree drug subsidy
  - \$826 for employers supplementing Medicare drug coverage
- **Total savings represent 7% of total estimated retiree health costs in 2005**
  - Total retiree costs are for medical and drug coverage for pre-65 and age 65+ retirees (employer and retiree shares)

# Likelihood of Continuing Drug Benefits and Accepting Employer Subsidy in 2007 and 2010

Among Employers Taking the Subsidy in 2006

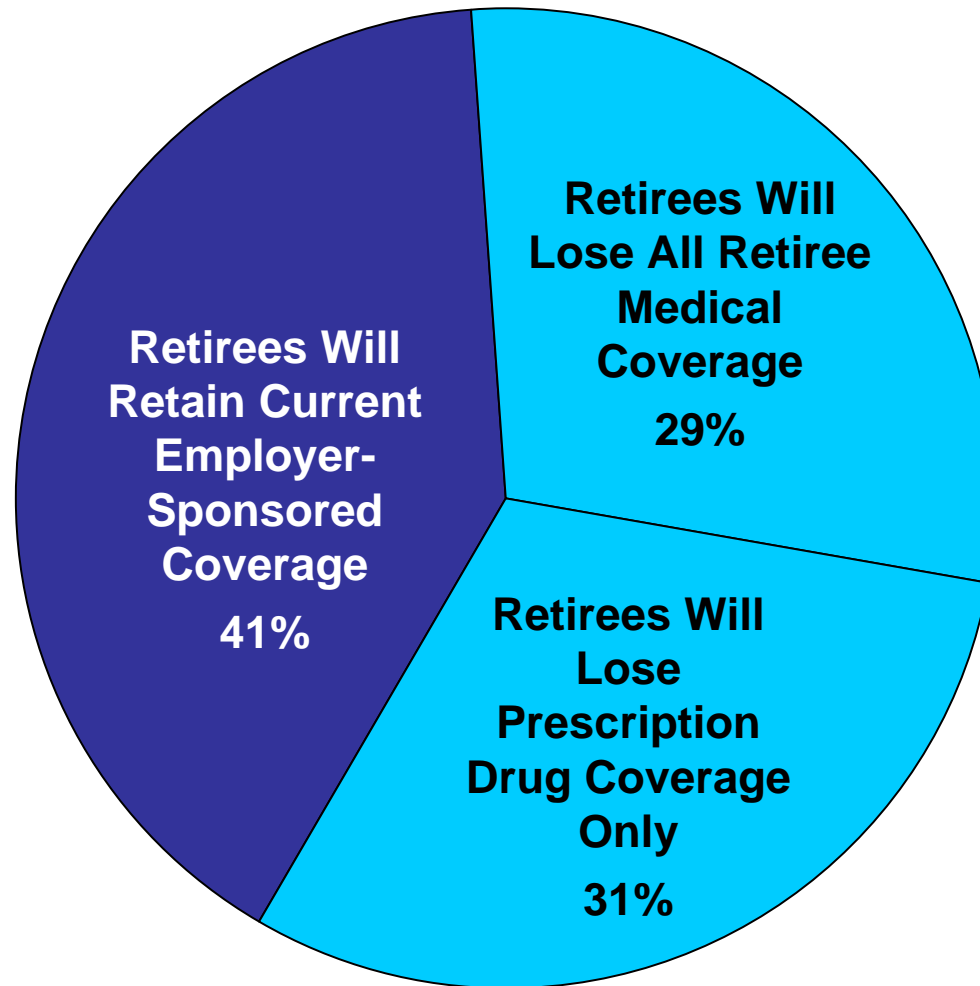


Note: Data are for firms maintaining drug benefits and accepting the employer subsidy in 2006. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

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



# Impact on Employer Coverage for Retirees Who Sign Up for a Medicare Drug Plan Among Employers Taking the Subsidy in 2006

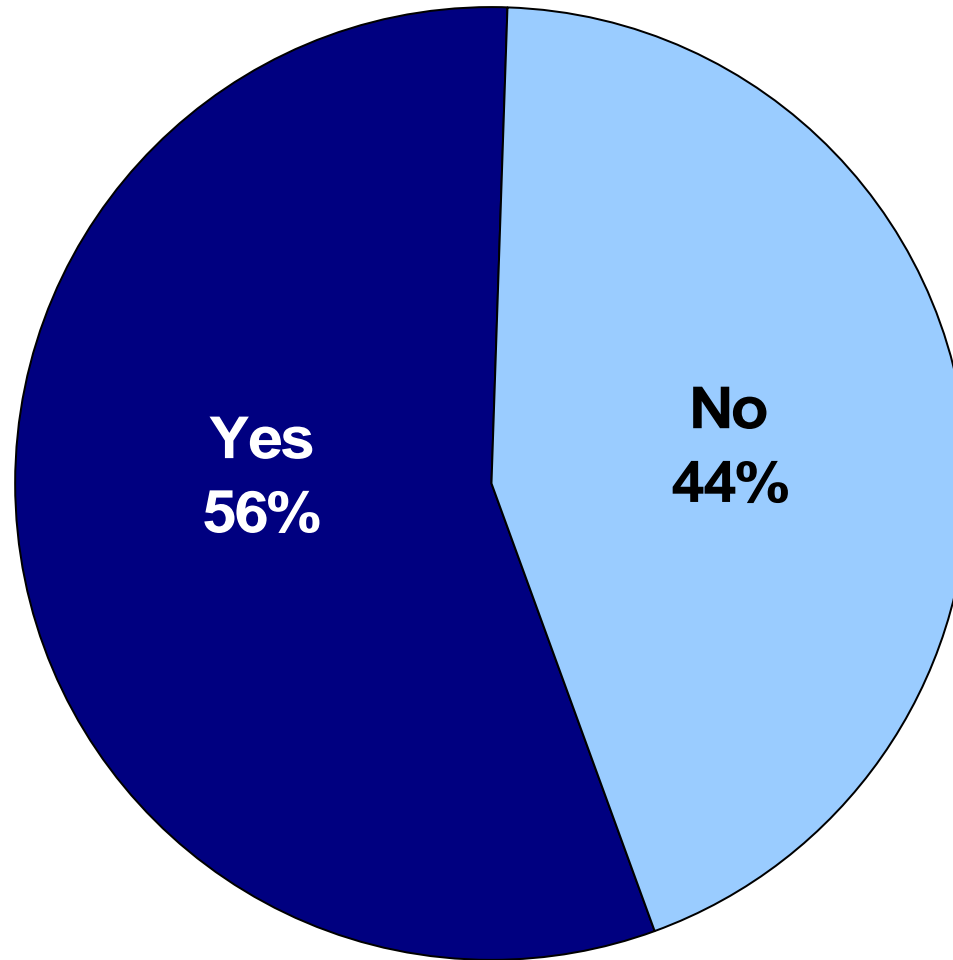


Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.  
SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits, December 2005.

Exhibit 19

# Percentage of Employers Allowing Retirees Who Enroll in a Medicare Drug Plan to Re-Enroll in an Employer Plan

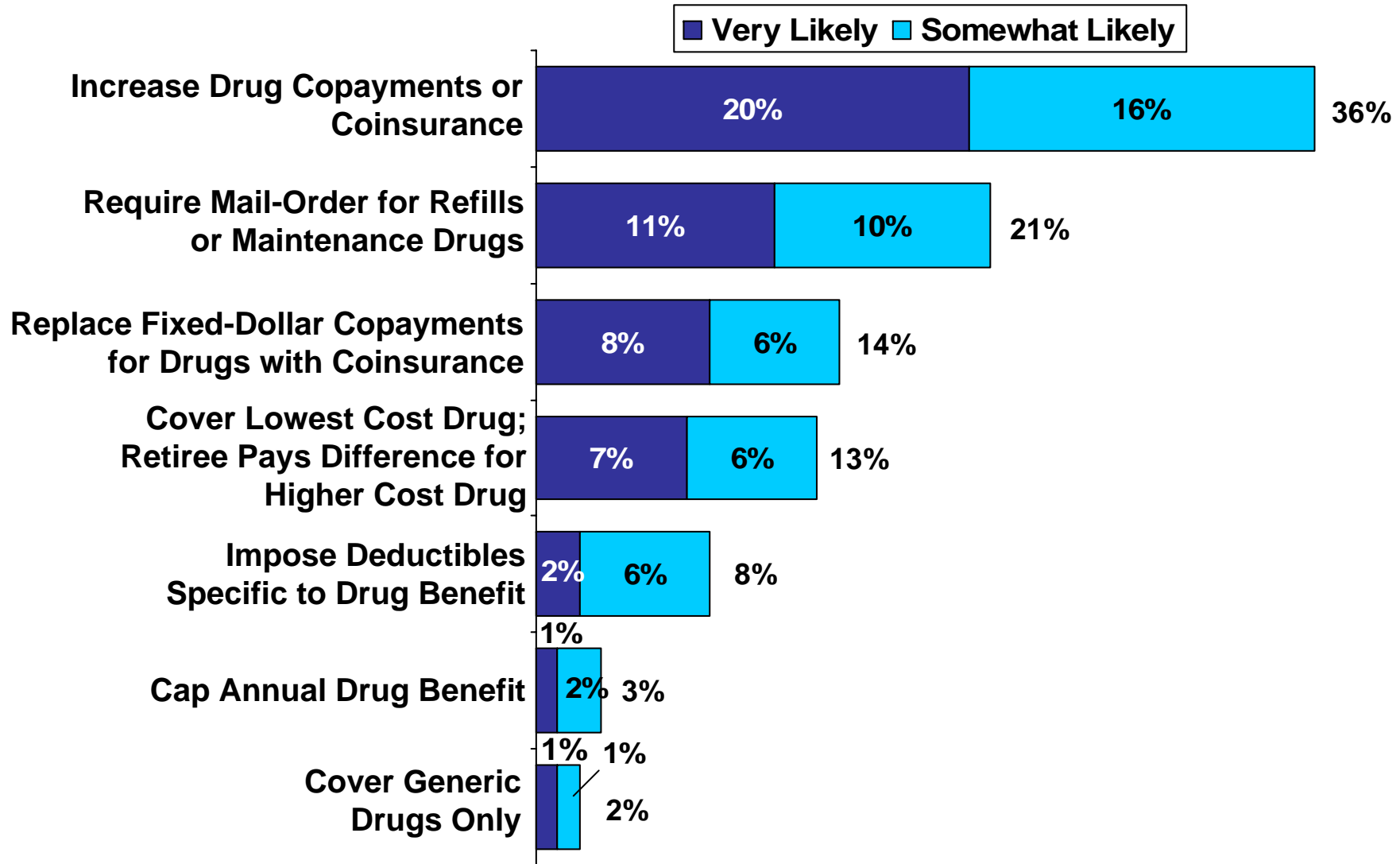
Among Employers Taking the Subsidy in 2006



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.

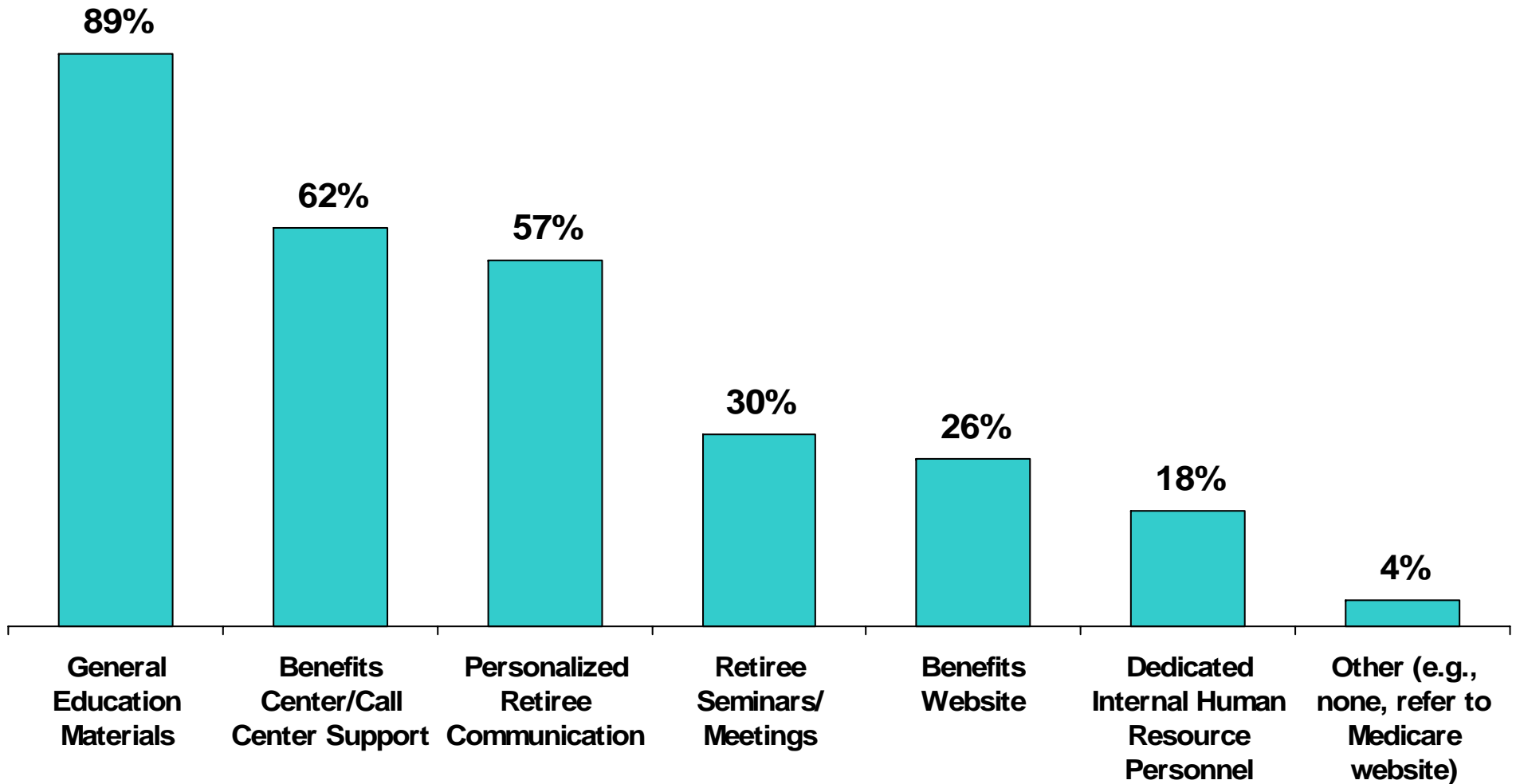
# Likelihood of Making Changes to Manage Retiree Drug Costs for the 2006 Plan Year

Among Employers Taking the Subsidy in 2006



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.

# Percentage of Employers Reporting Education and Outreach Efforts Related to the Medicare Drug Benefit



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.

## Conclusion/Perspectives

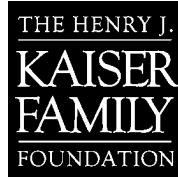
- Medicare Rx benefit is single biggest external change for retiree health plans since accounting rule changes in early 1990s
- Most employers intend to accept the Medicare drug subsidy in 2006 – but are less certain about this strategy for the future
  - Potential factors: cost/benefit ratio of taking the subsidy compared to other options; strategies taken by major competitors; and the financial strength of the company
- Though important, the savings represent a relatively modest share of the total cost of providing medical and drug benefits to pre-65 and age 65+ retirees
- Survey provides good news for many retirees but raises some concerns for others, and points to the need for retirees to make careful decisions regarding Medicare drug plan enrollment in this and subsequent years

## Survey Methods

The Kaiser Family Foundation/Hewitt Associates 2005 Survey on Retiree Health Benefits reports findings from a survey of 300 large private-sector firms (with 1,000 or more employees) that currently offer health benefits to retirees. These firms represent 32 percent of all Fortune 100 companies and 33 percent of all Fortune 500 companies, employ 6.3 million employees and have 3.4 million retirees. They provide retiree health benefits to 5.7 million retirees and spouses, including 3.9 million who are Medicare-eligible.

The overwhelming majority of surveyed firms (87 percent) are multi-state employers that represent a broad range of manufacturing (44 percent) and non-manufacturing (56 percent) industries. In terms of employee size, 36 percent of surveyed companies have 1,000 to 4,999 employees, 32 percent have 5,000 to 9,999 employees, 19 percent have 10,000 to 19,999 employees, and 23 percent have 20,000 or more employees. The study is based on a non-probability sample of large private-sector firms offering retiree health benefits. Given the nonrandom nature of the sample, study findings may not be strictly comparable with previous Kaiser/Hewitt studies, which included different companies and different plans offered by those companies.

The survey was conducted online between June and October 2005. 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, 2005 - 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.



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