RETIREE HEALTH BENEFITS EXAMINED

Findings from the Kaiser/Hewitt 2006 Survey on Retiree Health Benefits

December 2006

THE HENRY J. KAISER FAMILY FOUNDATION

- AND -

Hewitt

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LIST OF EXHIBITS

Introduction

Employers continue to play an important role in providing health insurance coverage for pre-65 and age 65+ (Medicare-eligible) retirees. Employer-sponsored plans help bridge the gap in coverage for workers and spouses who retire before they turn age 65 and are eligible for Medicare. Today, an estimated 3.8 million early retirees (ages 55 to 64) and dependents receive health coverage from an employer or union.[1] Without these benefits, early retirees often face significant challenges finding affordable coverage in the individual market, leading some to return to the workforce to gain access to health insurance.[2] Employer plans also provide highly-valued supplemental benefits to more than 12 million retirees now on Medicare.[3,4] For retirees on Medicare, employer plans remain an important source of prescription drug coverage, and provide additional cost-sharing protections, including limits on retirees' out-of-pocket expenses.

With health costs continuing to climb and on-going reports of companies scaling back on retiree benefits, the status of employer-sponsored retiree health coverage continues to be an area of considerable interest and concern.[5] Between 1988 and 2006, the share of large employers (200 or more employees) offering retiree health benefits declined from 66% to 35%.[6] In each of the prior years in which the Kaiser Family Foundation and Hewitt Associates have conducted the annual retiree health benefit survey, employers looking to reign in spending have been shifting costs onto retirees in the form of higher premium contributions and cost-sharing requirements, with a smaller share of employers terminating subsidized benefits for future retirees.[7] These terminations have primarily affected new or recent hires. A very small percentage of firms have terminated benefits for current retirees. Employers continue to implement strategies to help mitigate cost pressures, like making changes in benefit design.

Looking to the future, there is ongoing interest in employers' likely response to the Medicare drug benefit. The Kaiser/Hewitt 2005 Survey on Retiree Health Benefits found – and CMS data likewise confirm – that the vast majority of large private employers continued providing retiree health benefits in the first year of Medicare drug coverage (2006), primarily by claiming the federal retiree drug subsidy. Employer plans continue to be a major source of prescription drug benefits for people on Medicare, and in 2006, cover more than a quarter of all 43 million Medicare beneficiaries. Whether or not employers stay the course or choose alternative strategies has important implications for retirees and their families and obviously affects the current costs and future liabilities of these organizations.

This 2006 Kaiser/Hewitt Survey on Retiree Health Benefits, conducted between June and October 2006, is the fifth in a series of surveys that provides detailed information on the state of retiree health benefits. The survey provides information for both pre-65 and age 65+ retirees on total costs, retiree contributions to premiums, and past and potential future actions taken by employers to help control retiree health spending. Looking forward to 2007, this survey also captures the most current and comprehensive set of survey results on how large private-sector employers are responding to the Medicare drug benefit.

Survey Methods

The data in this report are based on a non-random sample of large private-sector employers with 1,000 or more employees that offer retiree health benefits in 2006. This nonprobability sample includes 302 employers that provide health benefits to 5.2 million retirees and dependent family members, of which 3.4 million are retirees and dependent spouses ages 65 and older.[8] These age 65+ retirees and dependents account for 27% of the more than 12 million Medicare beneficiaries with retiree health benefits. They also account for nearly half of the 7.2 million Medicare-eligible retirees with private employer coverage.[9] The firms that participated in this survey represent 36% of all Fortune 100 companies and 22% of all Fortune 500 companies. They account for more than one quarter (32%) of the Fortune 100 companies with the largest retiree health liability in 2005.

The study focuses on large employers because these firms are far more likely than mid- and small-sized firms to offer retiree health benefits.[10] The sample includes responses from 112 firms (37%) with 1,000 to 4,999 employees, 50 firms (17%) with 5,000 to 9,999 employees, 65 firms (21%) with 10,000 to 19,999 employees, and 75 "jumbo" firms (25%) with 20,000 or more employees. Together, these employers have 6.7 million employees and provide health benefits that impact the lives of approximately 16.8 million active employees and dependent family members.

Selected Survey Highlights

- ✓ **Total retiree costs (employer and retiree contributions) increased by 6.8%, on average, among surveyed employers between 2005 and 2006.**
- ✓ **The average increase in retiree contributions to premiums was higher for newly retired pre-65 retirees (15.1%) than for newly retired age 65+ retirees (9.6%) in the firms' largest plans.**
- ✓ **The majority of firms do not pre-fund retiree health benefits; 25% do.**
- ✓ **In 2007, 78% of surveyed employers intend to provide drug coverage to Medicare-eligible retirees and take the 28% tax-free subsidy; 14% intend to supplement Medicare drug coverage, contract with a Medicare drug plan, or become a Medicare drug plan; and 8% say they will not provide drug coverage.**
- ✓ **Employers offering retiree health coverage are split on the question of whether the federal government should play a larger role than it does today in financing retiree health benefits for pre-65 retirees.**

Detailed Findings

Coverage

***Coverage* (Exhibits 1-4). By design of the survey sample, all employers in this survey offer retiree health benefits; more than 8 in 10 (85%) surveyed firms that offer retiree health benefits provide coverage for both pre-65 and age 65+ retirees.**

- The majority of surveyed employers typically offer health benefits to both salaried (92%) and hourly employees (84%). The vast majority offer retiree health benefits to spouses (96%) and other dependents (84%). However, firms that offer retiree health benefits are far less likely to offer this coverage to part-time employees (46%).

- The majority of surveyed firms (67%) offer retiree health benefits to employees newly hired as of January 1, 2006.[11]

- Nearly nine of ten surveyed employers (86%) with union employees provide retiree health benefits (not shown).

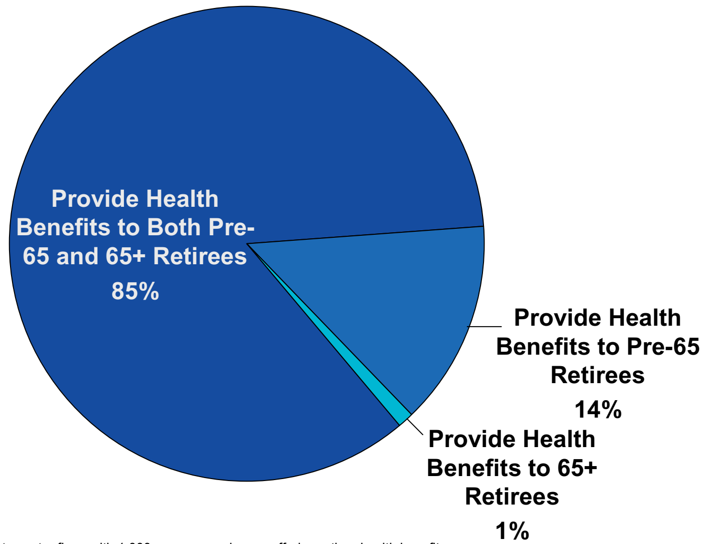
- More than six of ten employers (62%) that offer benefits to age 65+ retirees say they do not offer a Medicare Advantage plan option in 2006. Looking to 2010:

  – 44% of surveyed employers say they are very or somewhat likely to offer Medicare Advantage plans.
  – 26% say they are very or somewhat unlikely to offer Medicare Advantage plans.
  – 30% say they do not know if their firm will offer Medicare Advantage plans to their age 65+ retirees.

- The largest retiree plans for pre-65 retiree and age 65+ retirees are generally available to those who retired on or after January 1, 2006. The majority of surveyed employers say their largest retiree health plan is available to new retirees (not shown).

Exhibit 1

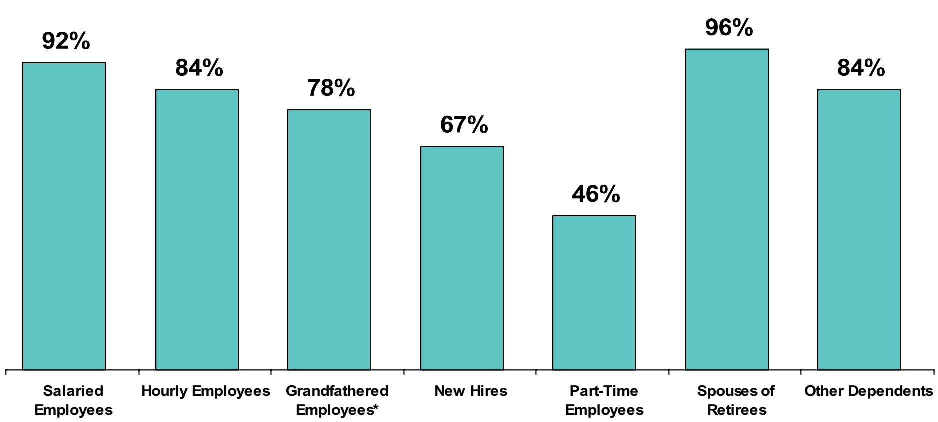
Percentage of Large Private-Sector Employers Providing Health Benefits to Pre-65 Retirees, Age 65+ Retirees, or Both



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 2

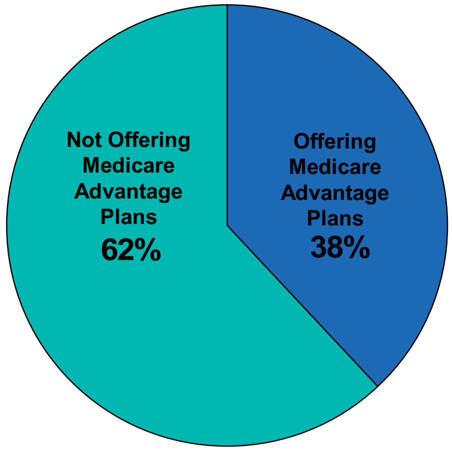
Who is Provided Retiree Health Benefits by Large Private-Sector Employers?



Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. New hires are employees hired as of January 1, 2006. *Grandfathered employees or retirees are those who retain retiree health benefits from a previously established plan that is no longer offered to current employees or retirees.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 3

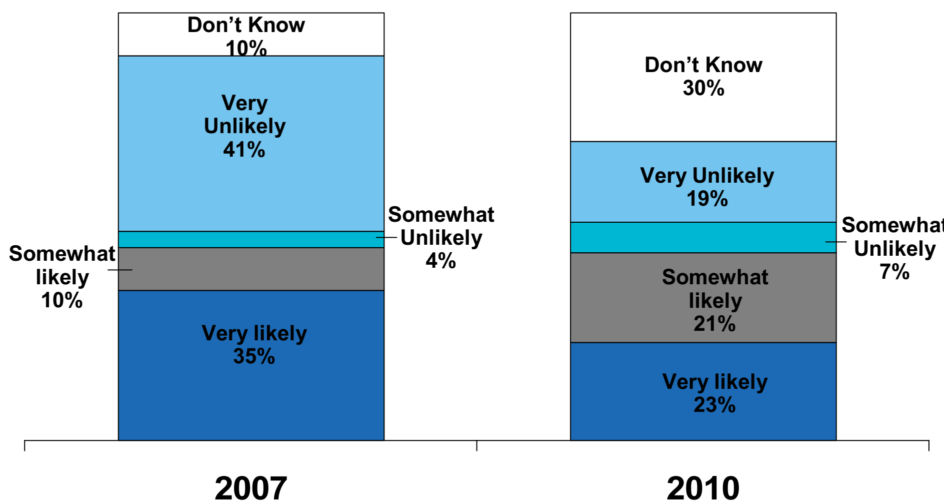
Percentage of Large Private-Sector Employers Offering Medicare Advantage Plans in 2006



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Medicare Advantage plans may include Medicare Health Maintenance Organization (MHO) plans, Medicare Preferred Provider Organization (PPO) plans or Medicare Private Fee-for-Service (PFFS) plans.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 4

Likelihood of Offering Medicare Advantage Plans to Age 65+ Retirees in 2007 and 2010



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Medicare Advantage plans may include Medicare Health Maintenance Organization (MHO) plans, Medicare Preferred Provider Organization (PPO) plans or Medicare Private Fee-for-Service (PFFS) plans.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Benefit Design and Prescription Drug Benefits

***Benefit Design* (Exhibit 5). Employer's largest pre-65 and age 65+ retiree plans often include a deductible before the plan begins paying benefits, but they also place annual limits on retirees' out-of-pocket costs to protect retirees from excessive financial exposure.**

- Eight of ten surveyed employers impose a deductible for their largest pre-65 and age 65+ plans.
  - The most commonly reported annual in-network deductible is $250 for the largest pre-65 plan, with some as low as $50 and others as high as $2,000.
  - The most commonly reported annual in-network deductible is $300 for the largest age 65+ plan, with a range of $50 to $1,500.

- More than eight of ten employers have an annual out-of-pocket limit for their largest pre-65 and age 65+ plans (87% and 84%, respectively).
  - The most commonly reported annual out-of-pocket cap is $1,500 for the largest pre-65 plan, with some as low as $250 and others as high as $10,300.
  - The most commonly reported annual out-of-pocket cap for the largest age 65+ plan is $2,000, with a range of $200 to $5,250.

Exhibit 5

Large Private-Sector Employers' Benefit Design Features in the Largest Pre-65 and Age 65+ Plans

	Pre-65 Retirees	65+ Retirees
DEDUCTIBLE		
% with Deductible	77%	81%
Average (mean)	$389	$326
Most Common	$250	$300
OUT-OF-POCKET LIMIT		
% with OOP Limit	87%	84%
Average (mean)	$2,097	$1,900
Most Common	$1,500	$2,000

Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

***Drug Benefit Design (age 65+ plans)* (Exhibits 6-9). Over half of surveyed employers (54%) say that drug benefits in the largest age 65+ plan are subject to the overall plan design and the remaining employers impose separate design features for prescription drugs; most use a variety of measures to control rising drug costs.**

- 25% of surveyed employers have a separate annual prescription drug deductible for the largest age 65+ plan; 8% of surveyed employers have a separate benefit limit (a separate cap on total prescription drug expenses covered by the plan).

- 26% have a separate annual out-of-pocket maximum for pharmacy claims.

- Utilization management features are commonly used in firms' largest age 65+ plans:

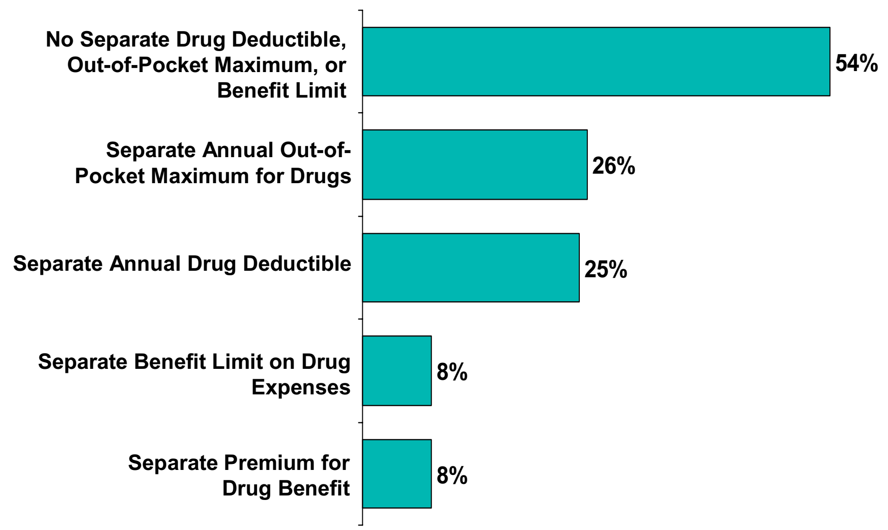
  - 70% of surveyed employers use quantity limits (e.g., maximum 30-day supply for prescriptions filled at retail pharmacies and a 90-day supply for mail order).
  - 66% impose prior authorization for certain drugs.
  - 46% use therapeutic interchange.
  - 40% require step-therapy edits.
  - 35% use mandatory generic substitution.

- 61% of surveyed employers have a restricted formulary for their largest age 65+ plan; 34% have an open formulary; and 5% have a closed formulary.[12]

- 63% of surveyed employers use 3-tier cost-sharing arrangements for prescription drugs in their largest age 65+ plans; 15% use a 2-tier design; 15% charge the same amount for all prescriptions; and 7% have a drug cost-sharing design with four or more tiers.

Exhibit 6

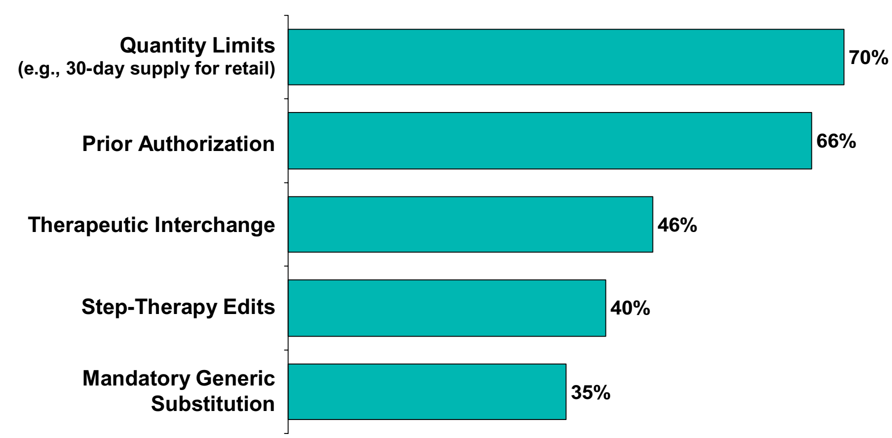
Prescription Drug Benefit Design Features for Age 65+ Retirees in the Largest Plan



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 7

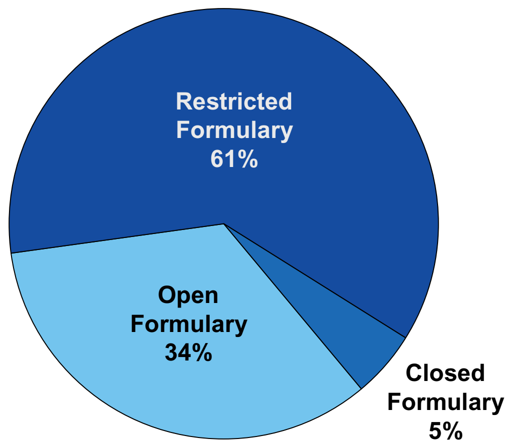
Prescription Drug Utilization Management Features for Age 65+ Retirees in the Largest Plan



Note: Under step-therapy, patients receive progressively higher-cost treatments only if lower-cost alternatives are found to be ineffective. Under therapeutic interchange, drug substitutions can be made by the pharmacy or PBM. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 8

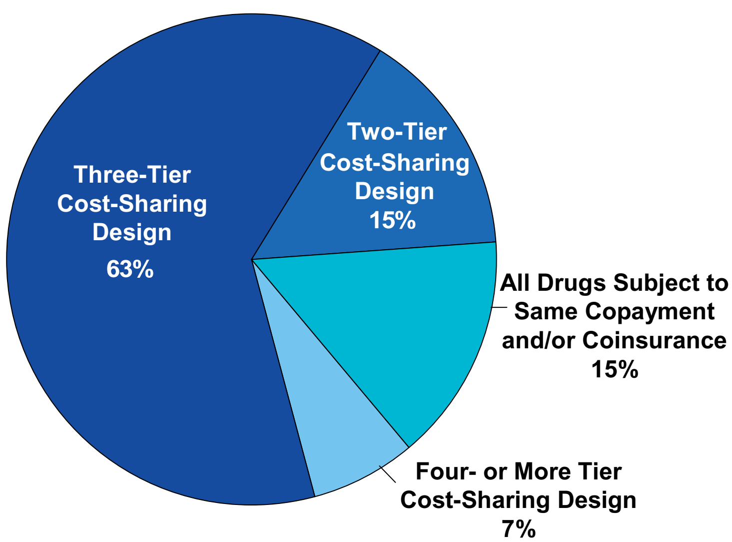
Prescription Drug Formularies for Age 65+ Retirees in the Largest Plan



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 9

Prescription Drug Cost-Sharing Design for Age 65+ Retirees in the Largest Plan



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Total Costs, Pre-Funding, and Caps

***Costs* (Exhibit 10). The total cost of retiree health benefits (employer and retiree contributions) increased, on average, by an estimated 6.8% for surveyed employers between 2005 and 2006.** The single-digit increase in retiree health costs for retirees is comparable to increases reported in surveys of employers regarding the cost of health benefits for active workers, which are lower in 2006 than in previous years.[13] Slower rates of increase are attributable to a number of factors including the effects of the new Medicare drug benefit, and slower rates of increase in both prices and utilization of health care services.

- The total cost (employer and retiree contributions) of providing health benefits for both pre-65 and age 65+ retirees and their dependents among surveyed employers was an estimated $19.6 billion in 2005. By 2006, total retiree health costs are estimated to be $20.9 billion for surveyed employers. This estimate is based on 2005 total costs, increased by employers' estimates of total cost increases between 2005 and 2006.

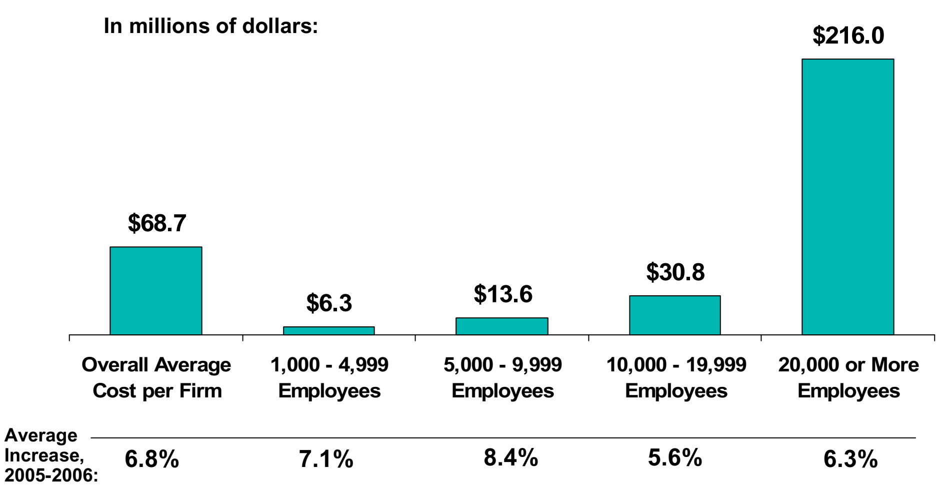
- Firms with fewer than 10,000 employees experienced somewhat higher average rates of increase in total retiree health costs than firms with 10,000 or more employees.

- The average 2005 cost of retiree health among surveyed firms is $68.7 million, with variation by firm size, ranging from $6.3 million, on average, for firms with 1,000 – 4,999 employees to $216 million, on average, for jumbo firms with 20,000 or more employees.

Exhibit 10

Average Total Retiree Health Costs, by Firm Size, 2005

Average Increase in Retiree Health Costs, 2005-2006



Note: Average total retiree health costs include employer and pre-65 and age 65+ retiree contributions. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

***Pre-funding Retiree Health Benefits* (Exhibit 11). Employers are not required to pre-fund their retiree health benefits and the majority of surveyed firms report that they are not pre-funding future retiree health obligations; pre-funding is more common among larger than among smaller firms.**

- A quarter of all surveyed employers (25%) report they are pre-funding retiree health care obligations and have made contributions to the fund within the last three years. A Voluntary Employees' Beneficiary Association (VEBA) is the most common vehicle used for pre-funding.[14] VEBAs are tax-exempt trusts authorized by the Internal Revenue Code Section 501(c)(9) that may pay death, health, accident, or other benefits to members, their dependents and/or beneficiaries.

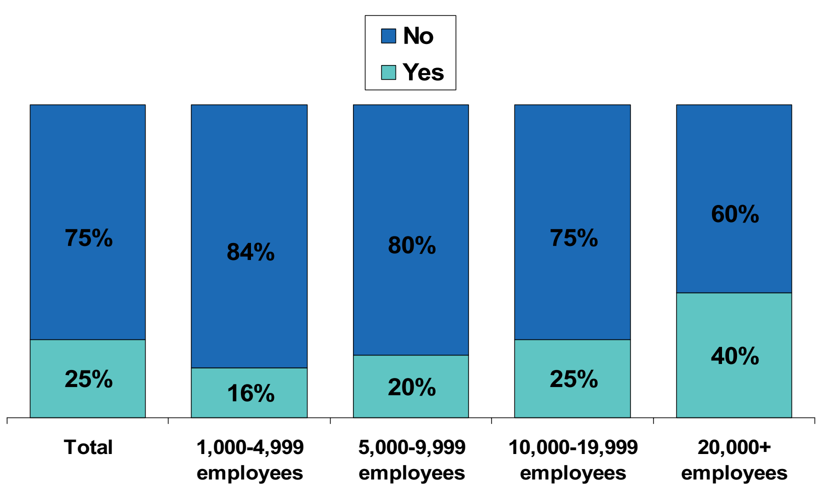
- While 40% of larger firms (with 20,000 or more employees) report they are pre-funding retiree health obligations, only 16% of smaller firms (fewer than 5,000 employees) do so.

Pre-funding can have both advantages and disadvantages for employers, depending on their situation. Under current accounting rules, pre-funding reduces the amount that companies report on their financial statements in terms of their retiree health liability. The lower the amount pre-funded, the greater the unfunded liability on the balance sheet. In lieu of pre-funding retiree health benefits, most firms pay for retiree health benefits out of general funds; in many cases, companies may have identified other uses of the funds with a higher return on investment. In addition, the pre-funding vehicles available to private for-profit entities generally have tax law restrictions that limit the tax effectiveness of these funding vehicles and the ability to fully fund retiree health benefits.

Exhibit 11

Percentage of Large Private-Sector Employers Pre-Funding Their Retiree Health Care Obligations, by Firm Size

Is your firm pre-funding its retiree health care obligations?



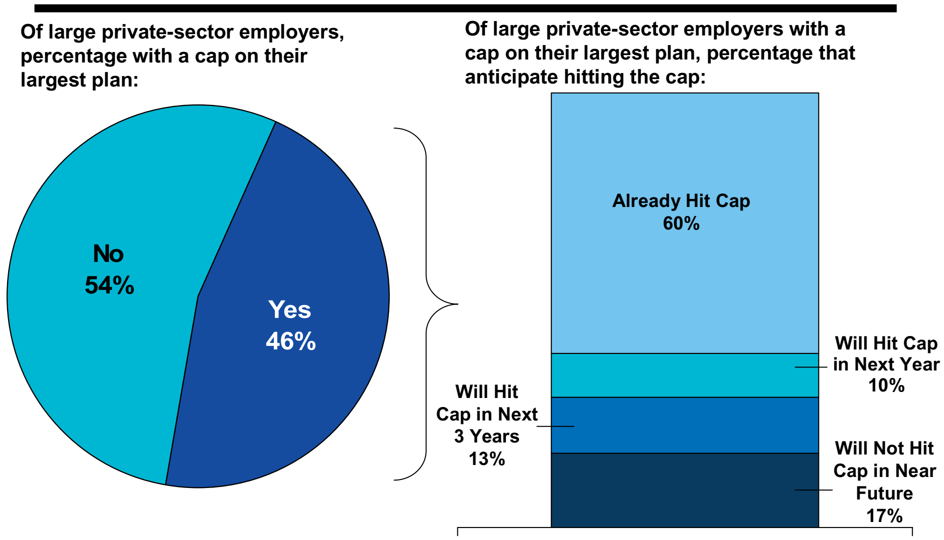
Note: Firms that report pre-funding have made contributions to the fund within the last three years. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Caps on Employer Obligations **(Exhibits 12-13). Many large employers have placed caps on their future financial obligations for retiree health coverage in response to rising costs.**

- About half of surveyed firms (46%) have a cap on their firm's contribution to retiree health benefits in the largest pre-65 plan.
  - 60% of surveyed employers with a cap on the largest age 65+ plan have already hit the cap and another 23% say they expect to hit the cap within the next 1-3 years.
- Half of surveyed firms (50%) have a cap on their firm's contribution to retiree health benefits in the largest age 65+ plan.
  - 61% of surveyed employers with a cap on the largest age 65+ plan have already hit the cap and another 20% say they expect to hit the cap within the next 1-3 years.

Exhibit 12

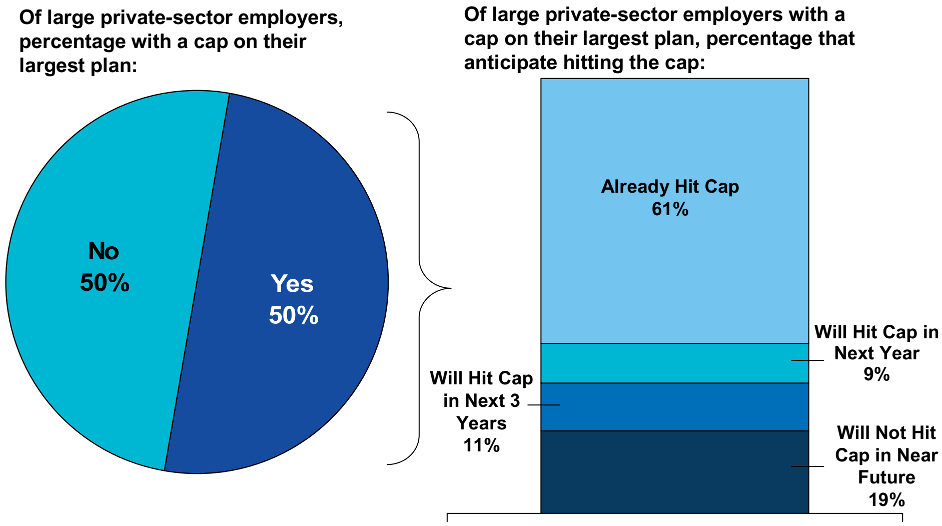
Percentage of Large Private-Sector Employers with a Cap on Their Firm's Contribution to Retiree Health Benefits for Pre-65 Retirees in the Largest Plan



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 13

Percentage of Large Private-Sector Employers with a Cap on Their Firm's Contribution to Retiree Health Benefits for Age 65+ Retirees in the Largest Plan



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

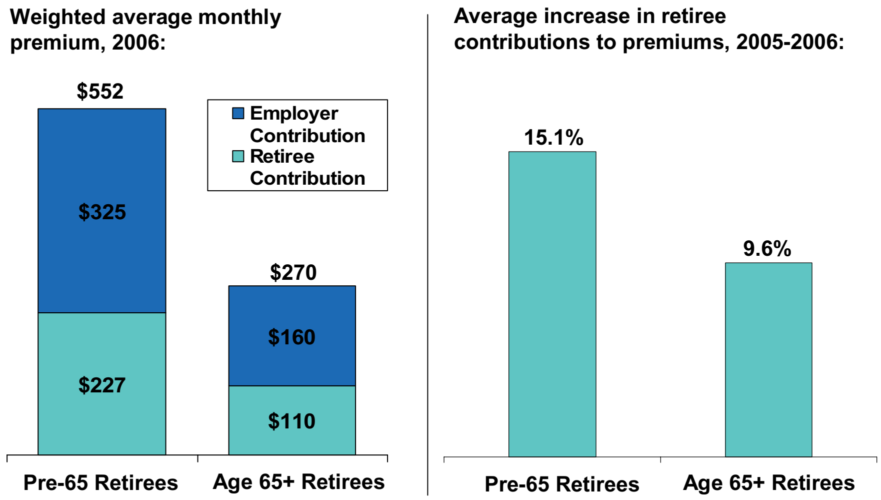
Premiums and Retiree Contributions

***Premiums* (Exhibits 14-16). The weighted average total premium (the sum of employer and retiree contributions) is generally higher for pre-65 retirees than for age 65+ retirees because the employer plan is the main source of coverage for pre-65 retirees but typically secondary to Medicare for retirees ages 65 and older. Retiree contributions to premiums increased at a faster rate for pre-65 retirees than for age 65+ retirees.**

- The weighted average retiree-only total premium (employer and retiree) for newly retiring pre-65 retirees in the largest plan is $552 per month ($6,624 per year), and $270 per month ($3,240 per year) for new age 65+ retirees.
  - The weighted average retiree contribution to premium is $227 per month ($2,724 per year) for newly retiring pre-65 retirees in the largest plan, and $110 per month ($1,320 per year) for new 65+ retirees in the largest plan (including firms that do not require retiree contributions to premiums).
- Looking at retiree contributions as a share of the total premium, new retirees in the largest plan – both pre-65 and age 65+ retirees – each contribute 41% of the total premium, on average.
  - 17% of surveyed firms require newly retired pre-65 retirees in the largest plan to pay the entire premium for their health insurance coverage, while 8% do not require retirees to pay any portion of the total premium.
  - Similar findings hold for age 65+ retirees in the largest plan – 15% of surveyed firms require newly retired age 65+ retirees in the largest plan to pay 100% of the total premium for their health insurance coverage, while 9% do not require retirees to contribute to the total premium.
- Between 2005 and 2006, the weighted average increase in the amount retirees contribute to premiums was 15.1% for new age pre-65 retirees, and 9.6% for new age 65+ retirees in plans with the largest number of retirees.[15] The lower rate of increase for age 65+ retirees than pre-65 retirees is likely to be largely the result of the Medicare prescription drug program. Firms that self insure appear to be backing out the retiree drug subsidy in determining the overall cost (premium) of the plan.[16]
- Nearly a quarter of employers report no increase in retiree contributions for pre-65 and age 65+ retirees in the largest plan between 2005 and 2006 (23% and 24%, respectively).
- 8% of firms that provide benefits to age 65+ retirees report a decrease in retiree contributions in the largest health plan between 2005 and 2006. Reductions in retiree contributions may occur, for example, when the employer plan wraps around Medicare drug coverage, resulting in lower costs for the overall retiree medical benefit and lower retiree contributions because the retiree is receiving a larger portion of retiree health benefits from Medicare. In addition, if an employer has terminated drug coverage for a group of retirees, the resulting premium for the retiree medical benefits could go down.

Exhibit 14

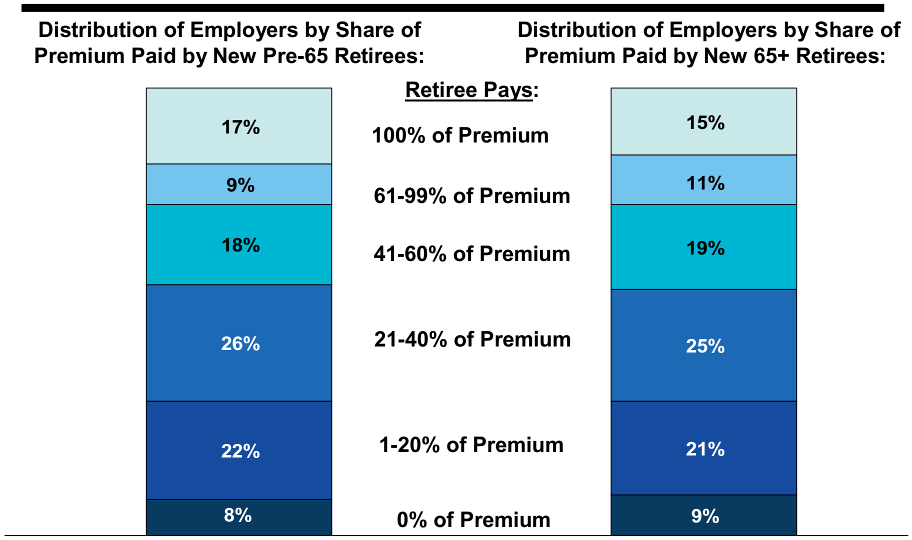
Average Monthly Premiums for New Retirees in the Largest Pre-65 and Age 65+ Plans



Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2006 in plans with the largest number of enrolled retirees. Includes firms that do not require retiree contributions. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 15

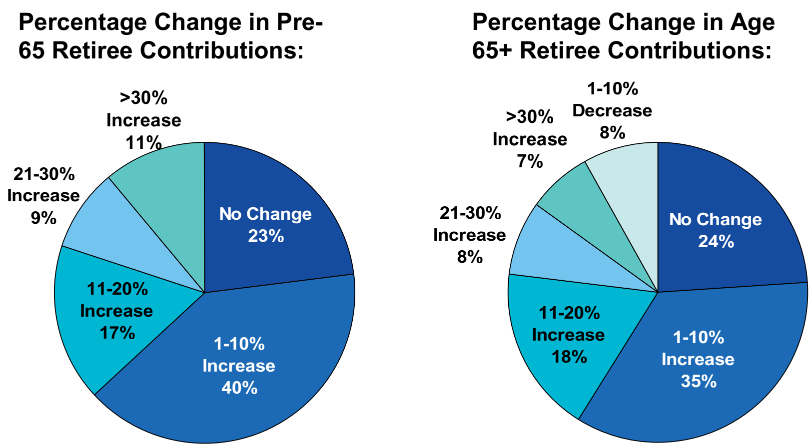
Distribution of Employers by Share of Premium Paid by Retirees in the Largest Plan



Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2006, in plans with the largest number of enrolled retirees. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 16

Distribution of Employers by Reported Change in Retiree Contributions to Premiums in the Largest Plan, 2005 to 2006



Note: Retiree contributions to premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2005 and January 1, 2006, respectively, in plans with the largest number of pre-65 and age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Recent and Future Changes in Retiree Health Benefits

Changes between 2005 and 2006 **(Exhibits 17-18). Surveyed employers made a number of changes that affected pre-65 and age 65+ retiree health benefits between 2005 and 2006**.[17]

- The majority of surveyed employers increased retiree contributions to premiums between 2005 and 2006, though a larger share did so for pre-65 retirees.

  – 74% increased pre-65 retiree contributions to premiums.
  – 58% increased age 65+ retiree contributions to premiums.

- Employers also increased retiree cost-sharing requirements and out-of-pocket limits.

  – 34% increased retiree cost-sharing requirements for pre-65 retirees; 24% did so for age 65+ retirees.
  – 25% increased retiree out-of-pocket limits for pre-65 retirees; 16% did so for age 65+ retirees.

- Employers instituted a number of strategies to help curtail prescription drug costs in the last year:

  – 32% raised drug copayments or coinsurance for pre-65 retirees; 25% did so for age 65+ retirees.
  – 16% replaced fixed dollar copayments for drugs with coinsurance for their pre-65 retirees; 10% did so for age 65+ retirees.
  – 13% imposed mandatory mail order for maintenance drugs for pre-65 retirees; 10% did so for age 65+ retirees.

- Terminations, while not the norm, did occur between 2005 and 2006.

  – 1% of employers say they eliminated subsidized health benefits for a group of *current* age 65+ retirees; no employers reported terminating benefits for a current group of pre-65 retirees.
  – 11% of employers say they eliminated subsidized health benefits for a group of *future* pre-65 retirees and 9% eliminated them for a group of future age 65+ retirees.[18]

    ▪ Terminations affect new hires (e.g. those hired after January 1, 2006), and in some instances, certain groups of current employees.
    ▪ Nearly half of firms that terminated subsidized retiree health coverage for future retirees indicated they provide affected retirees access to health benefits for which retirees would pay 100% of the premium.

- 10% of surveyed employers say they offered an account-based retiree health plan such as an HRA (health reimbursement arrangement) or HSA (health savings account) for pre-65 retirees. This strategy was less commonly used for age 65+ retirees (3%). HRAs and

HSAs are both financial accounts that employees and retirees can use to pay for health care services. Both are typically offered with a high-deductible health plan, though they differ in terms of their rules (e.g., who may contribute to the account).[19]

- A small percentage of surveyed employers placed a new cap on their firms' contributions for a group of pre-65 or age 65+ retirees for which there previously was no cap (7% and 6%, respectively).

- A small share of surveyed firms added or improved benefits for their pre-65 and age 65+ retirees between 2005 and 2006 (8% and 7%, respectively).

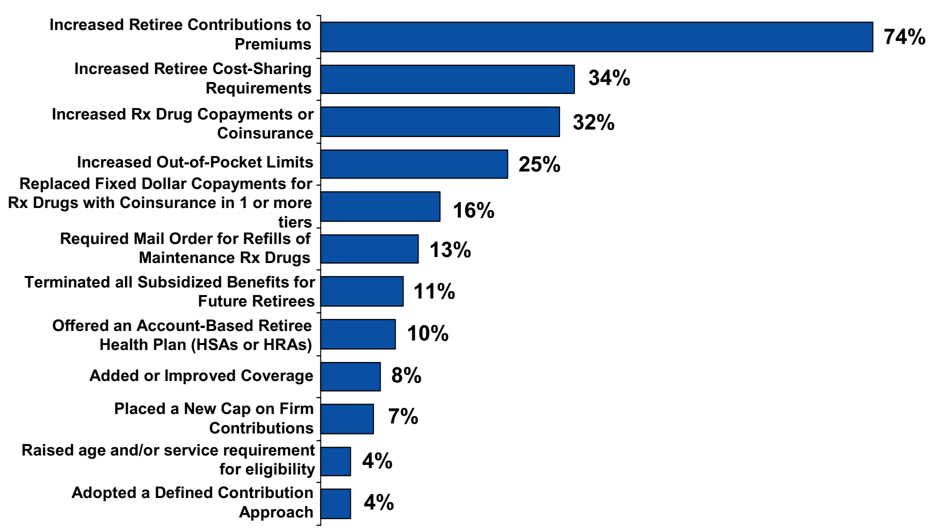
  – Examples of improvements include: adding new medical benefits for retirees such as preventive care; lowering retiree contributions to premiums; extending retiree health benefits to a newly acquired group of employees; and adding retiree coverage for domestic partners.

- A relatively small share of surveyed employers adopted a defined contribution approach between 2005 and 2006 (4% for both pre-65 and age 65+ retirees).

- 4% of surveyed firms raised the age and/or years of service requirements for retiree health benefit eligibility for pre-65 retirees and 2% made such changes for age 65+ retirees.

Exhibit 17

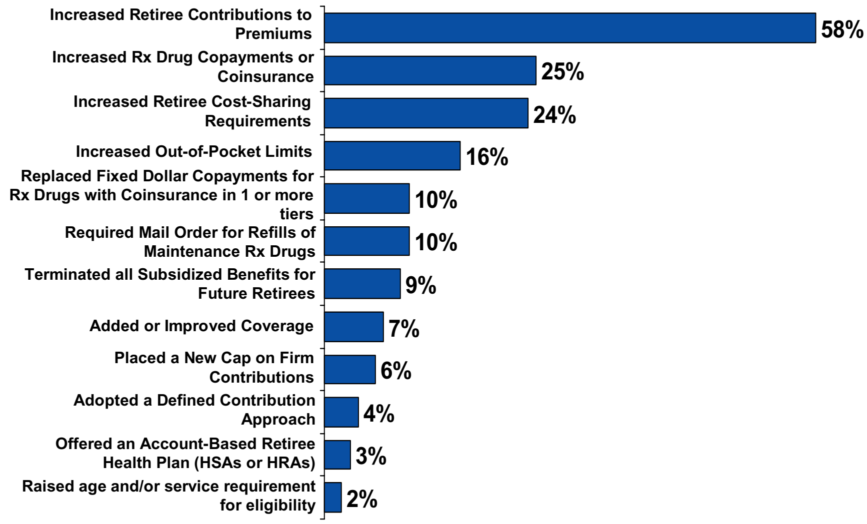
Percentage of Large Private-Sector Employers that Made Changes to Pre-65 Retiree Health Benefits between 2005 and 2006



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 18

Percentage of Large Private-Sector Employers that Made Changes to 65+ Retiree Health Benefits between 2005 and 2006



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Prospects for Change in the Future **(Exhibit 19). Surveyed employers expect to make a number of changes in their retiree health benefits for the 2007 plan year, without distinguishing between future changes for pre-65 and age 65+ retiree plans.**

- The vast majority of surveyed large private-sector employers say they are very or somewhat likely to raise retiree contributions to premiums and/or cost-sharing requirements for retirees for the 2007 plan year:

  — 80% say they are very (64%) or somewhat (16%) likely to increase retiree contributions to premiums.
  — 40% are very (26%) or somewhat (14%) likely to increase retiree cost-sharing requirements.
  — 30% are very (18%) or somewhat (12%) likely to raise out-of-pocket limits.

- In terms of prescription drugs, surveyed employers say they are very or somewhat likely to implement the following changes for the 2007 plan year:

  – 36% are very (20%) or somewhat (16%) likely to increase drug copayments or coinsurance.
  – 19% are very (9%) or somewhat (10%) likely to require mail order for refills of maintenance drugs.
  – 16% are very (8%) or somewhat (8%) likely to replace fixed dollar copayments for prescription drugs with a coinsurance approach.

- 17% say they are very (10%) or somewhat (7%) likely to offer an account-based retiree health plan.

- 9% say they are very (4%) or somewhat (5%) likely to place a new cap on the firm's contributions for a group of retirees for which there previously was no cap.

- 7% say they are very (3%) or somewhat (4%) likely to add or improve coverage or benefits for retirees.

- 4% say they are very (2%) or somewhat (2%) likely to adopt a defined contribution approach (not shown).

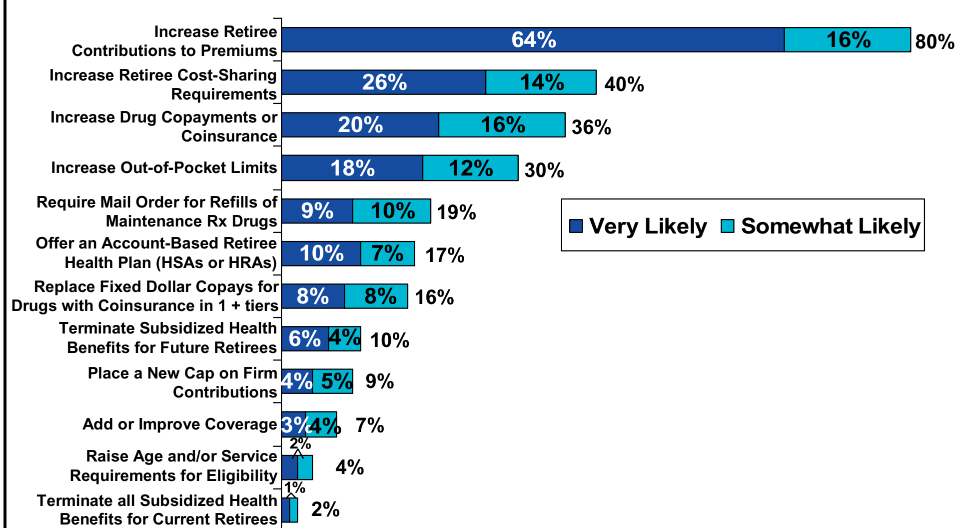
- 4% say they are very (2%) or somewhat (2%) likely to raise age and/or years of service requirements for eligibility.

- 10% say they are very (6%) or somewhat (4%) likely to terminate coverage for *future* retirees.

  – 2% say they are very (1%) or somewhat (1%) likely to terminate coverage for *current* retirees.

Exhibit 19

Likelihood of Making Changes to Retiree Health Benefits for the 2007 Plan Year



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Employers' Responses to Medicare Drug Coverage

To encourage private-sector employers to maintain prescription drug coverage for Medicare-eligible retirees following implementation of the Medicare drug benefit, the Medicare Modernization Act of 2003 includes a number of options to give employers flexibility in maintaining these benefits over time.

- **Maintain prescription drug benefits that are at least actuarially equivalent to the standard Medicare drug benefit defined in law.** Medicare offers financial incentives for employers that choose this approach in the form of tax-free payments equal to 28% of allowable drug costs between $265 and $5,350 in 2007 for each covered retiree not enrolled in Part D.[20] Taking the retiree drug subsidy is the least disruptive approach for employers and retirees.

- **Supplement (or "wrap around") Medicare Part D coverage and coordinate the employer's existing plan with the Medicare drug benefit.** Payments for prescription drugs made by employers on behalf of their Medicare-eligible retirees, however, do not count toward the retirees' true out-of-pocket (TrOOP) limit, which in turn triggers Medicare Part D's catastrophic coverage. Supplementing the Medicare prescription drug benefit is considered administratively challenging given the large number of Medicare PDPs and MA-PD plans available and their differences in drug benefit design.

- **Contract directly with a Medicare prescription drug plan (PDP) or Medicare Advantage prescription drug (MA-PD) plan to provide more generous coverage to retirees for an additional premium.** Under this approach, the employer purchases coverage from one or more Medicare drug plans, and has the option to offer supplemental benefits. Large multi-state employers might be particularly interested in contracting with nationally available plans.

- **Become a Medicare PDP or MA-PD plan.** Under this approach, the employer essentially sponsors a prescription drug plan for their retirees and receives the national average PDP subsidy from the government. CMS has waived certain requirements to facilitate this approach, such as requirements pertaining to state licensure, enrollment of all Medicare-eligible beneficiaries in the service area and minimum enrollment standards.[21]

- **Terminate prescription drug coverage.** Employers electing this option may continue to provide other health benefits to retirees, and possibly make a contribution to Medicare prescription drug plan premiums.

In addition, employers have the option of converting the current employer contributions for retiree health benefits into a defined contribution credit. Retirees can use the contributions to purchase Part D coverage.

***Medicare Strategy in 2006* (Exhibit 20). The majority of surveyed employers offer prescription drug coverage to their Medicare-eligible retirees in the largest plan that is at least actuarially equivalent to the standard Medicare drug benefit, and are accepting the tax-free subsidy in 2006.**

- 82% of surveyed employers offer prescription drug coverage and are accepting the tax-free subsidy for their largest group of age 65+ retirees.

- 5% of surveyed employers offer prescription drugs as a supplement to the Medicare drug benefit for the plan with the largest group of age 65+ retirees.

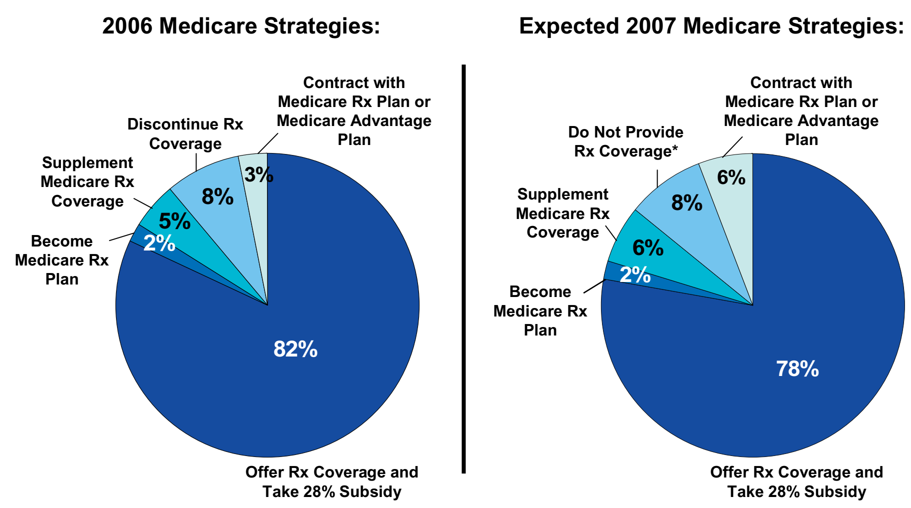
- 3% of surveyed employers contract with a Medicare prescription drug plan or a Medicare Advantage plan to offer additional prescription drug coverage.

- 2% of surveyed employers have become a Medicare prescription drug plan.

- 8% of surveyed employers discontinued drug coverage for the plan with the largest group of age 65+ retirees.

Exhibit 20

Employers' 2006 and Expected 2007 Medicare Drug Benefit Strategies for the Largest Age 65+ Plan



Note: *Virtually all of these companies discontinued drug coverage in 2006. Applies to plan with the largest number of age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Medicare Strategy in 2007 **(Exhibits 20-21). The majority of surveyed employers expect to pursue the same strategy in 2007 as they did in 2006; only 5% intend to change their approach in 2007.**

- 78% of surveyed employers – representing 88% of age 65+ retirees in the largest plans – expect to offer prescription drug coverage and accept the tax-free subsidy for their largest group of age 65+ retirees in 2007.

- 6% of surveyed employers – representing 7% of age 65+ retirees in the largest plans – expect to offer prescription drugs as a supplement to the Medicare drug benefit for the plan with the largest group of age 65+ retirees in 2007.

- 8% of surveyed employers – representing 4% of age 65+ retirees in the largest plans – say they will not provide drug coverage for the plan with the largest group of age 65+ retirees in 2007. Virtually all of these companies discontinued drug coverage in 2006.

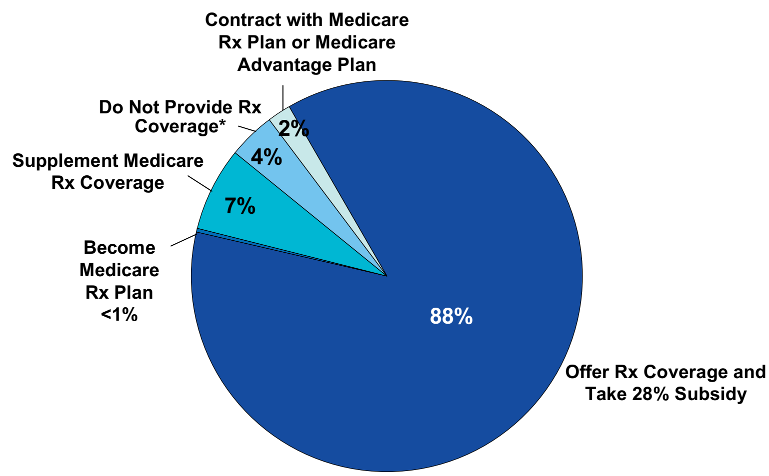
- 6% of surveyed employers – representing 2% of age 65+ retirees in the largest plans – intend to contract with a Medicare prescription drug plan or Medicare Advantage prescription drug plan to offer additional prescription drug coverage in 2007.

- 2% of surveyed employers – representing less than 1% of age 65+ retirees in the largest plans – intend to become a Medicare prescription drug plan in 2007.

Exhibit 21

Distribution of Retirees in the Largest Age 65+ Plan, by Employers' Expected 2007 Medicare Strategies

Percent of Retirees in the Largest Age 65+ Plan Affected by Each Strategy



Note: *Virtually all of these companies discontinued drug coverage in 2006. Numbers do not add to 100% due to rounding. Applies to plan with the largest number of age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Expected Savings in 2006. **The Medicare drug benefit provides some savings to employers who would otherwise bear greater financial responsibility for the cost of prescription drug coverage.**

- Across all surveyed employers – including employers that maintain drug benefits, supplement drug benefits, or even terminate drug coverage – the weighted average savings are estimated to be $571 per individual retiree in 2006 for the largest group of age 65+ retirees (not shown).
    - Among employers who maintain prescription drug benefits and accept the 28% subsidy, the estimated weighted average per retiree savings are $546 for 2006.
- Total employer savings attributable to their responses to the Medicare drug benefit represent a median 7% of the total cost of retiree health benefits for pre-65 and age 65+ retirees in 2006.[22]

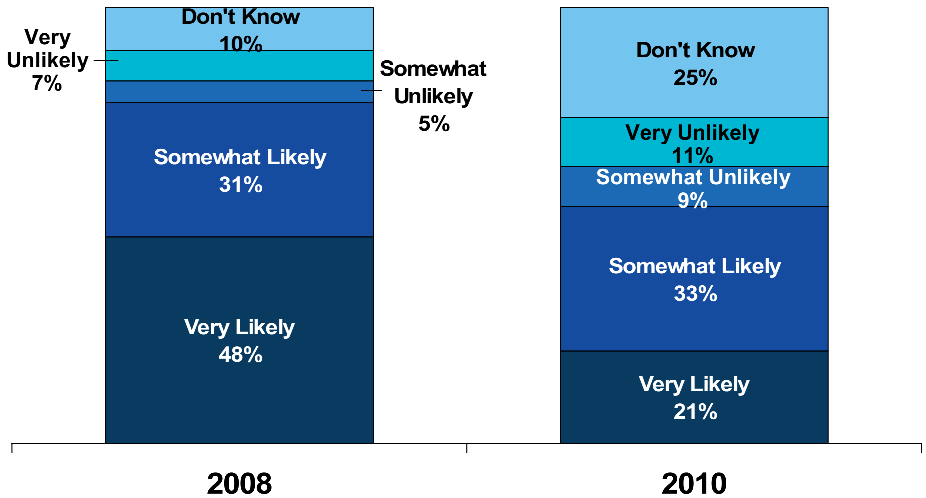
Medicare Strategies in the Future **(Exhibit 22). Employers taking the subsidy in 2006 are somewhat less certain about their strategies after 2007, but the majority of firms say they will accept the subsidy in 2008 and 2010. Employers who say they may not take the subsidy in the future are generally considering options other than dropping coverage.**

- Among employers providing prescription drug coverage and taking the subsidy in 2006:
    - 79% say they are very (48%) or somewhat (31%) likely to do so in 2008, but only 54% say they are very (21%) or somewhat (33%) likely to do so in 2010.
    - 12% say they are very (7%) or somewhat (5%) unlikely to take the subsidy in 2008, but that share rises to 20% in 2010 (11% very unlikely and 9% somewhat unlikely).
    - The share of employers reporting they "don't know" what their firm will do more than doubles from 10% for 2008 to 25% for 2010.
- Among the reasons that employers give for not continuing with the subsidy approach in the future include availability of better options and operational and administrative issues associated with the subsidy program.
- Employers who say they are unlikely to take the subsidy in the future say they are considering a number of options including contracting with a Medicare prescription drug plan to offer additional prescription drug coverage.

Exhibit 22

Likelihood of Continuing Drug Benefits and Accepting Employer Subsidy in the Future

Among Employers Taking the Subsidy in 2006



Note: Numbers do not add to 100% due to rounding. 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 2006 Survey on Retiree Health Benefits, December 2006.

Other Policies Affecting Retirees **(Exhibits 23-25). Employers have established a number of policies that would directly affect coverage for age 65+ retirees in the largest health plan who sign up for a Medicare drug plan in 2007.**

- Among surveyed employers who say they will continue to take the subsidy in 2007 and continue to offer drug coverage to retirees in their largest age 65+ plan:
  - 32% say retirees who sign up for a Medicare plan would maintain all employer-sponsored coverage.
  - 32% say retirees would lose prescription drug coverage only (and retain other benefits).
  - 36% say that retirees would lose both employer-sponsored medical and drug coverage if the retiree enrolls in a Medicare drug plan.

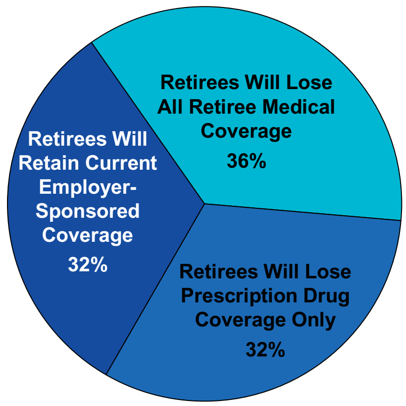
- Among surveyed employers who say they will continue to take the subsidy in 2007:
  - 57% say retirees would not be allowed to enroll or re-enroll in the employer plan at a future date if they sign up for a Medicare drug plan.
  - 43% of employers would allow retirees to re-enroll in the future.

- 82% of surveyed employers who say they will continue to take the subsidy in 2007 for retirees in their largest age 65+ plan say that if a retiree opts for a Medicare drug plan, the spouse of that retiree would not be allowed to keep employer-sponsored coverage.

Exhibit 23

Impact on Employer Coverage for Retirees Who Sign Up for a Medicare Drug Plan

Among Employers Continuing to Take the Subsidy in 2007

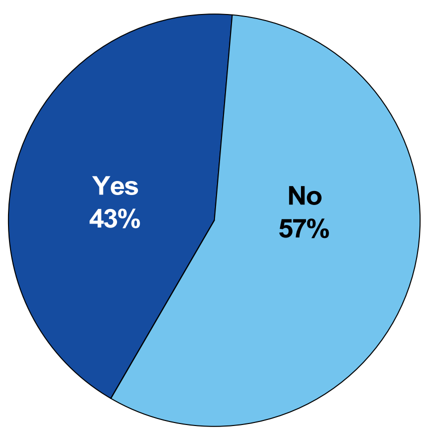


Note: Applies to plan with the largest number of age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 24

Share of Employers Allowing Retirees Who Enroll in a Medicare Drug Plan to Re-Enroll in an Employer Plan in the Future

Among Employers Continuing to Take the Subsidy in 2007

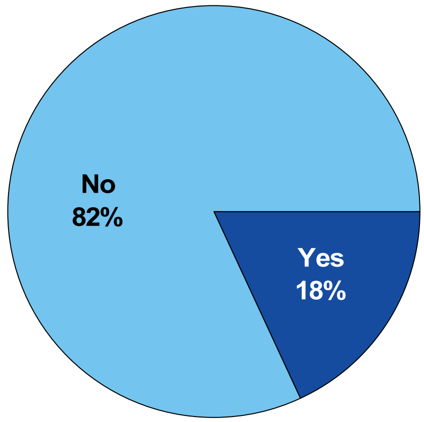


Note: Applies to plan with the largest number of age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 25

Share of Employers Allowing Spouses to Maintain Employer-Sponsored Coverage if a Retiree Opts for a Medicare Drug Plan

Among Employers Continuing to Take the Subsidy in 2007



Note: Applies to plan with the largest number of age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Role of the Federal Government in Financing Pre-65 Retiree Coverage

***Future Outlook* (Exhibit 26). Surveyed employers were asked whether their senior management thinks the federal government should play a larger role than it does today in financing retiree health benefits for pre-65 retirees. Large employers' responses are split on this issue.**

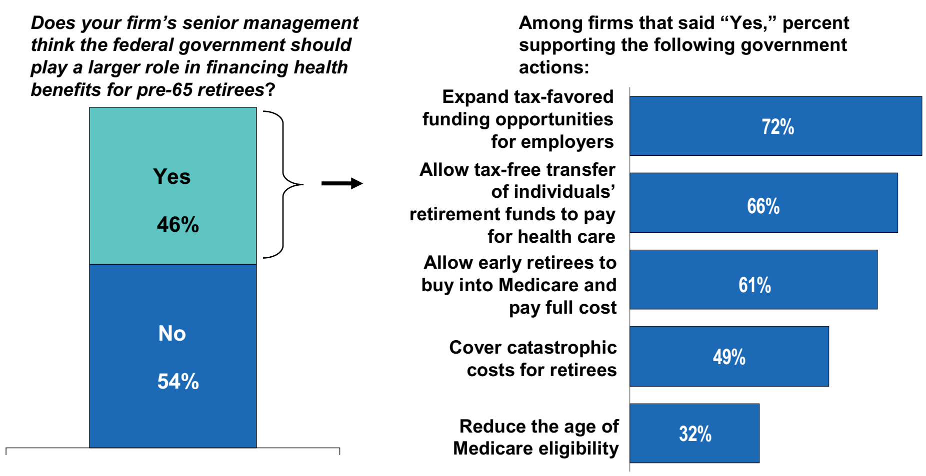
- Over half (54%) answered "no," their senior management does not think the federal government should play a larger role in financing pre-65 retiree health benefits.

- 46% answered "yes," their senior management thinks the federal government should play a larger role in financing pre-65 retiree health benefits. Among this group:

  - 72% support expanding tax-favored funding opportunities for employers.
  - 66% support allowing tax-free transfer of individuals' retirement funds to pay for health care.
  - 61% support allowing early retirees to buy into Medicare and pay the full cost.
  - 49% support covering catastrophic costs for retirees.
  - 32% support reducing the age of Medicare eligibility.

Exhibit 26

Employers' Views about the Role of the Federal Government in Financing Retiree Health Benefits for Pre-65 Retirees



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Discussion

The cost and future of employer-sponsored retiree health benefits remain key concerns among policymakers, employers, and retirees. The good news is that in 2006, increases in the total costs (employer and retiree shares) for retiree health benefits moderated for a number of reasons including lower overall health care cost escalation and the availability of savings from the Medicare drug benefit for employers continuing to offer prescription drug coverage to retirees on Medicare. Despite the slow down in the rate of increase of retiree health costs, employers continued to increase retiree contributions – at higher rates of increase for pre-65 retirees than for age 65+ retirees.

With respect to the Medicare drug benefit, the response of employers thus far represents far more continuity than change. Most surveyed employers say they intend to continue providing prescription drug benefits to their Medicare-eligible retirees and accept the 28% subsidy from Medicare in 2007 and in 2008, but have greater uncertainty over the longer term. Employers will likely continue to monitor the situation annually to assess whether savings from the Medicare drug benefit will provide enough relief to enable them to continue providing coverage, and if so, in what form. On average, surveyed employers' estimates of the Medicare drug program savings per individual retiree in 2006, although significant, are lower than reported in our 2005 survey, suggesting that employers have "sharpened their pencils" in light of additional experience with the retiree drug subsidy over the past year. When placed in the larger context of total spending for all retiree health benefits, both medical and prescription drugs for pre-65 and age 65+ retirees, the Medicare savings represent a relatively modest share of the total cost.

For Medicare-eligible retirees, the short-term outlook is generally, but not entirely, positive. The vast majority of age 65+ retirees with coverage can expect continued coverage from their employer in 2007, without the disruptions that some had feared. At the same time, employers are raising retiree contributions to premiums, and increasing cost-sharing requirements. A small number of large employers say they plan to discontinue prescription drug coverage for Medicare-eligible retirees, which will clearly be a concern for affected retirees and their dependents. Even for retirees in the majority of firms that expect to maintain coverage in 2007, our findings confirm the strong need for retirees to stay on top of the rules regarding their employer coverage. For example, retirees that opt out of employer-provided subsidy plans to enroll in Part D may not be able to rejoin their employer plans in the future. And, there are important considerations for couples covered by employer plans; most employers continuing to take the subsidy in 2007 say that the spouse of a retiree would lose employer coverage if the retiree elects a Part D plan. These findings underscore the importance of retirees making careful, well-thought-out decisions about coverage each year.

With respect to pre-65 retirees, the story is more mixed. Pre-65 retirees generally have the greatest need for employer-provided coverage because Medicare is not available to them and it is often difficult for early retirees to find comparable, affordable coverage in the individual market. Retiree contributions to premiums for early retirees are rising more rapidly than for age 65+ retirees. Pre-65 retirees, like age 65+ retirees, are also being asked to absorb higher cost-sharing requirements for their covered benefits. Looking to the future, pending regulatory issues and related litigation may affect the ability of employers to offer coverage to pre-65 retirees.[23] The likelihood of continued rising health care costs, FASB's evolving accounting rules, and limited savings from the Medicare drug benefit as a percent of total retiree health costs may lead employers to reassess coverage for early retirees on an ongoing basis in light of changing economic circumstances.

Despite sustained cost pressures, private-sector employers that offer retiree health care coverage are split over the issue of whether the federal government should play a larger role in financing retiree health benefits for pre-65 retirees. If mounting costs continue to be a problem, some employers may look to the federal government to help shoulder some of the burden in terms of improved tax incentives, while others may act on their own to reduce their retiree health obligation by changing the programs over which they have control.

For active workers, the prospects for receiving retiree health benefits are increasingly uncertain. To begin with, retiree health benefits in the private sector are mainly offered by large employers; many employees are working in smaller firms with little or no access to such coverage. On a positive note, most large, private employers in this survey report that their largest retiree health plan is available to new retirees as of January 1, 2006, and the majority reports that they offer retiree health benefits to new employees. Yet, about one in ten surveyed employers say they eliminated subsidized health benefits for a future group of pre-65 and age 65+ retirees between 2005 and 2006. The full effect of these changes may not be realized in the immediate future because current retirees are largely shielded from outright terminations and many employees may have their coverage grandfathered. Yet these changes will no doubt have a more pronounced and greater impact on retirement security for current workers as they approach the end of their working years.

Absent the availability of other affordable coverage options for pre-65 retirees, current employees will have strong financial incentives to work longer and retire later. Early retirees are likely to be asked to finance a larger portion of their health care costs themselves, compared to previous generations of retirees. Increasingly, retirees are being offered access to employer group health plans, but being asked to pay the full premium. For all of these reasons, access to, and affordability of coverage for pre-65 retirees may take a more prominent place in the upcoming debates over health policy issues in the new Congress.

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 nonprobability 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 2,400 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 the Standard & Poor's Research Insight^{SM} public database as well as other employer databases.

Despite interest in examining trends in this area, comparisons between this year's findings and results from previous Kaiser/Hewitt surveys 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 are not strictly comparable from year to year.

The survey, conducted between June 20 and October 16, 2006, was 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 99% completing the survey in that manner, versus 1% that completed and returned the printed questionnaire.

Characteristics of Participating Employers

Overall, 302 large, private-sector employers responded to the survey. These employers represent 36% of Fortune 100 companies and 22% of Fortune 500 companies. The surveyed employers include more than one-quarter (32%) of the Fortune 100 companies with the largest retiree health liabilities in 2005.

Most (n = 258) 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 (n = 41) or age 65+ retirees (n = 3), but not both. There are 299 employers that provide pre-65 coverage and 261 that provide coverage to age 65+ retirees. The overwhelming majority (95%) of surveyed employers are multi-state companies that represent a broad range of manufacturing (44%) and nonmanufacturing (56%) industries. Fifteen percent of surveyed employers are large subsidiaries of a parent organization.

The 302 surveyed employers reported having 6,723,752 employees, with an average of 22,264 employees per employer and a median of 8,350 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 16.8 million employees and family members.

The surveyed employers reported a total of 3,128,493 pre-65 and age 65+ retirees, with an average of 10,359 retirees and a median of 2,000 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 5.2 million retirees and family members. The employers in this sample provide health benefits to an estimated 3.4 million Medicare-eligible retirees and their spouses, representing 27% of the 12.4 million Medicare beneficiaries with retiree health benefits and accounting for half of the 7.2 million Medicare beneficiaries with private, employer-sponsored retiree coverage. The 7.2 million figure for the number of Medicare beneficiaries with private, employer-sponsored retiree coverage was calculated by subtracting the estimated 3.5 million federal retirees and 1.7 million retirees of public-sector employers receiving the retiree drug subsidy from the 12.4 million Medicare beneficiaries with retiree coverage (CMS staff communication, November 2006).

In terms of the overall distribution of firms, 37% have 1,000 to 4,999 employees, 17 % have 5,000 to 9,999 employees, 21% have 10,000 to 19,999 employees, and 25 % are “jumbo” firms with 20,000 or more employees (Table A1).

Table A1: 2006 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	302	112	50	65	75
Firms as a % of Total	100%	37%	17%	21%	25%
Number of Retirees	3,128,493	155,772	141,250	390,575	2,440,896
Number of Workers	6,723,752	275,661	348,017	902,439	5,197,635

Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Total Cost of Retiree Health Benefits in 2005

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 $19.6 billion in 2005. The total was derived by taking the average total cost by firm size for the 247 surveyed employers who responded to the total cost question, and applying that average cost per size of firm to the 55 employers who did not respond to the question. This resulted in a total cost of $2.6 billion for the 55 non-responding employers added to the $17 billion for the 247 responding employers.

The total cost of retiree health coverage of firms in this study represents more than a quarter (29%) 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 (on average, 63% for pre-65 retirees and 72% for age 65+ retirees), 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' 2006 Hewitt Health Value Initiative (HHVI) survey that collects detailed active employee plan costs for over 425 major employers. Using this active employee cost ($7,741 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 (95%), 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 pre-65 and 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).

Table A2: Retiree Enrollment in Plan with Largest Participation, by Firm Size, 2006

	All Retirees Largest Plan	1,000-4,999 Employees	5,000-9,999 Employees	10,000-19,999 Employees	20,000 or More Employees
PRE-65 RETIREES					
Average Number of Retirees in Largest Plan	2,459	199	657	1,015	8,171
Average % of Retirees Covered in Largest Plan	63%	72%	58%	57%	56%
AGE 65+ RETIREES					
Average Number of Retirees in Largest Plan	4,247	681	1,000	2,648	11,107
Average % of Retirees Covered in Largest Plan	72%	81%	68%	71%	63%

Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

The premium and retiree contribution information is gathered with respect to employees newly retiring on or after January 1, 2006, 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% and 50%.

Table A3: Total Premiums and Retiree Contributions, by Firm Size, 2006 (Unweighted)

	1,000-4,999 Employees	5,000-9,999 Employees	10,000-19,999 Employees	20,000 or more Employees
PRE-65 RETIREES:				
	Total Premium			
Median	$475	$450	$475	$525
Mean	$516	$460	$541	$559
	Average Retiree Contribution			
Median	$179	$124	$154	$169
Mean	$251	$168	$229	$229
AGE 65+ RETIREES:				
	Total Premium			
Median	$225	$225	$225	$225
Mean	$279	$263	$291	$266
	Average Retiree Contribution			
Median	$106	$56	$69	$79
Mean	$136	$96	$103	$110

Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2006, 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 2006 Survey on Retiree Health Benefits, December 2006.

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 2006 over 2005 is weighted similarly.

In this year's report, the weighted average retiree contribution toward the total premium includes contributions of $0 (some firms do not require their retirees to pay any portion of the monthly premium).

Medicare Cost Savings

The survey asked employers to indicate the average dollar savings per retiree that would result from the Medicare drug benefit in 2006. We calculated average savings across employers, weighted by firm size and the average number of age 65+ retirees in the largest plan. By doing so, the average savings per 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.

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 2006 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.

Notes

[1] Kaiser Commission on Medicaid and the Uninsured and Urban Institute Analysis of the March 2006 Current Population Survey, 2006. Analysis shows 2.3 million retirees ages 55-64 with employer–sponsored coverage through their own employer. Applying a standard ratio of dependent family members to retirees (1.65), the total number of early retirees and dependents with employer-sponsored coverage is an estimated 3.8 million in 2005.
[2] Kaiser Family Foundation. *Retired Steelworkers and Their Health Benefits: Results from a 2004 Survey*. May 2006.
[3] U.S. Department of Health and Human Services. "Over 38 Million People with Medicare Now Receiving Prescription Drug Coverage." Press release. June 14, 2006.
[4] Another 2 million Medicare beneficiaries are working aged with employer-sponsored health benefits as their primary source of coverage.
[5] New York Times, 02/24/06; Philadelphia Inquirer, 8/29/2006; Associated Press, 10/06/06.
[6] Kaiser/HRET Annual Employer Health Benefits Survey, 2006.
[7] Kaiser/Hewitt Survey of Retiree Health Benefits, 2002-2005.
[8] The surveyed employers provide health benefits to 3.1 million retirees. We applied a standard ratio that assumes two thirds of all retirees are ages 65+ (2.1 million) and then imposed a standard ratio of family members to retirees (1.65) to get a total of 3.4 million retirees ages 65+ and dependents with health benefits provided by surveyed employers.
[9] Of the 12.4 million Medicare beneficiaries with retiree health benefits in 2006, CMS estimates 3.5 million are federal retirees and another 1.7 million are retirees of public employers receiving the retiree drug subsidy (CMS staff communication, November 2006). Excluding retirees of public employers, an estimated 7.2 million beneficiaries receive retiree health benefits from a private employer.
[10] According to the Kaiser/HRET Annual Employer Health Benefits Survey, 2006, retiree health benefits are offered by 54% of firms with 5,000 or more employees, 42% of firms with 1,000-4,999 employees, 31% of firms with 200-999 employees, and 9% of firms with 3-199 employees.
[11] New hires, as with other employees, typically have to meet age and/or service requirements to qualify for retiree health benefits.
[12] An open formulary covers all medications in most therapeutic categories without cost-sharing differential for preferred products (brands only). A restricted formulary covers medications in most therapeutic categories with cost-sharing differentials for preferred products (brands only). A closed formulary covers a more limited number of medications in all categories with no coverage for non-preferred products (brands only).
[13] See Kaiser Family Foundation/Health Research and Educational Trust 2006 Annual Employer Health Benefits Survey (September 2006) showing premiums for employer-sponsored health coverage rose on average 7.7 percent in 2006; Hewitt Associates survey of large employers showing health costs for active workers increasing by 7.9 percent in 2006 (www.hewittassociates.com, October 10, 2006).
[14] Based on a separate Hewitt Associates analysis of the Fortune 500 companies, more than 300 companies provided pension and/or retiree health obligations. The total retiree health liabilities at fiscal year-end 2005 exceeded $400 billion, less than a third of the $1.5 trillion in total pension liabilities reported. But whereas the pension liabilities had reported assets of $1.4 trillion, retiree health had only about $90 billion in assets, making retiree health and other post-employment benefits relatively more "underfunded" than pension plans by far.
[15] The weighted average increases include firms that reported no change, i.e., a zero percent increase in retiree contributions to premiums from 2005 to 2006.
[16] In addition, in some cases, employers are sharing all or a portion of the retiree drug subsidy with the retirees. This may be particularly true in situations where the plan's financial cap has been hit or might be hit. In other words, by sharing part of the retiree drug subsidy with retirees, the capped employer plan may remain actuarially equivalent to the Medicare drug benefit and the plan sponsor can qualify to continue to receive the drug subsidy for a longer period of time.
[17] In some cases, these changes may refer to one or more of among several retiree health plans that a single large private employer may offer, and not refer necessarily to the largest plan. This may be particularly true if the largest plan is collectively bargained.
[18] Between 2000 and 2006, a total of 148 companies in the annual Kaiser/Hewitt Retiree Health Surveys have terminated subsidized health benefits for a group of future retirees.

[19] HRAs are funded solely by employers; employee/retiree contributions are not permitted. In contrast, HSAs (established under the MMA of 2003 for individuals not eligible for Medicare) permit employees and pre-65 retirees to contribute. Although retirees ages 65 and over cannot contribute to HSAs, they can use accumulated balances to pay for health care. Unused HRA and HSA balances roll over from year to year.

[20] By law, these numbers are indexed annually. The 2006 retiree drug subsidy applied to allowable costs between $250 and $5,000.

[21] Yamamoto, Dale, "What Comes After the Retiree Drug Subsidy," *Benefits Quarterly*, Third Quarter, 2006.

[22] This percentage was calculated by taking the total savings for each employer (i.e., savings per individual retiree multiplied by the total number of the company's age 65+ retirees) in 2006 and dividing that sum by the employer's estimated 2006 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.

[23] Litigation is currently underway before the U.S. Court of Appeals for the Third Circuit concerning a rule that the Equal Employment Opportunity Commission (EEOC) had approved in April 2004, but which is not in force pending the Third Circuit's decision in the case of AARP v. EEOC. The EEOC rule would grant an exemption under the Age Discrimination in Employment Act (ADEA) to allow employers to coordinate their retiree health benefits with Medicare and to provide benefits to Medicare-eligible retirees that are different from those provided to pre-65 retirees, without violating the ADEA. A lower court ultimately ruled that EEOC has the legal authority to issue the rule, a decision that AARP has appealed. A decision is expected in 2007.

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