
Chartpack

Retiree Health Benefits Examined

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

December 2006

Hewitt



Survey Methodology

Data from the Kaiser Family Foundation/Hewitt Associates *2006 Survey on Retiree Health Benefits* are based on the responses of a non-random sample of 302 large private-sector firms (with 1,000 or more employees) that currently offer health benefits to retirees. This non-probability sample includes firms 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. These age 65+ retirees and dependents account for 27 percent of the more than 12 million Medicare beneficiaries with retiree health benefits and nearly half of the 7.2 million Medicare-eligible retirees with private employer coverage. Surveyed firms represent 36 percent of all Fortune 100 companies and 22 percent of all Fortune 500 companies. Due to the nature of the sample, findings may not be strictly comparable with previous Kaiser/Hewitt studies, which included different companies and different plans offered by those companies.

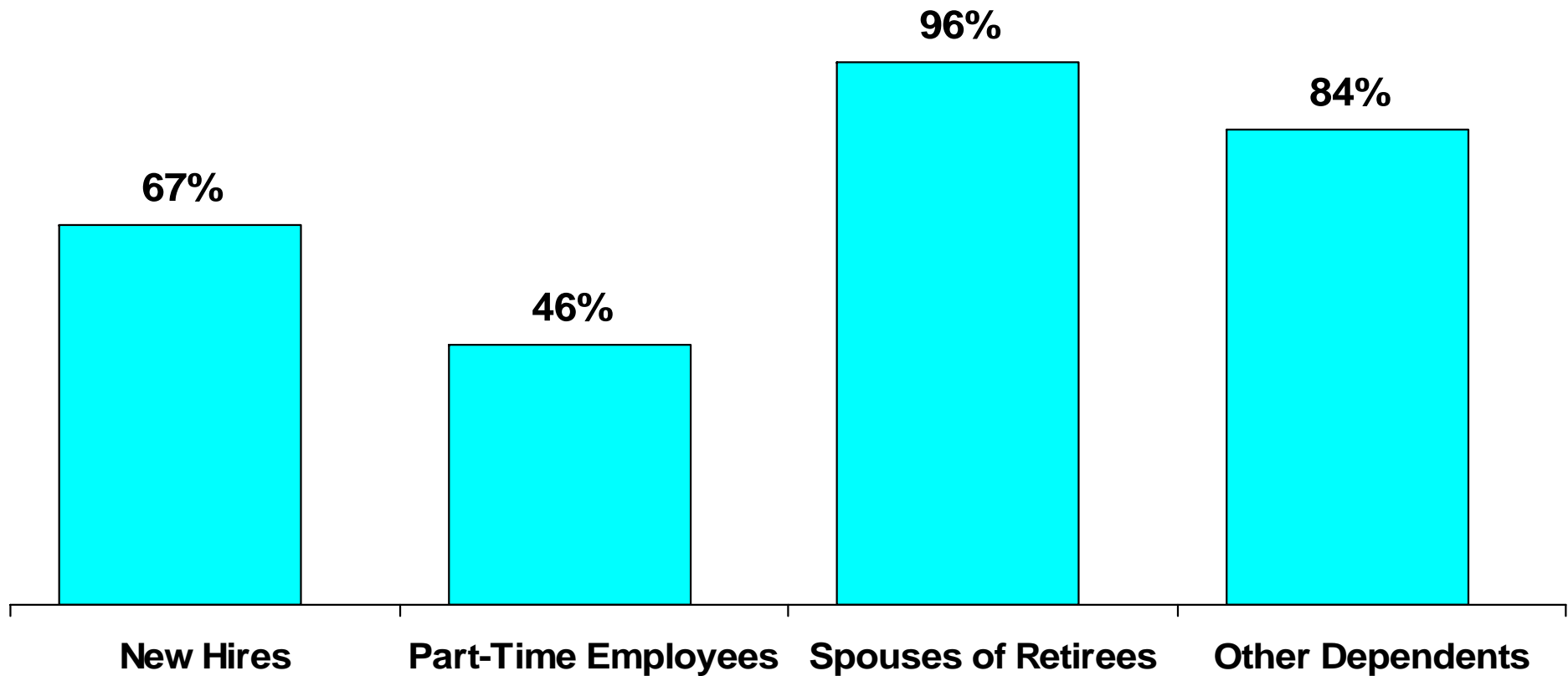
The survey was conducted online between June 20 and October 16, 2006. All premium information presented in this report reflects responses for the surveyed employers' retiree health plans with the largest number of enrolled retirees. Such plans represent the majority of retirees with health coverage among surveyed employers. Premium information presented is for individuals who retire on or after January 1, 2006 - 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.

Context and Scope

The Environment	The Survey
<ul style="list-style-type: none"> • Share of employers offering retiree health benefits declining from 66% in 1988 to 35% in 2006 (Kaiser/HRET, 2006) 	<ul style="list-style-type: none"> • Non-probability (non-random) sample of 302 large (1,000+ employees) private-sector employers that provide retiree health benefits
<ul style="list-style-type: none"> • Medicare drug benefit moving into second year 	<ul style="list-style-type: none"> • Respondents provide health benefits to 5.1 million retirees and dependent spouses
<ul style="list-style-type: none"> • Employers continue to struggle with cost pressures 	<ul style="list-style-type: none"> • Respondents provide benefits to about 25% of all Medicare beneficiaries with retiree benefits, and nearly half of the 7.2 million Medicare eligible retirees with private employer coverage
<ul style="list-style-type: none"> • New FASB 158 statement will require employers to show unfunded liability on balance sheet, rather than in a footnote 	<ul style="list-style-type: none"> • Online survey conducted between June and October 2006

Exhibit 2

Percentage of Surveyed Large Private-Sector Employers Providing Retiree Health Benefits to Selected Groups



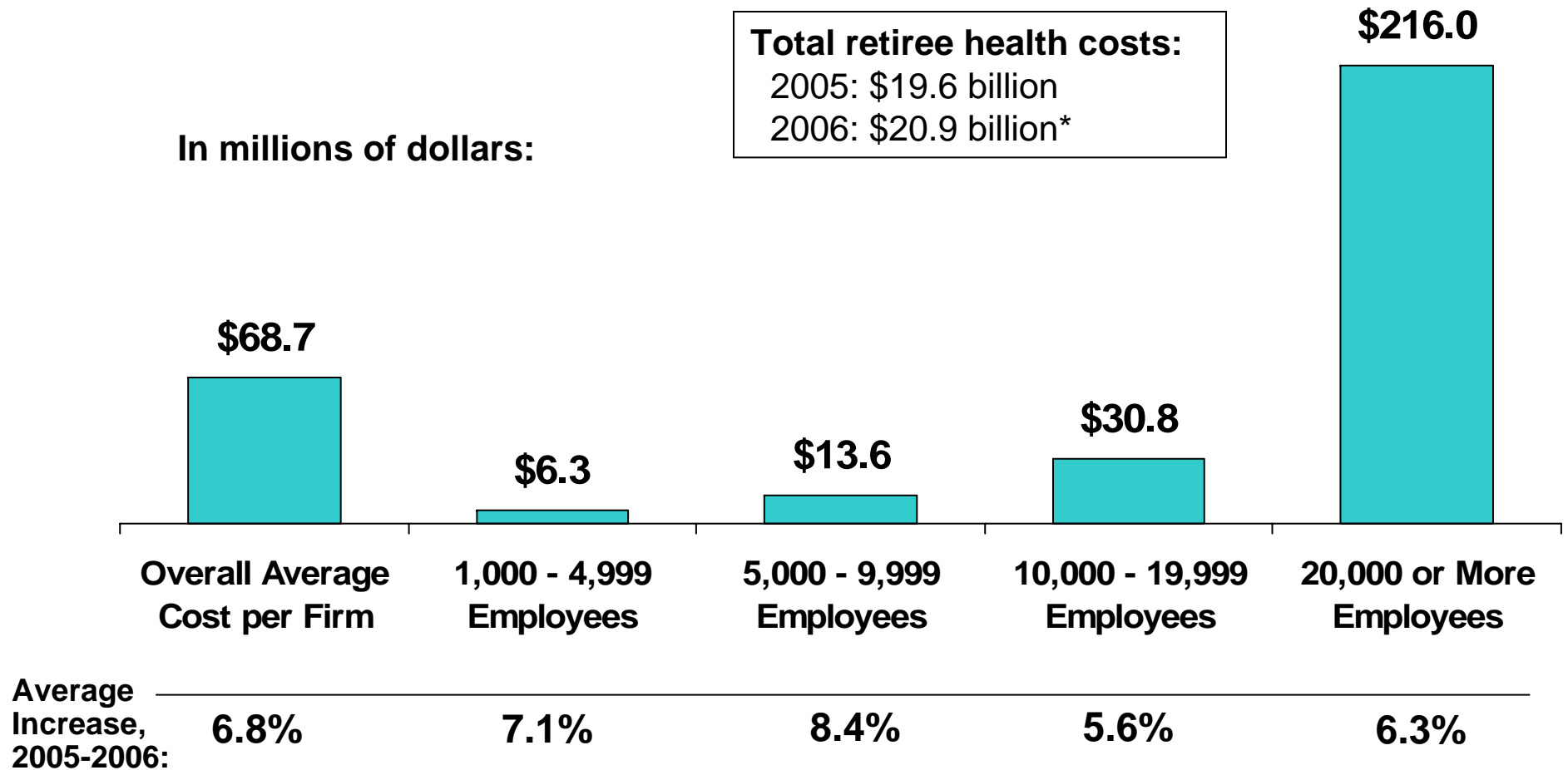
Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. New hires are employees hired as of January 1, 2006. *Grandfathered employees or retirees are those who retain retiree health benefits from a previously established plan that is no longer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

SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 3

Average Total Retiree Health Costs, by Firm Size, 2005

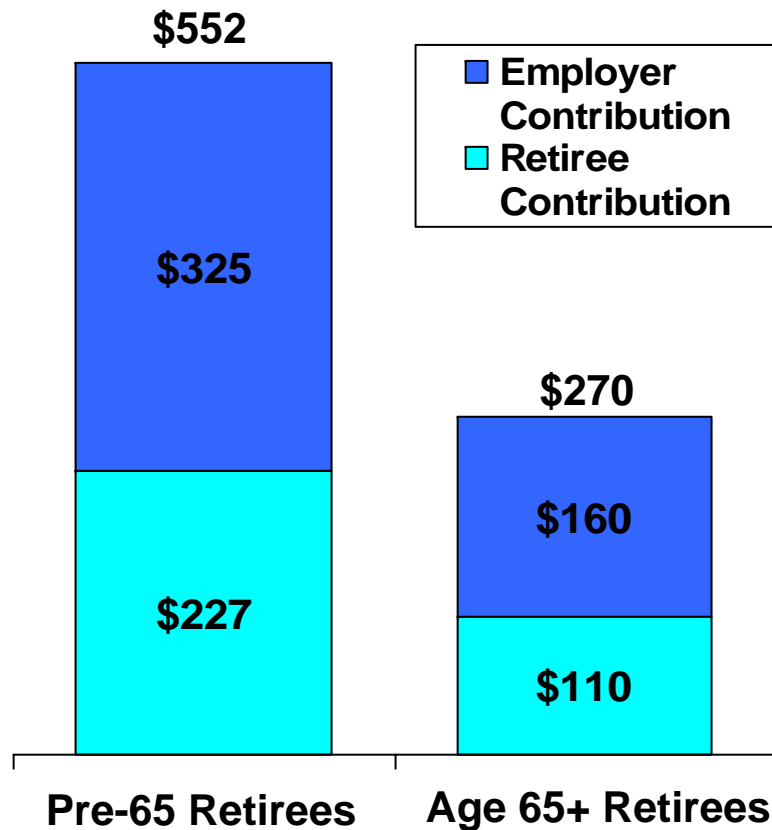
Average Increase in Retiree Health Costs, 2005-2006



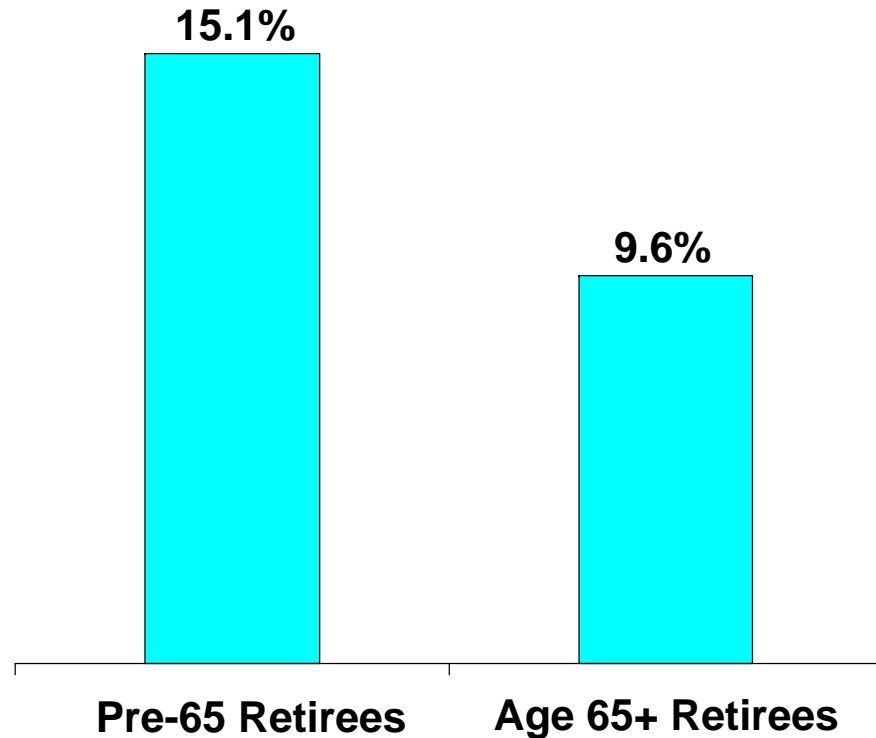
Note: *2006 estimate based on actual costs in 2005 increased by employers' estimates of total cost increases between 2005 and 2006. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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

Weighted average monthly premium, 2006:



Weighted average increase in retiree contributions to premiums, 2005-2006:



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.

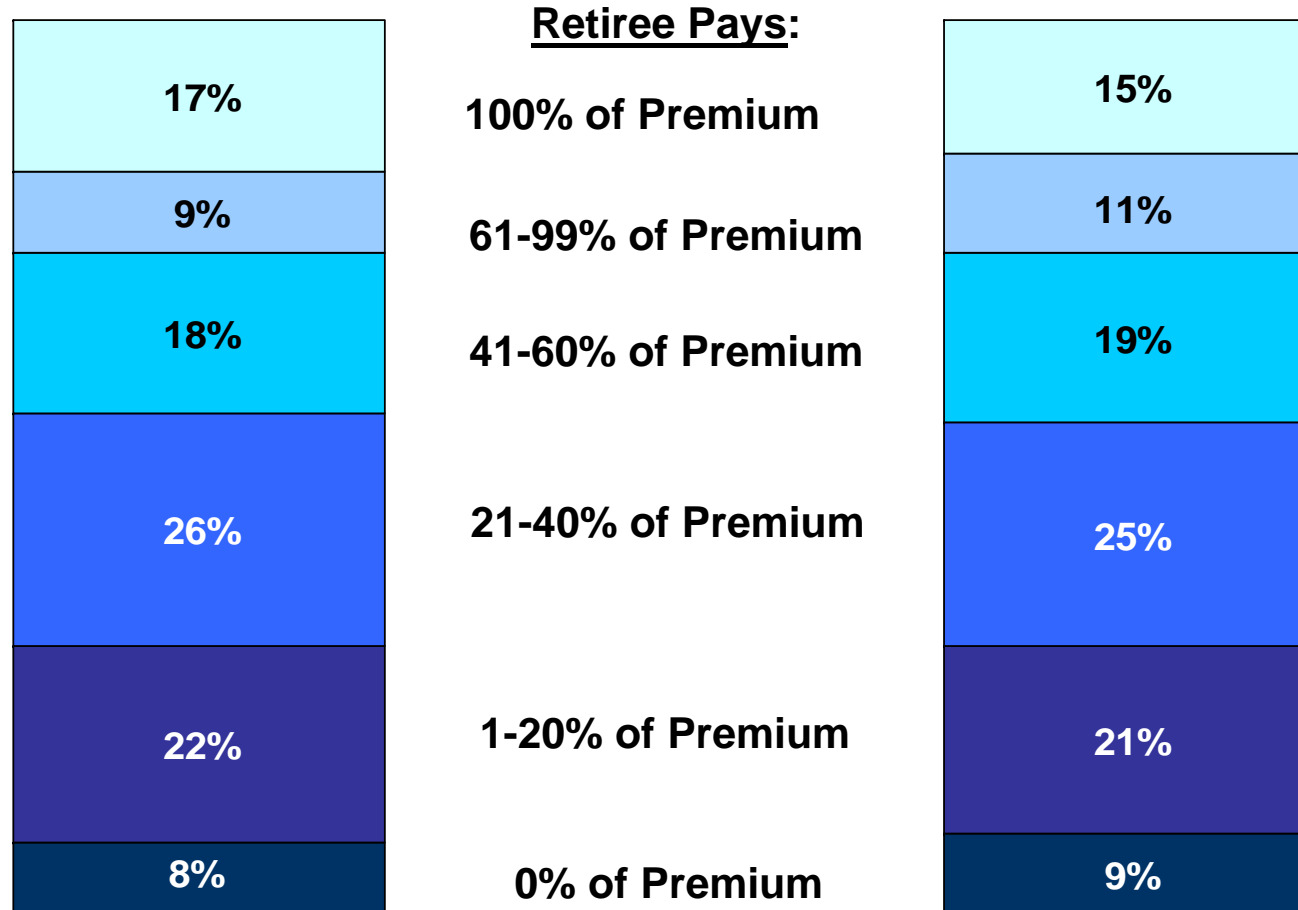
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 5

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

Distribution of Employers by Share of Premium Paid by New Pre-65 Retirees:

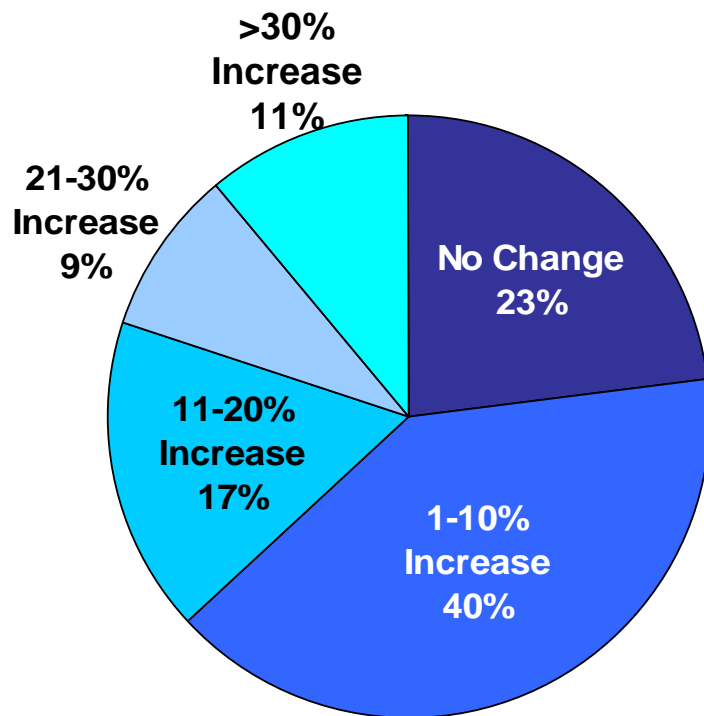
Distribution of Employers by Share of Premium Paid by New 65+ Retirees:



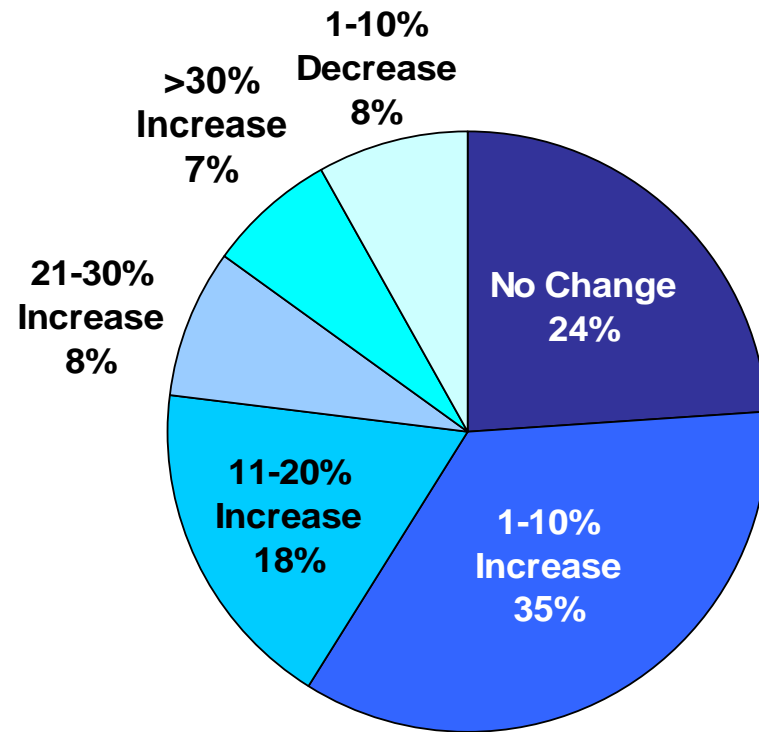
Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2006, in plans with the largest number of enrolled retirees. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. SOURCE: Kaiser/Hewitt 2006 Survey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

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

Percentage Change in Pre-65 Retiree Contributions:



Percentage Change in Age 65+ Retiree Contributions:

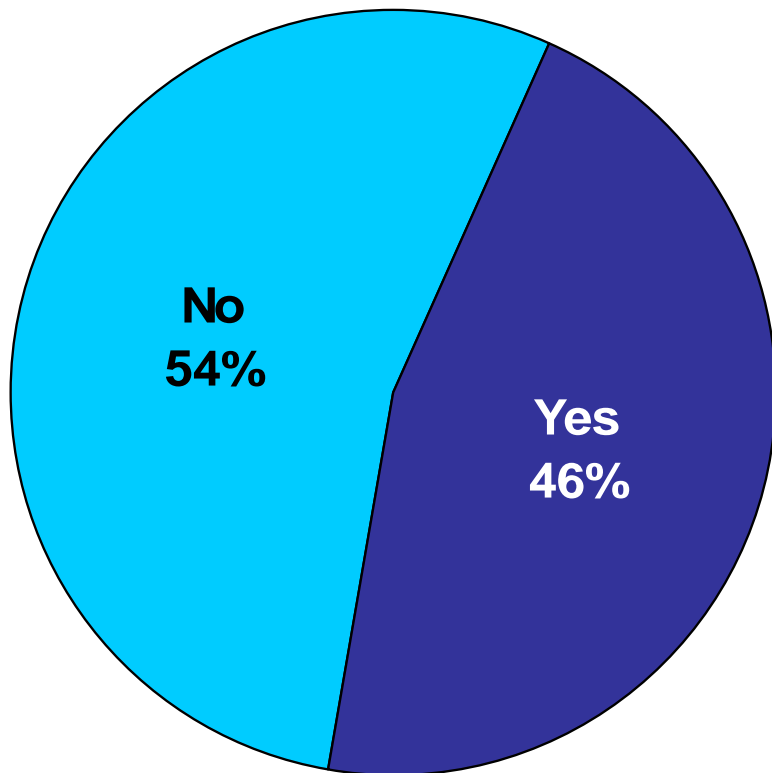


Note: Retiree contributions to premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2005 and January 1, 2006, respectively, in plans with the largest number of pre-65 and age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees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

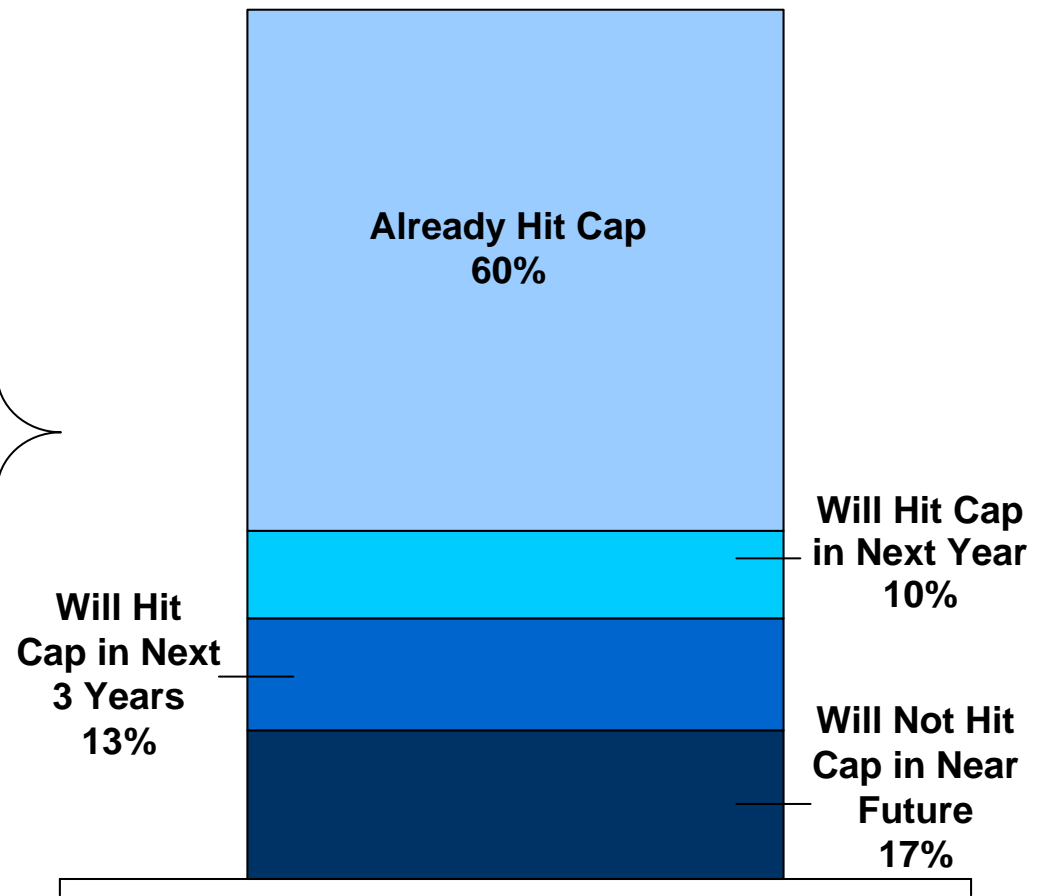
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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

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:

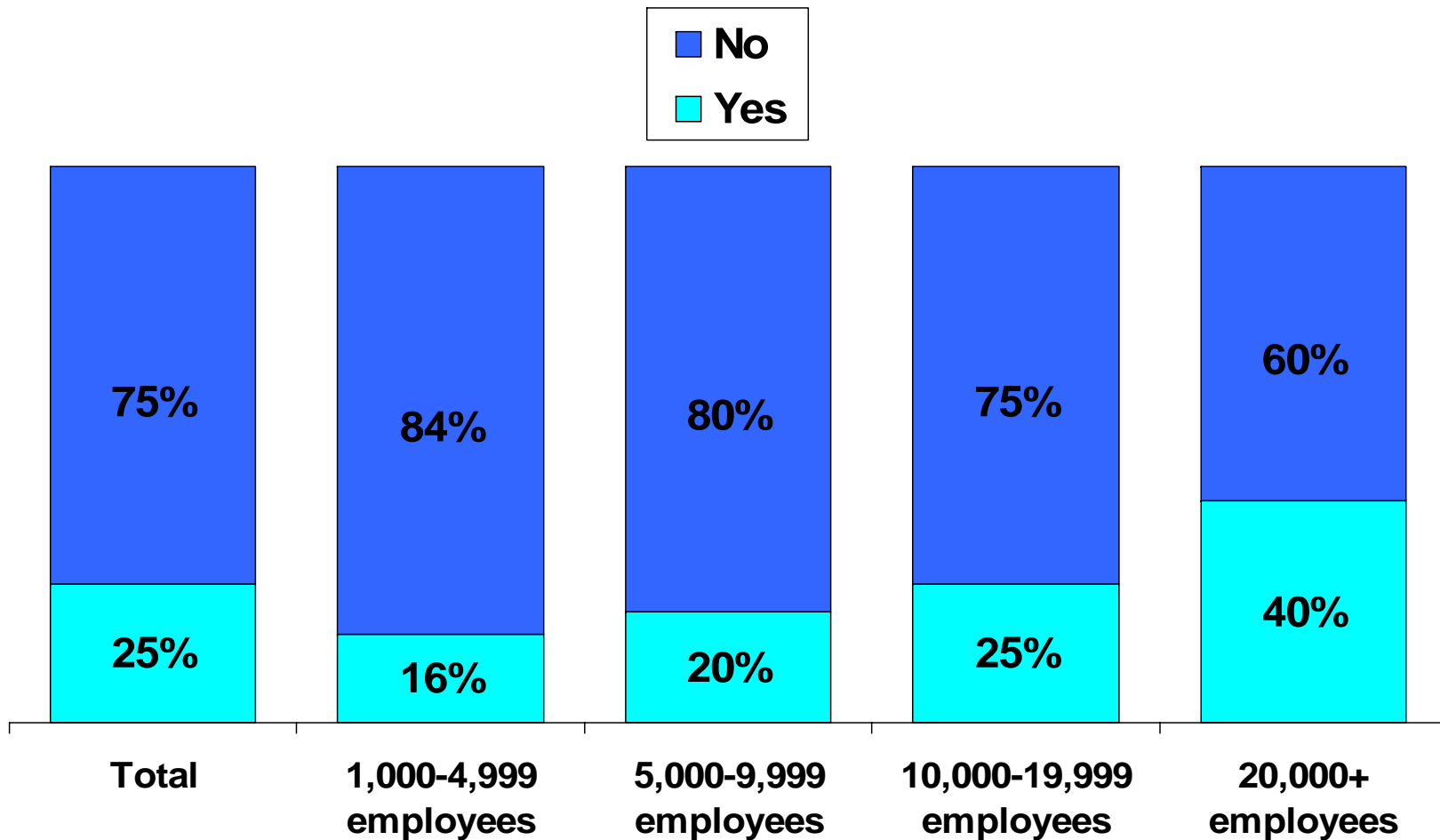


Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 8

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?

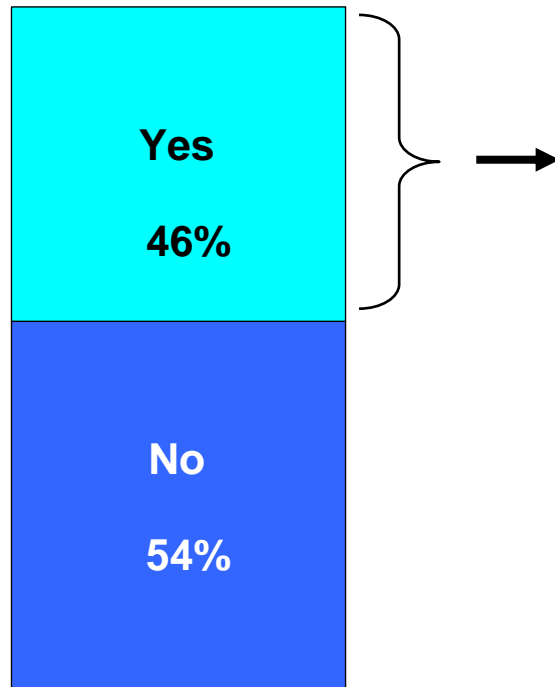


Note: Firms that report pre-funding have made contributions to the fund within the last three years. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

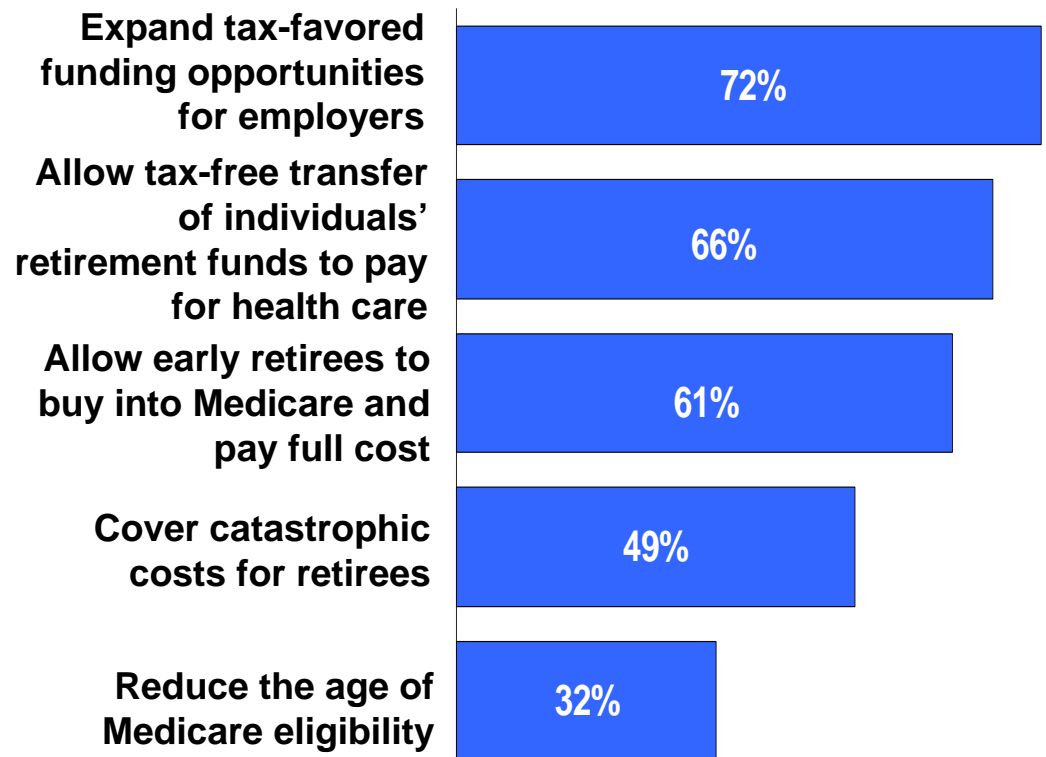
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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

Does your firm's senior management think the federal government should play a larger role in financing health benefits for pre-65 retirees?



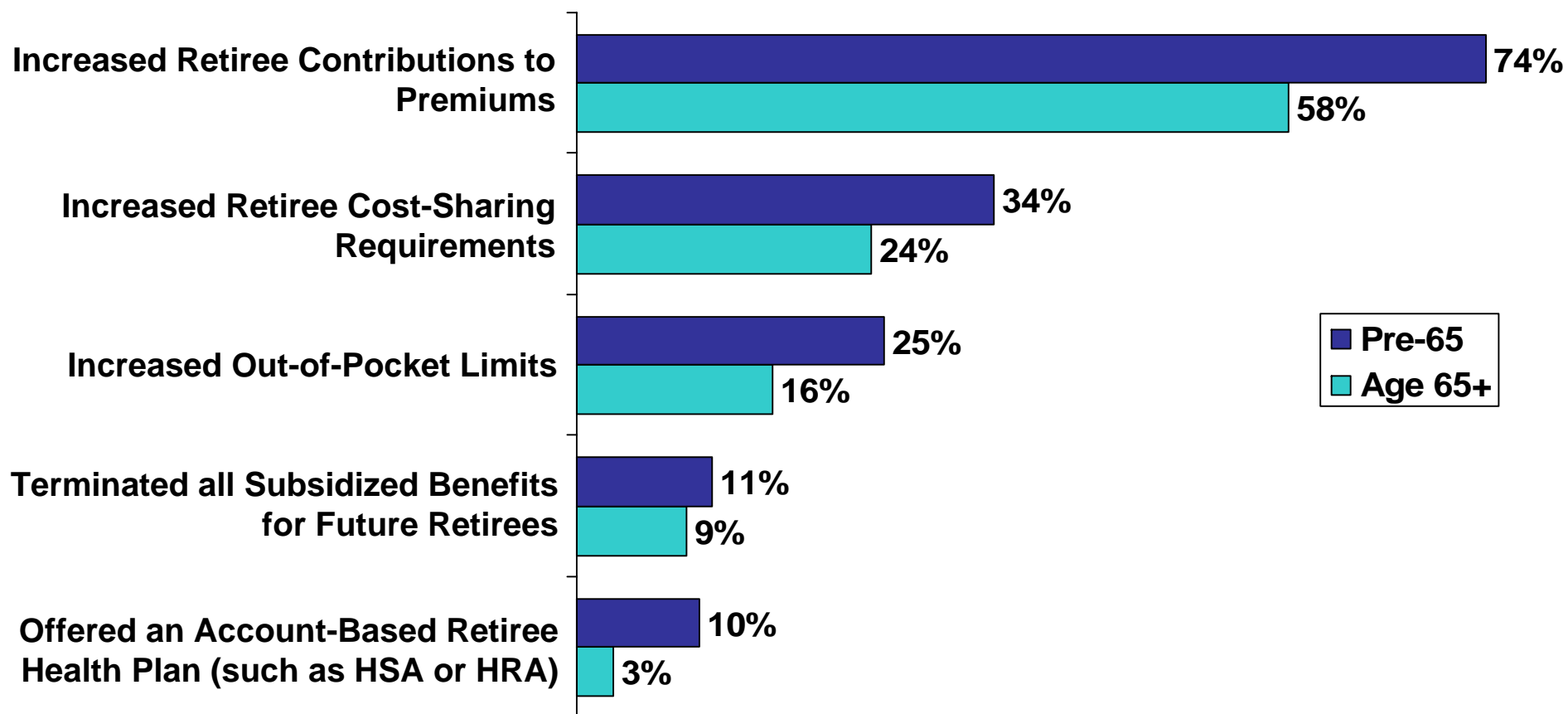
Among firms that said "Yes," percent supporting the following government actions:



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.

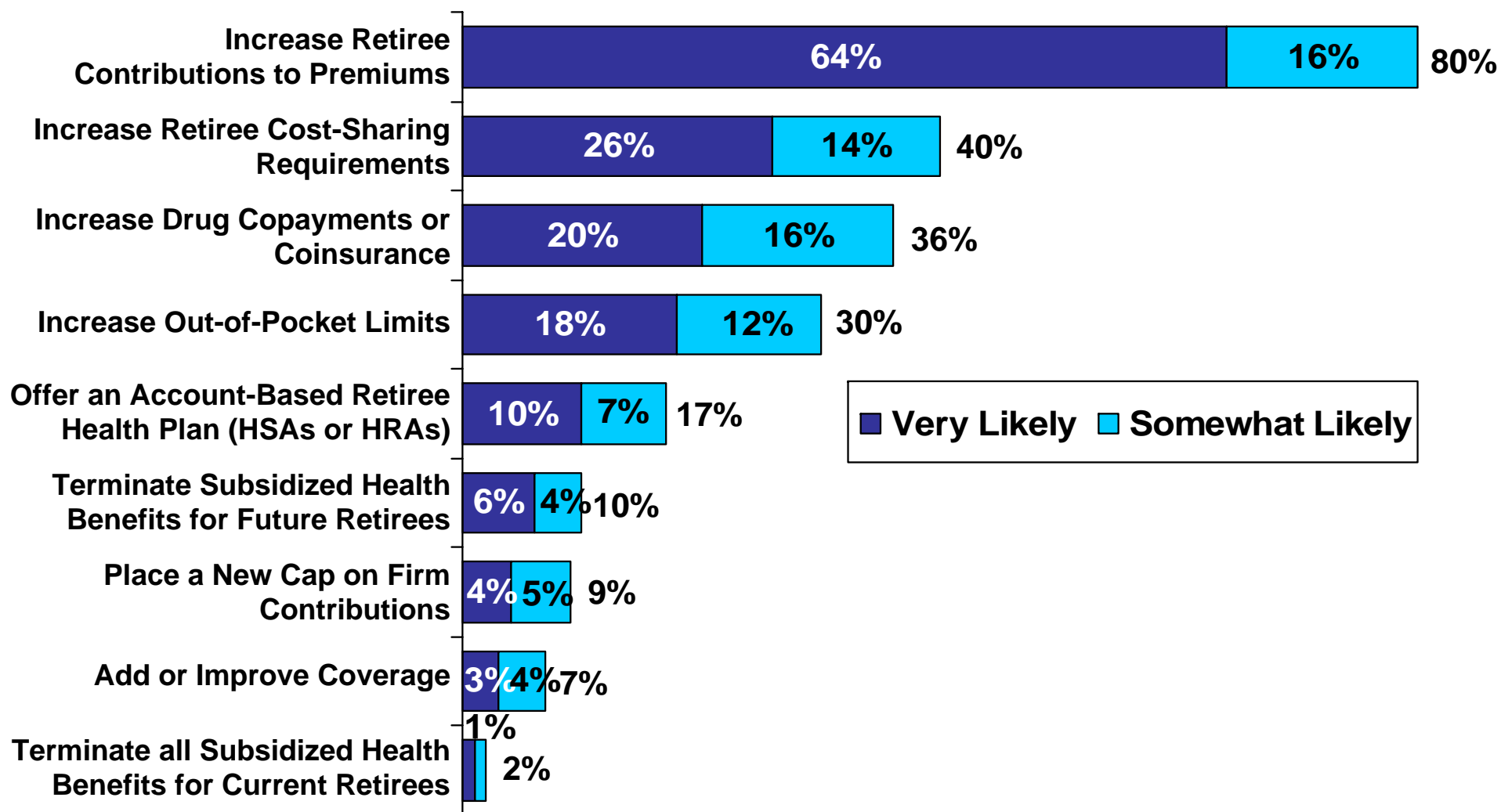
Exhibit 10

Percentage of Large Private-Sector Employers that Made Changes to 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.

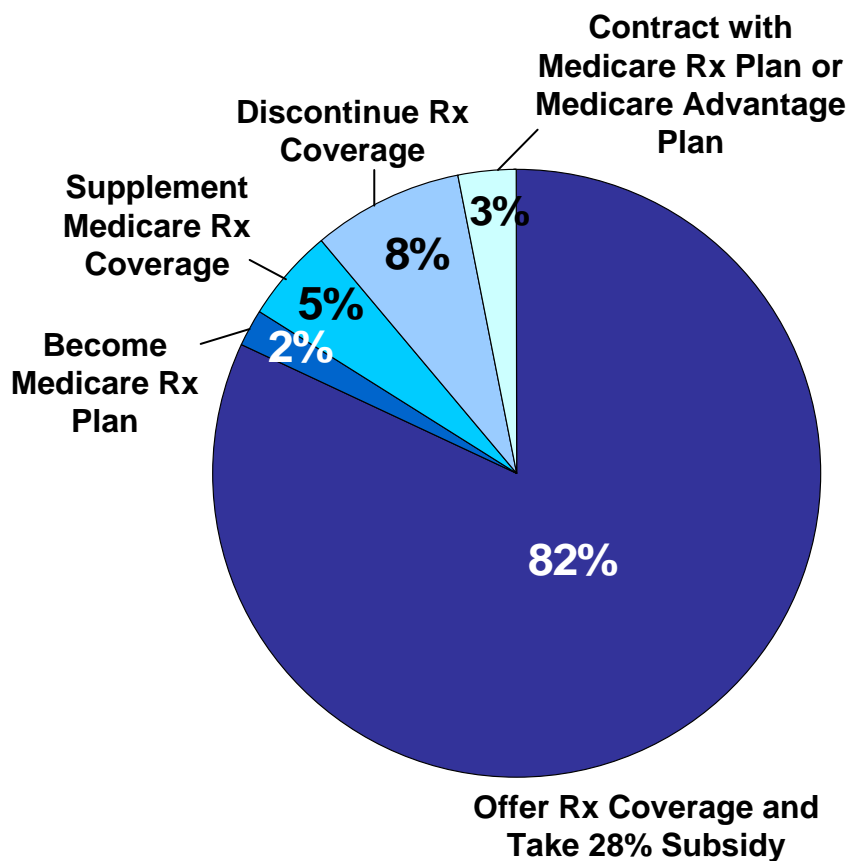
Likelihood of Making Changes to Retiree Health Benefits for the 2007 Plan Year



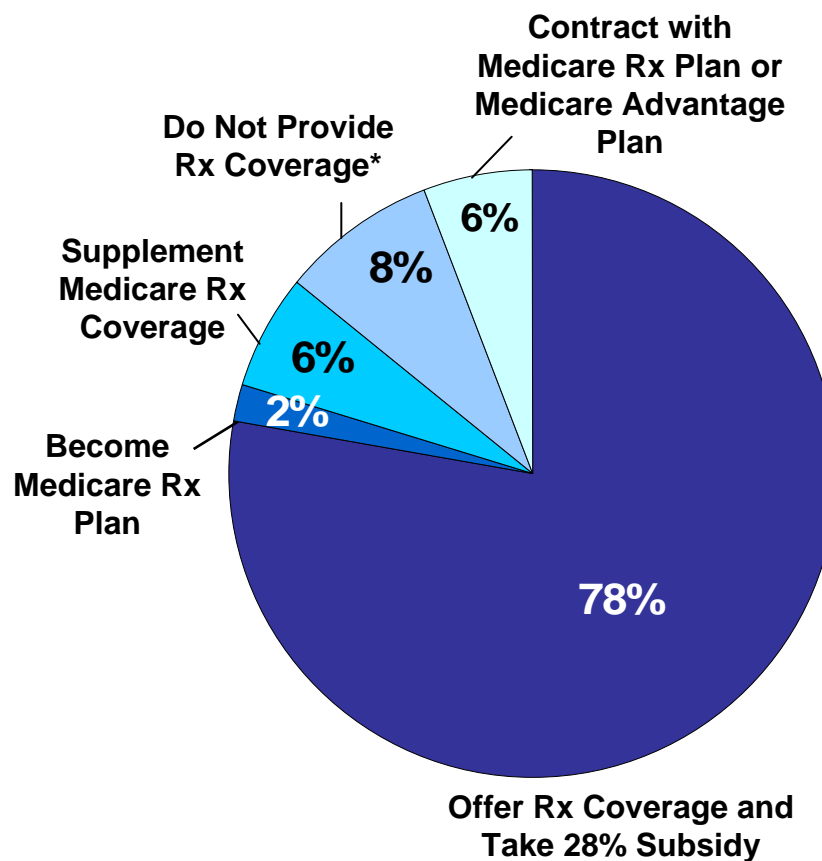
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
 SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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

2006 Medicare Strategies:



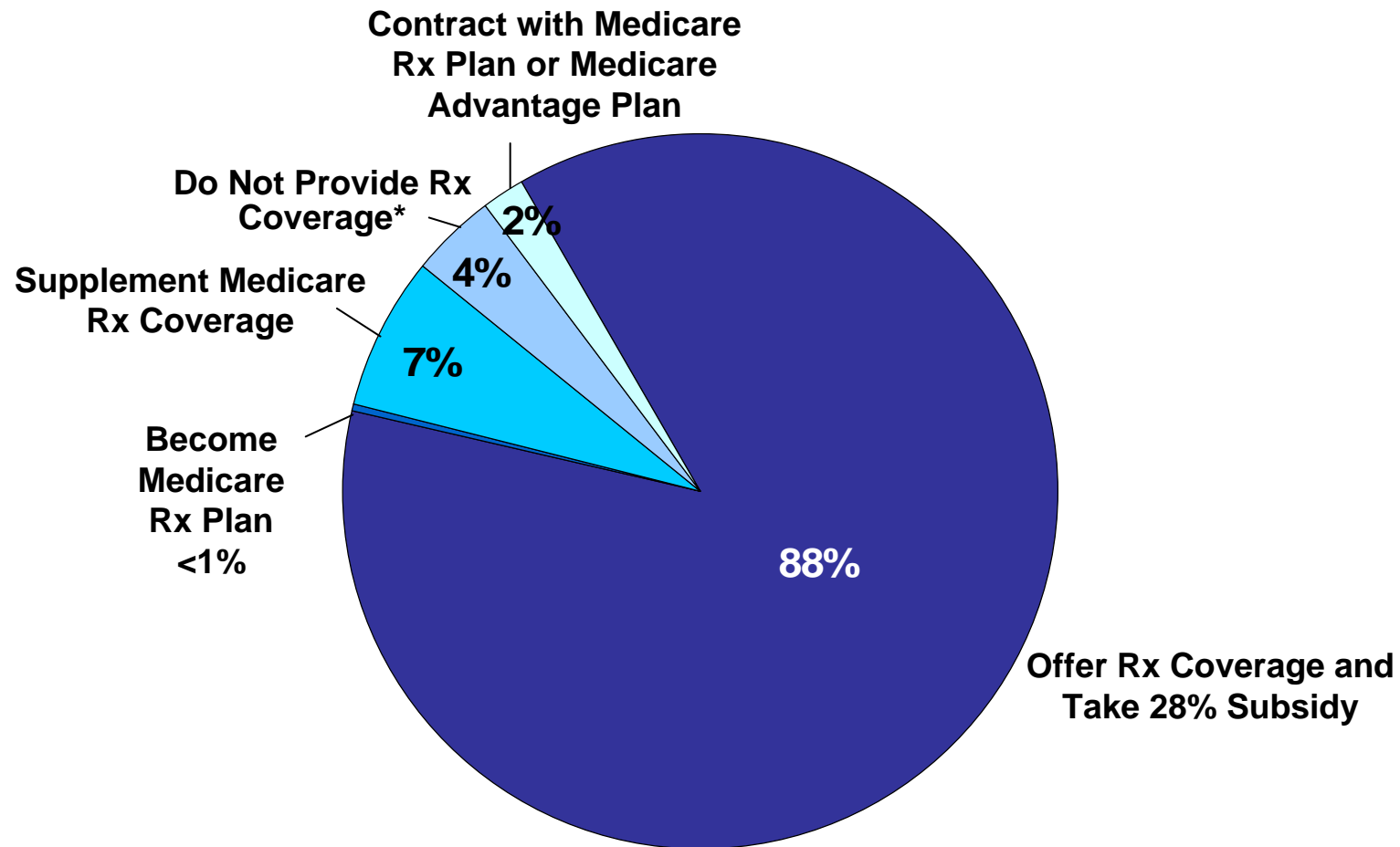
Expected 2007 Medicare Strategies:



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.

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

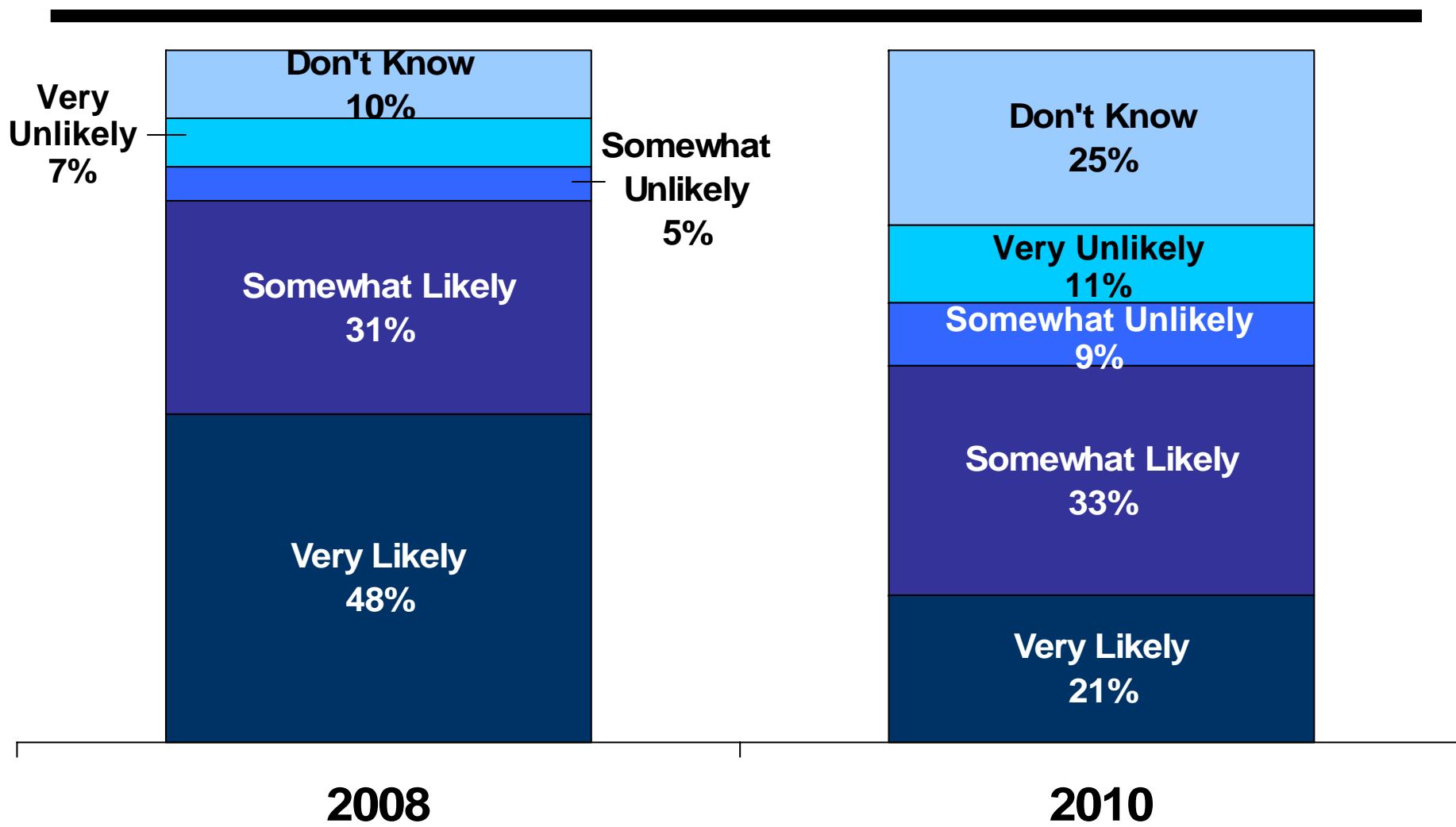
Percent of Retirees in the Largest Age 65+ Plan Affected by Each Strategy



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.

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

Among Employers Taking the Subsidy in 2006



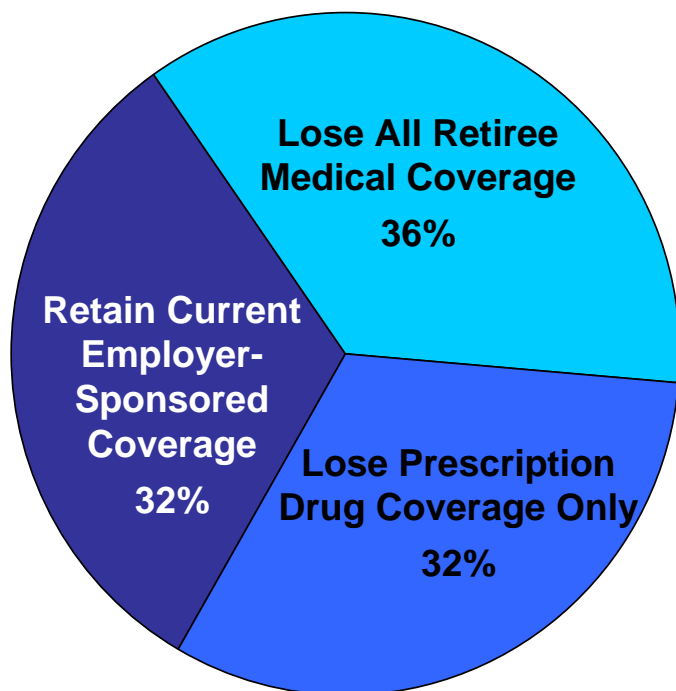
Note: Numbers do not add to 100% due to rounding. Data are for firms maintaining drug benefits and accepting the employer subsidy in 2006. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

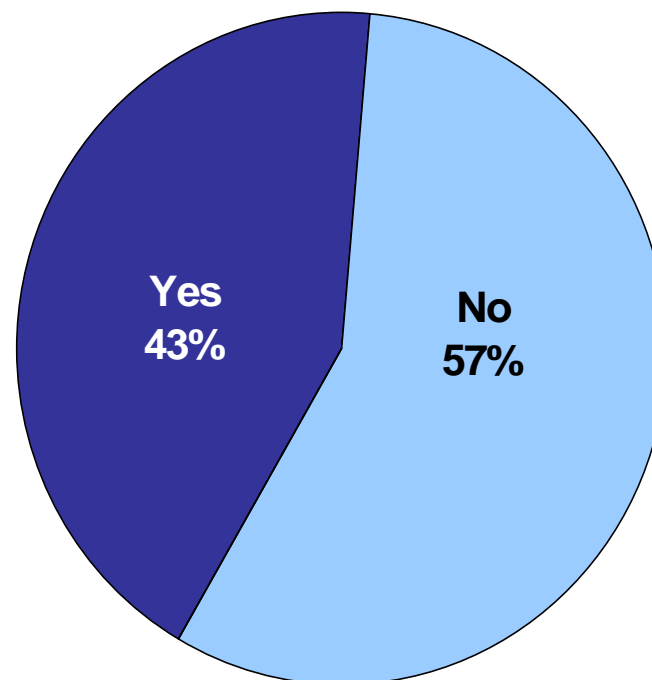
Employers' Actions Toward Retirees Who Sign Up for a Medicare Drug Plan

Among Employers Continuing to Take the Subsidy in 2007

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



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

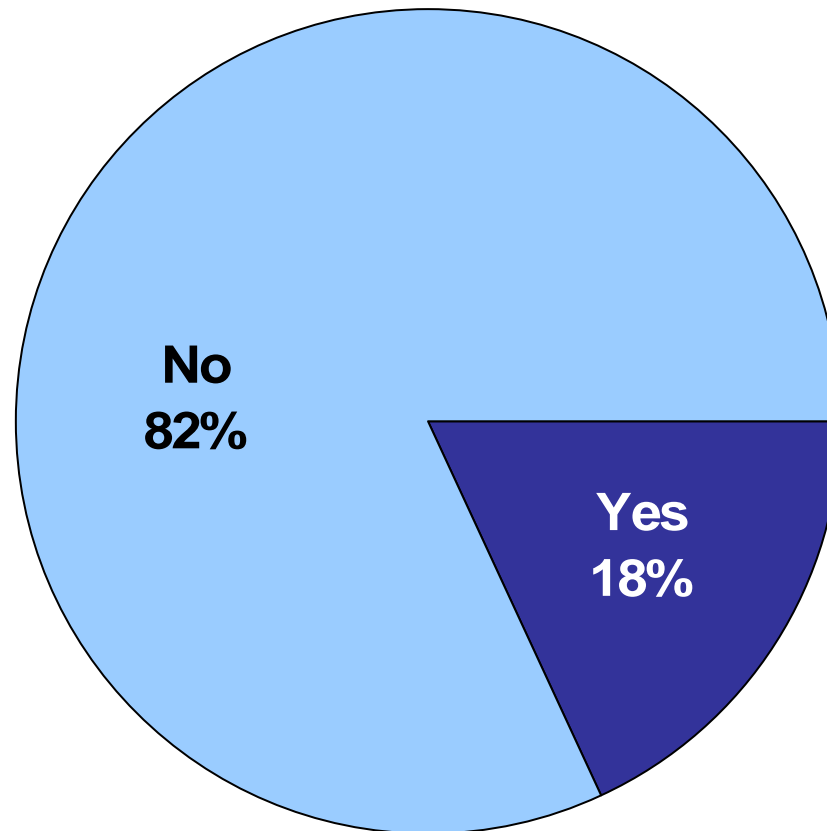


Note: Applies to plan with the largest number of age 65+ retirees. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Exhibit 16

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.

Future Considerations

- **Most surveyed employers are maintaining retiree benefits, but many are shifting costs onto retirees**
 - Retirees should expect to see more of the same in the future, in terms of premium and cost increases
- **Medicare drug benefit did not lead to a precipitous drop in coverage, but employers may re-assess their current strategies if they gain greater comfort with alternative options**
- **Some employers are eliminating retiree coverage for new hires and groups of current workers**
 - Current retirees are largely shielded from terminations
- **Early retirees – with greatest need for employer-sponsored or other coverage – are relatively vulnerable to changes in the current environment**
- **Erosion of employer-sponsored coverage contributes to national challenge of assuring retirement security**

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