

# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

## **Findings from the Kaiser/Hewitt 2003 Survey on Retiree Health Benefits**

**January 2004**



- AND -

The Hewitt logo, consisting of the word "Hewitt" in a serif font, enclosed within a rectangular border.

**Hewitt Associates**

Frank McArdle, Kerry Kirland, and Dale Yamamoto

**The Henry J. Kaiser Family Foundation**

Michelle Kitchman and Tricia Neuman

**Hewitt Associates** ([www.hewitt.com](http://www.hewitt.com)) is a global human resources outsourcing and consulting firm. Hewitt provides services from offices in 38 countries.

**The Henry J. Kaiser Family Foundation** is an independent, national health philanthropy dedicated to providing information and analysis on health issues to policymakers, the media, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.

**ACKNOWLEDGEMENTS**

The authors gratefully acknowledge the contributions of Amy Atchison for research support, and Molly Voris for editorial assistance. We would also like to thank Ardine Hockaday for design and layout.

# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

## **Findings from the Kaiser/Hewitt 2003 Survey on Retiree Health Benefits**



- AND -



# TABLE OF CONTENTS

Executive Summary .....	v
Section 1: Coverage, Eligibility, and Options .....	1
Section 2: Retiree Health Costs .....	9
Section 3: Premiums .....	17
Section 4: Cost-Sharing and Out-of-Pocket Spending .....	29
Section 5: Prescription Drugs .....	33
Section 6: Changes Made by Large Employers in Past Year .....	41
Section 7: Looking to the Future .....	49

## APPENDICES

Appendix I: Methods .....	57
Appendix II: Definitions of Health Plans .....	65
List of Exhibits .....	ii

## LIST OF EXHIBITS

### Executive Summary

- Exhibit E1: Average Increase in Total Retiree Health Costs, by Firm Size, 2002 to 2003
- Exhibit E2: Weighted Average Monthly Premiums for New Retirees and Spouses
- Exhibit E3: Average Annual Increase in Retiree Contributions for New Retirees, by Firm Size, 2002 to 2003
- Exhibit E4: Percentage of Large Private-Sector Employers Making Changes to Retiree Health Benefits in the Past Year
- Exhibit E5: Likelihood of Making Changes to Retiree Health Benefits in the Next Three Years

### Section 1: Coverage, Eligibility, and Options

- Exhibit 1: Percentage of Large Private-Sector Employers Offering Retiree Health Benefits to Selected Individuals
- Exhibit 2: Percentage of Large Private-Sector Employers Providing Retirees a Choice of Health Plans
- Exhibit 3: Type of Health Plans Offered to Retirees by Large Private-Sector Employers

### Section 2: Retiree Health Costs

- Exhibit 4: Average Increase in Total Retiree Health Costs, by Firm Size, 2002 to 2003
- Exhibit 5: Percentage of Large Private-Sector Employers Having a Cap on Their Firm's Contribution to Retiree Health Benefits for Pre-65 Retirees
- Exhibit 6: Percentage of Large Private-Sector Employers Having a Cap on Their Firm's Contribution to Retiree Health Benefits for 65+ Retirees
- Exhibit 7: CEO Concerns About Retiree Health Care Costs, as Reported by Large Private-Sector Employers

### Section 3: Premiums

- Exhibit 8: Weighted Average Monthly Premiums for New Retirees
- Exhibit 9: Weighted Average Monthly Premiums for New Retirees and Spouses
- Exhibit 10: Average Monthly Premiums for New Pre-65 and 65+ Retirees, by Plan Type and Firm Size
- Exhibit 11: Distribution of Employers Offering Health Benefits to New Pre-65 and 65+ Retirees, by Share of Premium Paid by Retirees
- Exhibit 12: Distribution of Employers by Change in Retiree Premium Contributions, 2002 to 2003

- Exhibit 13: Average Annual Increase in Retiree Contributions for New Retirees, by Type of Health Plan, 2002 to 2003
- Exhibit 14: Average Annual Increase in Retiree Contributions for New Retirees, by Firm Size, 2002 to 2003

#### **Section 4: Cost-Sharing and Out-of-Pocket Spending**

- Exhibit 15: Percentage of Large Private-Sector Employers with Selected Plan Features
- Exhibit 16: Annual Out-of-Pocket Limits Among Large Private-Sector Firms

#### **Section 5: Prescription Drugs**

- Exhibit 17: Percentage of Large Private-Sector Employers Offering Prescription Drug Benefits to 65+ Retirees
- Exhibit 18: Prescription Drug Plan Design Features Specific to 65+ Retirees
- Exhibit 19: Prescription Drug Delivery Methods for 65+ Retirees
- Exhibit 20: Prescription Drug Cost-Sharing Design for 65+ Retirees
- Exhibit 21: Prescription Drug Cost-Sharing Approaches for 65+ Retirees in Plans with 3-Tiered Cost-Sharing
- Exhibit 22: Median Drug Copayments for 65+ Retirees at Retail Pharmacies, by Drug Category
- Exhibit 23: Median Drug Copayments for 65+ Retirees at Mail-Order Pharmacies, by Drug Category

#### **Section 6: Changes Made by Large Employers in Past Year**

- Exhibit 24: Percentage of Large Private-Sector Employers Making Changes to Retiree Health Benefits in the Past Year
- Exhibit 25: Percentage of Large Private-Sector Employers Making Cost-Sharing Changes to Retiree Health Benefits in the Past Year
- Exhibit 26: Percentage of Large Private-Sector Employers Making Changes to Manage Retiree Prescription Drug Costs in the Past Year

#### **Section 7: Looking to the Future**

- Exhibit 27: Likelihood of Making Changes to Retiree Health Benefits in the Next Three Years
- Exhibit 28: Likelihood of Making Changes to Cost-Sharing for Retiree Health Benefits in the Next Three Years
- Exhibit 29: Likelihood of Making Changes to Manage Retiree Drug Costs in the Next Three Years
- Exhibit 30: Percentage of Large Private-Sector Employers Who Said They Think Their Firm Would Save Money If a Medicare Drug Benefit Were Enacted



# EXECUTIVE SUMMARY

## Introduction

Employer-sponsored health plans are a critical source of health insurance coverage for retirees. For workers who retire before they are eligible for Medicare, employer-sponsored plans often provide access to health insurance that retirees may otherwise find difficult to obtain. For retirees ages 65 and older, employer-sponsored health plans are the primary source of insurance that assists with Medicare's cost-sharing requirements and pays for benefits that are not covered by Medicare, especially prescription drugs. Employer health plans provide needed coverage to retirees at a time in their lives when they are most likely to face medical problems and need health care that can be prohibitively expensive without the financial protection offered by health insurance.

Over the past decade, however, there has been a steady erosion of retiree health insurance benefits that threatens to increase the number of future retirees without such coverage.<sup>1</sup> Looking to the future, there is concern that competitive pressures, the recent downturn in the economy, the weakening of the labor market and double-digit increases in health care costs may hasten the decline of retiree health benefits.

The issue of retiree health benefits received considerable attention in the recent Medicare debate, and contributed to the final shape of the new legislation. Attention to this issue was driven, in part, by Congressional Budget Office estimates predicting that roughly one-third of all Medicare beneficiaries with retiree health benefits could lose them as a direct result of the new Medicare drug benefit proposed in the House and Senate bills.<sup>2</sup> Policymakers were clearly concerned about the possibility that a new Medicare benefit would accelerate the erosion of highly-valued retiree health benefits, in that employer-sponsored health benefits remain the primary source of drug coverage for the Medicare population, assisting one in three beneficiaries today.

The *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* (P.L. 108-173) encourages continued coverage of retiree health benefits by offering employers considerable financial incentives, flexibility, and multiple options for coordinating their plans with Medicare.<sup>3</sup> How employers will respond to the new Medicare legislation with respect to benefits offered to Medicare-eligible retirees is a critical concern, but will only become apparent after employers have had sufficient time to understand and analyze implications for their firms.<sup>4</sup> This new survey conducted between June and September 2003 provides a detailed baseline for understanding retiree health benefits offered by large private-sector employers on the eve of Medicare reform.

---

<sup>1</sup> Kaiser/HRET *Survey of Employer-Sponsored Health Benefits, 2003*.

<sup>2</sup> Congressional Budget Office, "H.R. 1: Medicare Prescription Drug and Modernization Act of 2003 and S. 1: Prescription Drug and Medicare Improvement Act of 2003." Congressional Budget Office Cost Estimate, July 22, 2003.

<sup>3</sup> The new law includes tax-free direct subsidies equal to 28 percent of total drug costs between \$250 and \$5,000 per retiree if the employer plan provides drug coverage that is at least actuarially equivalent to the standard Medicare drug benefit.

<sup>4</sup> The *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* was signed into law on December 8, 2003. As part of this act, Congress has charged the U.S. General Accounting Office with conducting two new studies to examine trends in employment-based retiree health coverage and the options and incentives available under the legislation that may affect the provision of coverage.

This survey, conducted by The Henry J. Kaiser Family Foundation and Hewitt Associates, is designed to capture information on retiree health programs offered by large private-sector employers. The study focuses on large employers because these firms are far more likely than mid- and small-sized firms to offer retiree health benefits, and are therefore the best focus for a survey that examines the scope of private-sector retiree health coverage.<sup>5</sup> The survey provides information on eligibility, benefits, premiums, and total costs in 2003, and offers insights as to what changes employers say they are likely to make in the near future.

## Survey Methods

The data in this report reflect the responses of 408 large firms that currently offer health benefits to retirees.<sup>6</sup> The large firms that participated in this survey, defined as private-sector employers with 1,000 or more workers, represent 45 percent of all Fortune 100 companies and 30 percent of all Fortune 500 companies. They also account for 52 percent of the 100 companies with the largest retiree health liability in 2001. The overwhelming majority (90 percent) are multi-state employers that represent a broad range of manufacturing (45 percent) and non-manufacturing (55 percent) industries.

The survey includes responses from 173 firms (42.4 percent) with 1,000 to 4,999 employees, 138 firms (33.8 percent) with 5,000 to 19,999 employees, and 97 “jumbo” firms (23.8 percent) with 20,000 or more workers. Together, these employers have about 8.3 million employees and 3.6 million retirees and provide health benefits that impact the lives of approximately 5.9 million retirees and dependent family members, and 20.8 million employees and dependent family members. The employers in this sample provide health benefits to an estimated 3.9 million Medicare-eligible retirees and their spouses, representing about a third of the roughly 12 million nonfederal retirees with employer-sponsored health coverage.<sup>7</sup>

This study is based on a non-probability sample of large employers because there is no sampling frame that identifies all private-sector firms that offer retiree health benefits from which a random sample could be drawn. Despite interest in examining trends in this area, this study does not compare new 2003 findings with the results from the 2002 Kaiser/Hewitt survey. Trend analysis would not be valid given the nonrandom nature of the sample, the fact that the samples each year include different companies and different plans offered by those companies, and because sample size constraints preclude a constant sample analysis.

The survey was conducted on-line between June and September 2003. Employers who did not wish to respond on-line had the option of completing and returning a written questionnaire.

---

<sup>5</sup> According to the Kaiser/HRET *Survey of Employer-Sponsored Health Benefits, 2003*, retiree health benefits are offered by 54 percent of firms with 5,000 or more employees, 48 percent of firms with 1,000–4,999 employees, 32 percent of firms with between 200–999 employees, 20 percent of firms with 50–199 employees, and up to 11 percent of firms with fewer than 50 employees.

<sup>6</sup> This survey is based on a non-probability sample because there is no known database that identifies all private-sector firms offering retiree health benefits from which a random sample could be drawn. To construct this sample, Hewitt identified a list of employers potentially offering retiree health coverage based on data from respondents to previous Hewitt surveys and data from their proprietary client databases, supplemented by other employers drawn from Standard & Poor's Research Insight,<sup>SM</sup> a commercial database.

<sup>7</sup> Estimates of nonfederal retirees with employer-sponsored coverage from Congressional Budget Office, letter to Honorable William M. Thomas, November 14, 2003.

Overwhelmingly respondents chose the on-line format to the hardcopy (82 percent vs. 18 percent). Information was collected on a variety of topics, including costs, premiums, retiree contributions, benefit design, prescription drug benefits, the likelihood of making changes in the next three years, and the implications of a Medicare drug benefit for employers.

Employers were asked to provide information about the health plan with the largest number of enrolled retirees, primarily because such plans represent the majority of retirees with health coverage among the surveyed employers. All premium and benefit design information presented in this report therefore reflects responses for the employer-sponsored health plan with the largest number of retirees. Further, because retiree contributions often vary based on the retiree's age or years of service with the firm, employers were asked to provide the average premium for those retiring on or after January 1, 2003—to whom we refer throughout this report as “new retirees.” As a result, the premium information does not represent all retirees with employer-sponsored coverage.

## Highlights

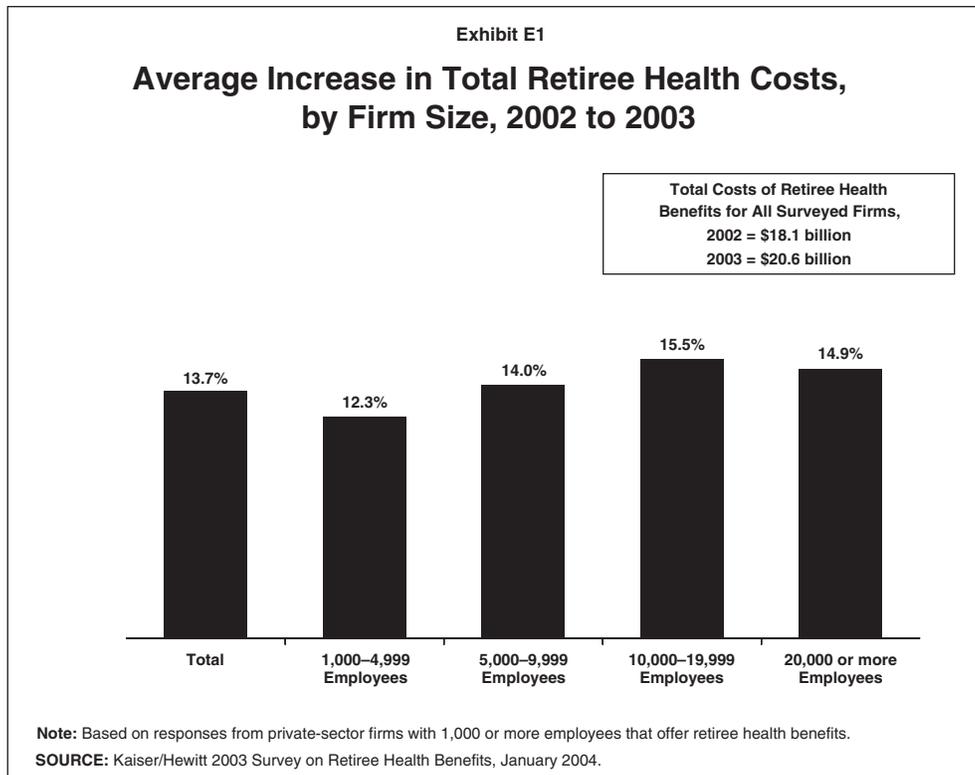
**Coverage, Eligibility, and Options.** The vast majority of surveyed private-sector firms with 1,000 or more employees that offer retiree health benefits cover both pre-65 retirees and age 65+ retirees (89 percent). These large employers provide retiree health benefits to salaried employees (93 percent), non-union hourly employees (75 percent), collectively bargained hourly employees (51 percent) and grandfathered employees or retirees (58 percent). In addition to retirees, large employers generally cover health benefits for the spouses of retirees (91 percent) and other dependents (68 percent).

Employers typically require that individuals meet a combination of age-and-service requirements as a condition of receiving retiree health benefits (89 percent). By far, the most frequent age-and-service requirement is age 55 with 10 years of service (49 percent). Age 55 with 15 years of service is the next most common eligibility combination (14 percent), followed by age 55 with 5 years of service (12 percent).

Most surveyed employers offer retirees a choice of health plans. Pre-65 retirees have somewhat greater choice of plans than do age 65+ retirees, because pre-65 retirees are often provided the same choices as active employees and health plans for age 65+ retirees must coordinate with Medicare. Seventy-five percent of surveyed employers provide new pre-65 retirees a choice of two or more health plans and 55 percent of employers provide new age 65+ retirees a choice of two or more health plans.

The two most common types of plans offered by employers to pre-65 retirees are PPOs (79 percent), followed by HMOs (57 percent). For age 65+ retirees, the two most common plan options offered by employers are indemnity or managed indemnity plans (60 percent) followed by Medicare+Choice or other HMO plans (46 percent).

**Retiree Health Costs.** Among surveyed employers, the total employer and retiree cost of providing health benefits for both pre-65 and age 65+ retirees and their dependents was an estimated \$18.1 billion in 2002.



According to these employers, the total cost of providing retiree health benefits increased by an estimated 13.7 percent, on average, between 2002 and 2003 (Exhibit E1). This growth rate is slightly lower than the 14.7 percent average growth in the cost of providing health benefits to active workers observed in a different sample of large employers, during the same time frame.<sup>8</sup>

By 2003, total retiree health costs are estimated to be \$20.6 billion for surveyed employers, based on employers' estimates of total cost increases between 2002 and 2003.

The average total cost of retiree health among all the surveyed employers was \$42.8 million per firm in 2002, but varied substantially by firm size. Among jumbo firms with 20,000 or more employees, the average total cost of providing retiree health benefits was \$156 million in 2002, and within this group, some companies report total costs in excess of \$1 billion. This compares to an average of \$17.6 million for firms with 10,000–19,999 employees, \$15.4 million for firms with 5,000–9,999 employees, and \$4.1 million for firms with 1,000–4,999 employees.

The costs associated with retiree health obligations appear to be a significant concern for company CEOs, with 92 percent of all respondents reporting that their CEO is very or somewhat concerned about retiree health care costs. Among firms in this survey, retiree health costs represent more than a quarter of the total estimated cost of health coverage for active workers, retirees, and dependents.

<sup>8</sup> Hewitt Associates, "Health Care Costs Continue Double Digit Pace, But May Start Moderating in 2004," press release, October 13, 2003, based on data from the Hewitt Health Value Initiative.<sup>TM</sup>

### Caps on Future Obligations:

In response to the rising cost of providing retiree health benefits and the early 1990s changes in Financial Accounting Standards Board (FASB) rules that require firms to account for retiree health obligations on an accrued basis, many large employers placed caps on their future financial obligations for retiree health coverage. When an employer places a cap on the firm's contribution to retiree health benefits, retirees begin to pick up more costs as medical costs rise above the level of the pre-determined amount.

- Forty-six percent of all surveyed private-sector firms report having a cap on their firms' contribution to retiree health benefits for pre-65 and 65+ health coverage in 2003. Among firms that have a cap on their contributions to retiree health benefits, 45 percent offering pre-65 retiree health coverage and 52 percent offering 65+ retiree health benefits say they have already hit the financial cap.
- Among firms that have already hit the cap or anticipate hitting the cap within the next year, two-thirds (68%) say they have or intend to hold firm on the cap.

**Premiums.** Total premiums (the sum of employer and retiree contributions) vary by a number of factors. Premiums are typically higher for pre-65 retirees than they are for those age 65+ because the employer plan is the main source of coverage (i.e., no Medicare) and not secondary to Medicare as it generally is for retirees age 65+. Premiums also vary by plan type (e.g., a PPO or HMO), plan design, demographics of retirees, geography, and firm size. In this report, 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. This gives greater weight to the responses of larger firms that have a larger number of retirees.<sup>9</sup>

The following information presents average total premiums and retiree contributions for new retirees (those retiring on or after January 1, 2003) in the employer-sponsored retiree health plan with the largest number of retirees enrolled.

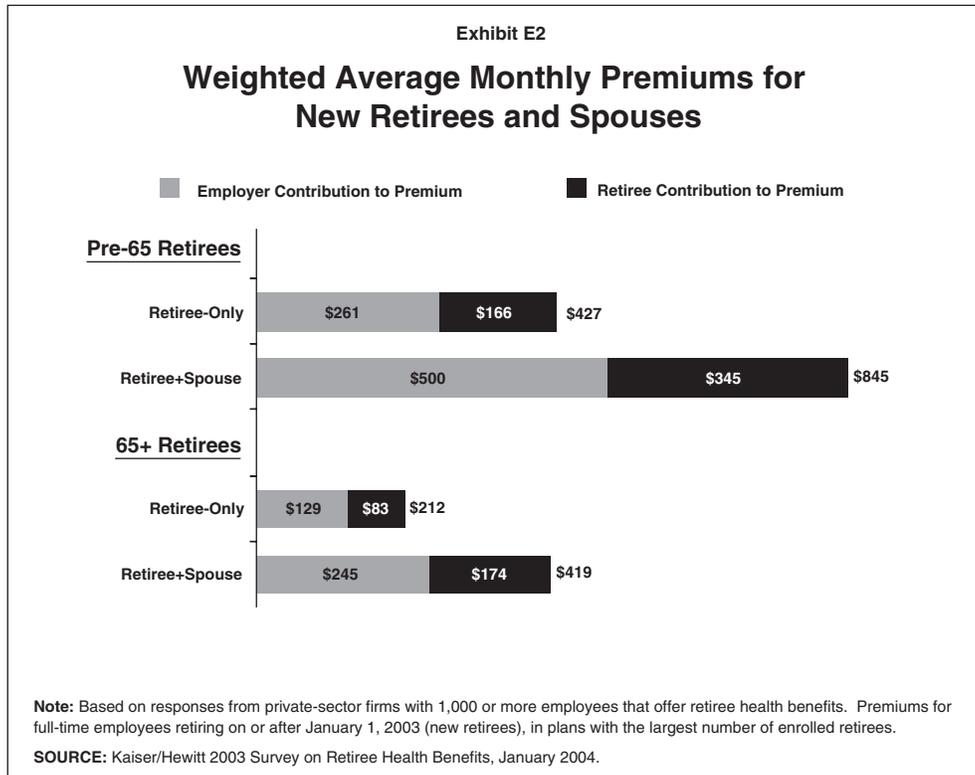
### Total average premium:

For newly retiring pre-65 retirees, the total weighted average premium is \$427 per month for retiree-only coverage and \$845 for retiree-plus-spouse coverage (Exhibit E2). Fifty-five percent of surveyed employers report that the premium for pre-65 retirees is based on the claims experience of those retirees only. Forty-five percent report that the pre-65 premiums reflect a blend of the experience of active employees and pre-65 retirees.

- For new age 65+ retirees, the total weighted average premium is \$212 per month for retiree-only coverage and \$419 for retiree-plus-spouse coverage.

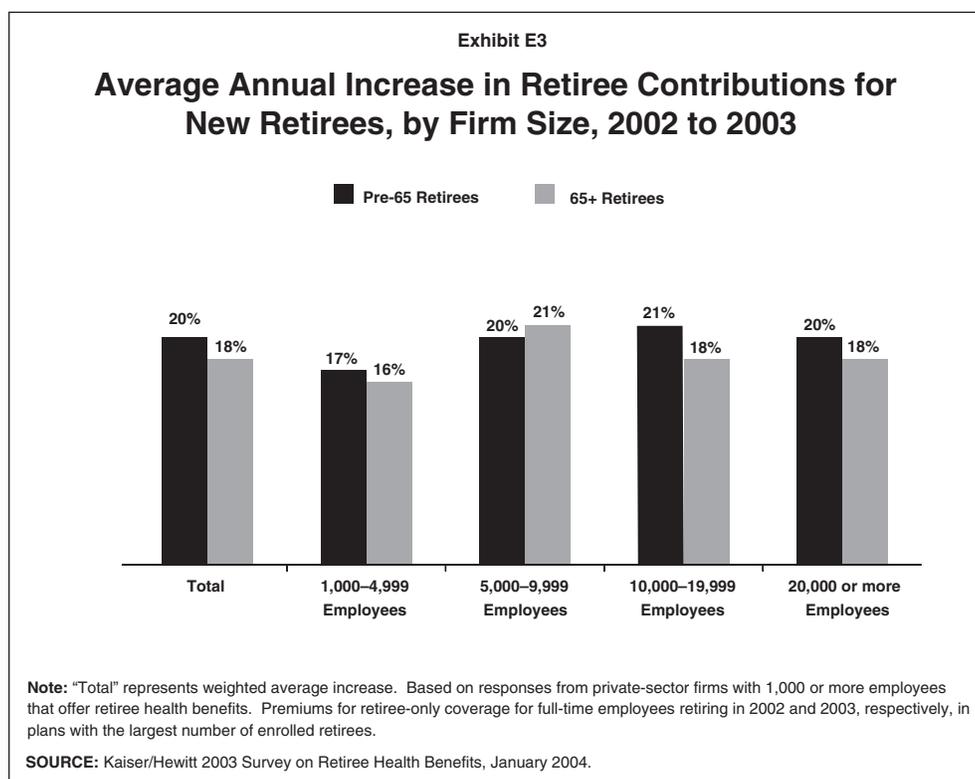
---

<sup>9</sup> For additional information, see Appendix I: Methods.



Average retiree contribution:

- The weighted average retiree contribution to the total premium paid by new pre-65 retirees is \$166 per month. When excluding firms that do not require pre-65 retirees to pay any portion of the premium (eight percent of firms), the weighted average contribution for new pre-65 retirees increases to \$180 per month.
- For new age 65+ retirees, the weighted average retiree contribution is \$83 per month. When excluding firms that do not require retiree contributions to the premium (11 percent of firms), the weighted average retiree contribution rises to \$94 per month.
- On average, new pre-65 and 65+ retiree contributions are 39 percent of the total weighted average premium, with substantial numbers of retirees paying much less or more than the average.
  - Eight percent of all employers offering benefits to age pre-65 retirees require no retiree contribution toward the premium in their largest plan while 22 percent of firms require pre-65 retirees to pay 100 percent of the total premium in the largest plan.
  - Eleven percent of all employers offering benefits to Medicare-eligible retirees require no retiree contributions to premiums in their largest plan, while 21 percent of firms require new Medicare-eligible retirees in their largest plan to contribute 100 percent of the total premium.



Weighted average increase in retiree contribution for new retirees (2002–2003):<sup>10</sup>

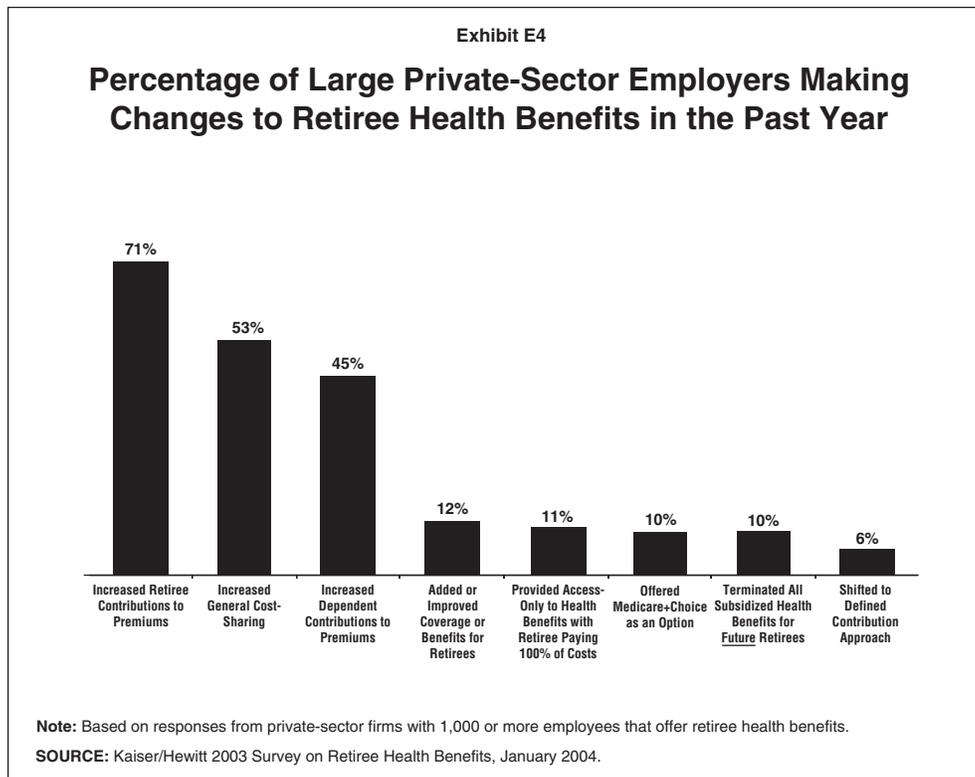
- For new pre-65 retirees, retiree contributions increased by 20 percent between 2002 and 2003, on a weighted average basis (Exhibit E3).
- For new age 65+ retirees, retiree contributions increased by 18 percent between 2002 and 2003, on a weighted average basis.

**Out-of-Pocket Limits.** The majority of employer plans offered to retirees have an annual out-of-pocket limit on retiree costs, based on plans with the largest number of enrolled retirees. Eighty-four percent of the largest pre-65 plans and 78 percent of the largest 65+ plans have an annual out-of-pocket limit. For age 65+ retiree plans, the most common annual limit on retirees' out-of-pocket spending is \$1,500 for single retiree coverage and \$3,000 for retirees and spouses.

**Prescription Drug Benefits.** Employers provide a critical source of drug coverage for Medicare-eligible retirees. According to prior studies conducted by Hewitt, well over half of employer costs for age 65+ retirees are attributable to prescription drugs.<sup>11</sup> The majority of employer plans with the largest number of age 65+ enrollees provide coverage for prescription drugs (93 percent). Most offer drug benefits as part of the firm's retiree health benefit plan (84 percent), while a small share do so as a separate, employer-subsidized stand-alone drug plan (eight percent). Only one percent of surveyed firms offer some drug assistance through unsubsidized prescription drug discount cards.

<sup>10</sup> The weighted average increases reported here include those firms that reported no change, i.e., a zero percent increase, in retiree contributions from 2002 to 2003.

<sup>11</sup> Hewitt Associates, *Implications of Medicare Prescription Drug Proposals for Employers and Retirees*. Prepared for the Kaiser Family Foundation, July 2000.



Typically, employer-sponsored drug benefits include both retail and mail-order options, although 19 percent of firms that offer drug benefits say they have a mandatory mail-order feature.

Nearly two-thirds of the largest 65+ retiree plans with drug benefits report that these benefits are subject to the overall plan design (64 percent), meaning they do not impose separate deductibles and out-of-pocket limits for their drug benefits versus other covered benefits. About a quarter (26 percent) of the largest 65+ retiree plans providing drug benefits have a separate annual deductible and 15 percent impose a separate limit on drug out-of-pocket expenses. Benefit limits for drugs are very uncommon with only eight percent of the largest plans reporting a separate limit on drug benefits in 2003.

Employers use a variety of cost-sharing strategies for prescription drug benefits. More than half of surveyed firms (55 percent) have a three-tiered plan design in which generic drugs, formulary/preferred drugs, and nonformulary/nonpreferred drugs are each subject to different copayments/coinsurance rates.

- For retirees in plans with a three-tiered design, median retail copayments for a 30-day supply (or lesser amount as prescribed) range from \$10 for generics to \$20 for brand-name drugs on the formulary/preferred list, to \$35 for brand-name drugs on the non-formulary/non-preferred list.
- For employer plans with three-tiered cost-sharing and a mail-order feature, median copayment amounts range from \$15 for generics to \$30 for brand-name drugs on the formulary/preferred list and \$60 for brand-name drugs on the non-formulary/non-preferred list, and typically cover a 90-day supply of medication.

**Changes in the Past Year.** Large private-sector employers offering retiree health benefits have made substantial changes in an effort to control rising costs, and all signs point to sustained efforts to slow the growth in retiree health obligations in the future.

- In the past year, 71 percent of large private-sector firms increased retiree contributions to premiums and 53 percent increased cost-sharing requirements for retirees (Exhibit E4).
- Ten percent of surveyed employers eliminated subsidized health benefits for future retirees. Most of these terminations affect a subset of employees, generally those who were hired after January 1, 2003 (e.g., “new hires”). Firms that reported terminating benefits in the past year tend to be publicly traded companies (82%) and in the manufacturing sector (62%).
- Six percent say they shifted to a defined contribution approach.
- While most indicators suggest a reduction in benefits for retirees, 12 percent of large employers report having added benefits or improved coverage for retirees in the past year.

#### Prescription Drugs:

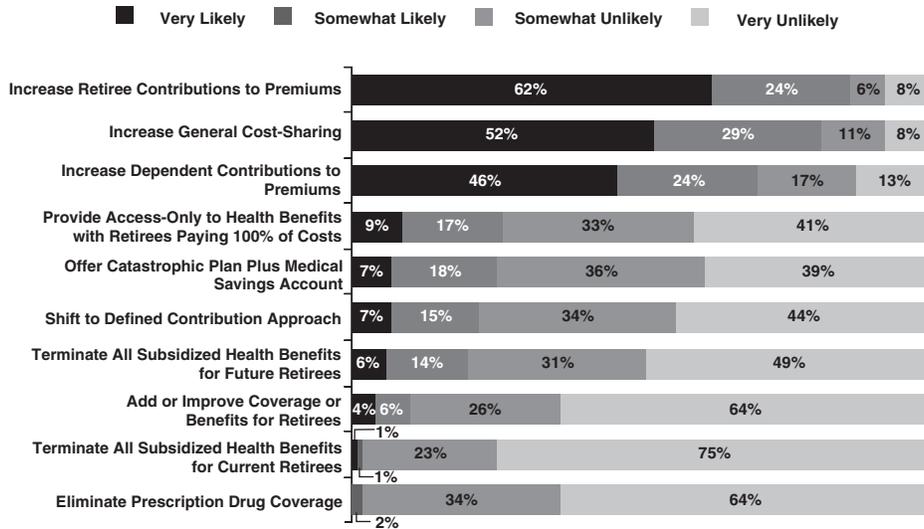
Prescription drug costs are a major concern for employers. To help rein in costs in the last year, employers have used higher cost-sharing requirements and new strategies to manage utilization of drugs, but less than one percent say they have eliminated drug coverage for retirees within the last year.

- More than half of surveyed employers (57 percent) have increased drug copayments or coinsurance and one-third (32 percent) have imposed three-tiered copayments for pharmaceuticals.

**Changes in the Next Three Years.** Looking to the future, large private-sector employers are giving serious consideration to a number of changes in their retiree health plans, many of which would require higher retiree contributions and cost-sharing requirements.

- The vast majority of large employers say they are very or somewhat likely to make the following changes in the next three years:
  - Increase contributions to premiums by retirees (86 percent) and dependents (70 percent);
  - Raise cost-sharing obligations (81 percent);
  - Increase deductibles (75 percent);
  - Increase physician copayments (69 percent);
  - Raise out-of-pocket limits (65 percent);
  - Increase hospital copayments (59 percent); and
  - Increase cost-sharing for out-of-network care (54 percent).

Exhibit E5  
**Likelihood of Making Changes to Retiree Health Benefits  
in the Next Three Years**



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

While only a small share say they are very or somewhat likely to terminate subsidized coverage for *current* retirees (2 percent), one in five employers say they are very or somewhat likely to terminate coverage for *future* retirees (20 percent). Most of these terminations will affect “new hires” only (Exhibit E5).

Prescription Drugs:

Despite the implementation of more aggressive cost-management tools in the past year, most employers say they are very or somewhat likely to increase drug copayments or coinsurance for pharmaceuticals in the next three years (85 percent) and many expect to impose more stringent controls on utilization in the future, including:

- Prior authorization requirements (60 percent);
- Therapeutic interchange (46 percent); and
- Step therapy edits (42 percent).

However, only two percent say that they are very or somewhat likely to eliminate retiree drug coverage altogether.

### Perspectives on the Medicare Prescription Drug Debate:

One of the key issues throughout the Medicare prescription drug debate has been the likely response of employers to a new Medicare drug benefit. This survey was fielded before the final specifications of the employer subsidies in the drug bill were decided.<sup>12</sup> Thus, the study did not ask employers to speculate about how they might respond to unspecified incentives to maintain retiree health coverage. Instead, this survey asked employers about the Medicare drug debate in general terms, including the potential savings they thought they might experience if a Medicare drug benefit were enacted. Therefore, findings only reflect employer speculations about savings from an unspecified Medicare drug benefit, but do not reflect employers' responses to the new drug legislation.

When asked about the ongoing national debate to provide a Medicare drug benefit, the majority of employers surveyed (56 percent) said they think their firm would save money if a Medicare prescription drug benefit were enacted, while 17 percent said they do not think their firm would save money. The remaining 27 percent said they do not know.

The new Medicare legislation offers employers considerable flexibility and options for coordinating their plans with Medicare. These options include a projected \$71 billion in tax-free direct subsidies to help cover their retiree prescription drug costs between 2006 and 2013, and a projected \$17.8 billion in tax benefits over that same period. How employers respond to incentives beginning in 2006 will become apparent after employers have had sufficient time to evaluate their response.

## **Conclusion**

Despite the widely reported decline in the prevalence of retiree health coverage over the past decade, about half of all private-sector firms with 1,000 or more workers continue to offer these benefits to retirees.<sup>13</sup> Employers that offer retiree health benefits typically extend coverage to both pre-65 and age 65+ retirees. They commonly offer health coverage to spouses of retirees and continue to cover spouses after the retiree dies. The majority of surveyed private-sector employers that offer retiree health benefits give retirees a choice of two or more health plans, including different types of plans with different retiree contributions.

Employer-sponsored health benefits are critically important to retirees, providing access to health coverage at group rates. They offer a source of relatively generous insurance for pre-65 retirees, for whom alternative options for purchasing individual or other group coverage are otherwise limited. For Medicare-eligible retirees, employer-sponsored retiree health plans typically include outpatient prescription drug coverage and limits on retirees' out-of-pocket spending, both of which are significant gaps in Medicare's benefit package. Findings from this survey confirm that the prescription drug benefits currently offered by employers to Medicare-eligible retirees are substantially more generous than the drug benefits envisioned under the new Medicare prescription drug benefit. The typical employer plan does not impose a separate drug deductible nor does it

---

<sup>12</sup> For a detailed description of subsidies provided under the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003*, see "Prescription Drug Coverage for Medicare Beneficiaries: A Side-by-Side Comparison of S.1 and H.R. 1, and the Conference Agreement (H.R. 1)," prepared by Health Policy Alternatives, Inc. for the Kaiser Family Foundation. November 2003.

<sup>13</sup> Kaiser/HRET *Survey of Employer-Sponsored Health Benefits, 2003*.

interrupt coverage at a given benefit level—known in the Medicare debate as the “doughnut hole”—until the retiree’s drug spending reaches the out-of-pocket limit. The comparative generosity of employer benefits relative to a proposed new Medicare drug benefit may help to explain why some retirees may be worried about losing valued coverage.

Yet, rising costs continue to pose a major challenge for both employers and their retirees, as retiree plan costs increase at double-digit rates, paralleling the recent increases in costs for active employees. The majority of surveyed employers are increasing retiree contributions to premiums and cost-sharing across a range of health care services. The positive news is that even in the face of rising cost pressures, eight of ten surveyed employers say their firm is very or somewhat unlikely to end subsidized benefits for future retirees in the next three years. Current retirees in large firms appear to be largely shielded from terminations. However, there is far less certainty for current workers, particularly new hires who are more apt to lose access to subsidized retiree health benefits in the future.

Providing retiree health benefits is a difficult balancing act for many large employers. Under tough economic conditions, large employers are struggling to maintain meaningful health benefits for both active workers and retirees. However, achieving this objective against other priorities, competitive pressures of a global economy, and bottom-line financials of their organizations is a difficult task. The effect of the new Medicare drug benefit on employers and retirees will be an important consideration that will play out over time. Employers’ decisions will have implications both for employers as well as current and future generations of retirees.

# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

## **SECTION 1**

### **COVERAGE, ELIGIBILITY, AND OPTIONS**



# COVERAGE, ELIGIBILITY, AND OPTIONS

The vast majority of large private-sector firms that offer retiree health benefits provide coverage to both pre-65 and 65+ retirees. In addition to retired workers, these employers generally provide health benefits to spouses and often to other dependents. For those retiring prior to their 65th birthday, employer-sponsored retiree health benefits are their primary source of health insurance coverage, providing a vital bridge until they become eligible for Medicare. For retirees age 65 and older, Medicare is generally the primary payer and the employer plan is typically secondary, paying for supplemental benefits such as prescription drugs, which Medicare does not provide.

Employers use a variety of strategies to coordinate with Medicare. The two most common approaches are known as “carveout” or full coordination of benefits. Under the carveout approach, used by 43 percent of surveyed employers, the plan calculates the benefit as it normally would and then subtracts (“carves out”) the Medicare payment. Retirees are required to satisfy the deductible and cost-sharing under the plan. Under the full coordination of benefits approach, used by 27 percent of surveyed employers, the employer plan pays the difference between total health care charges and the Medicare reimbursement amount. This latter approach often offers retirees complete coverage and protection from out-of-pocket costs.

Typically, employers who offer retiree health benefits require workers to meet a combination of age and years-of-service criteria to be eligible for coverage. Once eligible for benefits, retirees often have a choice among health plans. Pre-65 retirees are somewhat more likely than age 65+ retirees to be offered a choice of health plans, and may have a different set of health plan options than do age 65+ retirees because early retirees are generally offered the same health plan options as active employees.

## Covered Individuals

- Eighty-nine percent of surveyed employers that offer retiree health benefits provide coverage for both pre-65 and 65+ retirees.
- Surveyed employers typically provide retiree health benefits to salaried employees (93 percent of employers), non-union hourly employees (75 percent), collectively bargained hourly employees (51%), and grandfathered employees or retirees (58 percent) (Exhibit 1). Grandfathered employees or retirees are those who retain retiree health coverage from a previously established employer-sponsored health plan that is no longer offered to current retirees.
  - Among the 324 large private employers providing retiree health benefits to both salaried and hourly employees, 80 percent provide the same benefits to salaried and hourly employees, 20 percent provide different benefits.
- More than a third (38 percent) of all surveyed employers report offering retiree health benefits to part-time workers.

Three percent of all surveyed large employers provide retiree health benefits only to grandfathered employees or retirees.

- Most of the surveyed employers offer retiree health benefits to the spouses of retirees (91 percent) and to other dependents (68 percent). Among employers offering health benefits to spouses, most (92 percent) report that the spouses of deceased retirees remain eligible for benefits.

## Minimum Eligibility Requirements

Employers typically have a requirement that employees reach a certain age and work a minimum number of years as a condition of receiving retiree health benefits (89 percent). Often, the age-and-service requirements are the same for both pre-65 retirees and age 65+ retirees. By far, the most frequent age-and-service requirement is age 55 with 10 years of service (49 percent). Age 55 with 15 years of service is the next most common eligibility combination (14 percent) followed by age 55 with 5 years of service (12 percent).

## Choice of Health Plans

Retirees are often offered a choice of health plans. Pre-65 retirees have somewhat greater choices of plans than do age 65+ retirees because pre-65 retirees are often provided the same choices as active employees, while age 65+ retiree plans generally coordinate with Medicare.

When asked about health plan options available to new retirees, defined as those retiring on or after January 1, 2003:

- Twenty-five percent of pre-65 retirees are offered benefits under one employer-sponsored plan, compared with 45 percent of age 65+ retirees (Exhibit 2).
- Seventy-five percent of employers report providing new pre-65 retirees a choice of two or more health plans and 50 percent provide pre-65 retirees a choice of three or more health plans.
- Fifty-five percent of employers report providing new age 65+ retirees a choice of two or more health plans and 32 percent provide a choice of three or more health plans.

## Types of Health Plans Offered

Large private employers as a group commonly provide health coverage for retirees under health maintenance organizations (HMOs), preferred provider organizations (PPOs), point-of-service (POS) plans, indemnity (or managed indemnity) plans, and, for age 65+ retirees, M+C plans.<sup>14</sup> The two most common types of plans offered by surveyed employers to pre-65 retirees are PPOs, followed by HMOs. For age 65+ retirees, the two most common plan options offered are indemnity (or managed indemnity) plans, followed by M+C plans/HMOs (Exhibit 3).

- Surveyed employers most frequently provide pre-65 retirees the option of coverage under PPOs (79 percent), followed by HMOs (57 percent), indemnity (or managed indemnity) plans (47 percent), and POS plans (32 percent). Again, pre-65 retirees are often covered by the active

---

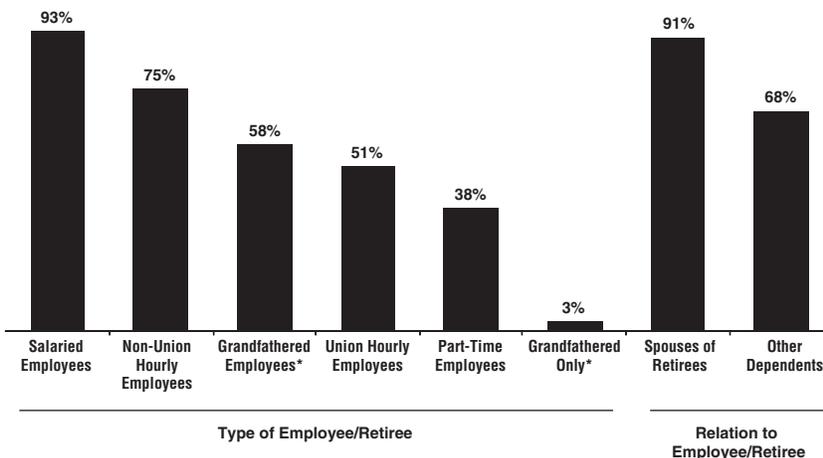
<sup>14</sup> For definitions of these health plans, see Appendix II: Definitions of Health Plans.

employee plans, so they typically have somewhat greater access to PPOs and HMOs than do retirees age 65 and older.

- The most common types of plans that surveyed employers provide to age 65+ retirees are indemnity (or managed indemnity) plans (60 percent), followed by Medicare+Choice or other HMO plans (46 percent), PPOs (39 percent), and POS plans (13 percent).

Exhibit 1

### Percentage of Large Private-Sector Employers Offering Retiree Health Benefits to Selected Individuals



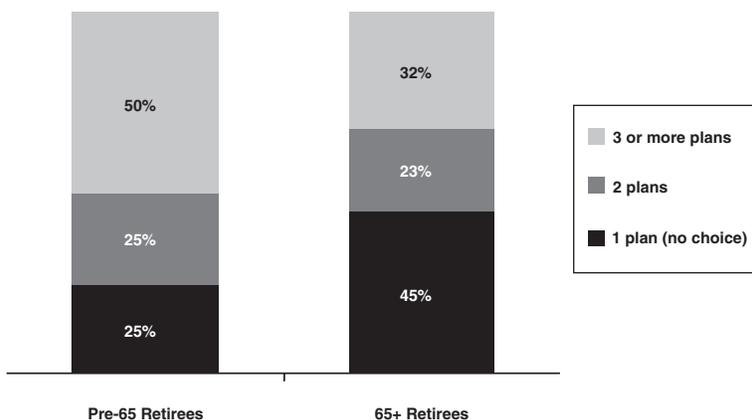
\*Grandfathered employees or retirees are those who retain retiree health benefits from a previously established plan that is no longer offered to current employees or retirees.

**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 2

### Percentage of Large Private-Sector Employers Providing Retirees a Choice of Health Plans

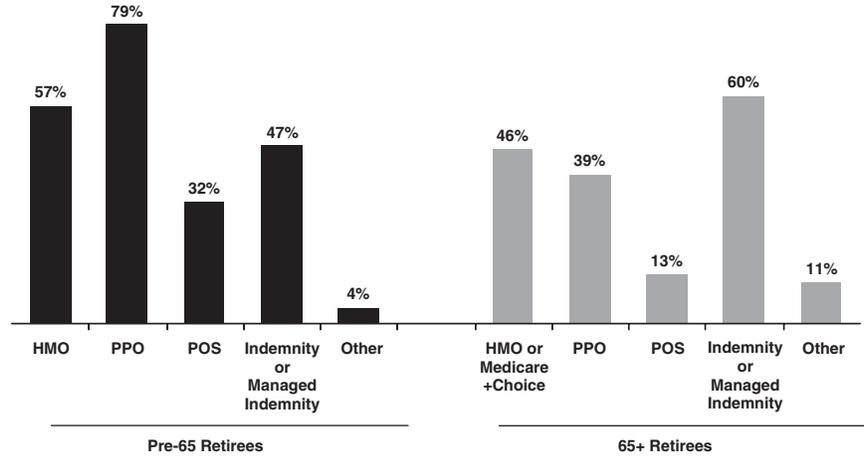


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Choice of health plans for full-time employees retiring on or after January 1, 2003.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 3

### Type of Health Plans Offered to Retirees by Large Private-Sector Employers



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Type of health plans for full-time employees retiring on or after January 1, 2003.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.



# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

## **SECTION 2**

### **RETIREE HEALTH COSTS**



# RETIREE HEALTH COSTS

Retiree health benefits are highly valued by employees, retirees, and their families, but are also a substantial cost for the large private-sector firms surveyed in this report. In many ways, the rising cost of retiree health care—coupled with the effects of accounting rules that the Financial Accounting Standards Board (FASB) introduced in the early 1990s—has contributed mightily toward the decline in employer sponsorship of retiree health benefits in the past decade.<sup>15</sup>

Despite ongoing efforts to manage the cost of retiree health programs, the total cost of providing retiree health benefits has been rising rapidly in recent years. Retiree health costs have become a significant source of tension in negotiations between labor and management and have been cited in news reports of recent bankruptcy filings.<sup>16</sup>

Retiree health costs vary widely among large firms due to the demographics of the retiree group, differences in plan design and in utilization of medical services, the types of health plans offered, and geographic concentrations of retirees. Costs also vary by the overall size of the firm, industry practice, financial situation, and whether the plan is collectively bargained or not. Accordingly, because of all the factors that influence cost, there can be significant variations in the total cost of retiree health benefits among employers with roughly similar numbers of retirees. Total costs reported in this section include the combined employer/retiree costs of providing health coverage to all retirees (pre-65 and age 65+) and their dependents.

## Total Costs

- Among surveyed employers, the 2002 estimated total cost (employer and retiree contributions) of providing health benefits to pre-65 and age 65+ retirees and their dependents was \$18.1 billion.
- The total cost of providing retiree health benefits increased by 13.7 percent, on average, between 2002 and 2003 for employers in this survey (Exhibit 4).
  - By contrast, the national average increase in large employer costs of providing health benefits to active workers during the same time period was 14.7 percent, according to a report previously released by Hewitt Associates based on a different sample of large employers.<sup>17</sup>

---

<sup>15</sup> Financial Accounting Statement No. 106 (FAS 106) is an accounting standard that stipulates the manner in which companies expense for post-retirement medical benefits. It requires employers to accrue the cost of retiree health and other post-employment benefits during the working careers of active employees. The accounting standard requires companies to account for their retiree health care benefits on an accrual basis (much like pensions). For companies that did not change their retiree health plan design in response, their accounting costs for retiree health care benefits were typically increased by factors of six to eight or more, depending on the company's plan design and demographics. From "Retiree Health Trends and Implications of Possible Medicare Reforms," by Hewitt Associates for The Kaiser Family Foundation, September 1997.

<sup>16</sup> *Associated Press*, 11/05/02, 3/22/03; *Los Angeles Times*, 11/18/03.

<sup>17</sup> Hewitt Associates, "Health Care Costs Continue Double Digit Pace, But May Start Moderating in 2004," press release, October 13, 2003, based on data from the Hewitt Health Value Initiative.<sup>TM</sup>

In 2003, retiree health benefits are expected to reach \$20.6 billion, based on surveyed employers' estimates of the average increase in total annual costs from 2002 to 2003.

As might be expected, the larger the firm offering retiree health benefits, the larger their retiree population, and hence the greater their total costs. For example, the average total cost among all surveyed employers with at least 1,000 employees was \$42.8 million per firm in 2002. Among jumbo firms with 20,000 or more employees, the average total cost of providing retiree health benefits was \$156 million per firm in 2002.

For employers with 1,000–4,999 employees, the average annual 2002 total cost per firm was \$4.1 million, compared to \$15.4 million for employers with 5,000–9,999 employees and \$17.6 million for those with 10,000–19,999 employees.

## Financial Caps on Employer Retiree Health Obligations

In response to the rising cost of providing retiree health benefits, and to the Financial Accounting Standards Board rules that require firms to account for retiree health obligations on an accrued, rather than pay-as-you-go basis, many large employers have placed caps on their future financial obligation for retiree health coverage. When an employer places a cap on the firm's contributions to retiree health benefits, retirees begin to pick up more costs as medical costs rise above the level of the pre-determined amount. Financial caps take on many shapes and forms. Some employers establish caps on the total cost (e.g., the company will not spend more, in total, for retiree medical than twice what was spent in a given year). Others focus the caps on individuals (e.g., the employer subsidy for 65+ costs will not exceed \$2,000 per person in the future). Some strategies combine a service-related aspect of the employer subsidy.<sup>18</sup> Sometimes the cap is indexed to rise as future costs rise.

Financial caps on the employer's retiree health obligations are common among the large employers surveyed.

- Forty-six percent of all surveyed firms that offer pre-65 health coverage report having a cap on their firm's contribution to retiree health benefits (Exhibit 5).
  - Forty-five percent of firms with financial caps on employer contributions to pre-65 retiree health coverage say they have already hit the cap.
  - Another third of this group (35 percent) anticipate hitting the cap in the next one to three years.
- Forty-six percent of all surveyed firms that offer age 65+ retiree health coverage report having a cap on the firm's contributions to retiree health benefits (Exhibit 6).
  - Among firms that have such a cap, 52 percent of firms with financial caps on employer contributions to age 65+ retiree health coverage say they have already hit the cap.

---

<sup>18</sup> Hewitt Associates, *Retiree Health Trends and Implications of Possible Medicare Reforms*, Prepared for The Kaiser Family Foundation, September 1997.

— Another 27 percent of this group anticipate hitting the cap in the next one to three years.

In most instances, firms that have already hit the cap or anticipate hitting the cap within the next year say they have or intend to hold firm on the cap (68%). Retirees in plans where the cap has been hit are likely to face increased retiree contributions, unless the retiree selects another available plan option at a lower cost. In some cases, employers may elect to raise the cap after retiree health expenses reached the pre-determined limit, but there is some concern that auditors will cast doubt on the effectiveness of a cap if there is a pattern of continually raising it once costs approach the stipulated limit.

## **Employer Cost Worries**

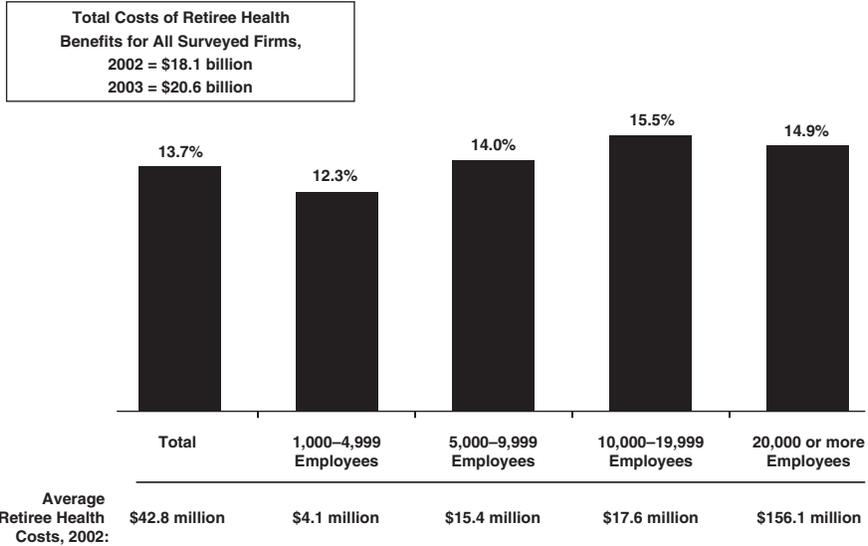
The costs associated with retiree health obligations appear to be a significant concern for company CEOs. Ninety-two percent of all respondents said their CEO is very or somewhat concerned about retiree health care costs.

- Sixty-four percent say their CEO is very concerned about retiree health costs and another 28 percent say their CEO is somewhat concerned about retiree health costs (Exhibit 7).

Total costs for retiree health benefits among surveyed companies represent more than a quarter (26 percent) of the total costs of health coverage for active workers, retirees, and dependents.

Exhibit 4

### Average Increase in Total Retiree Health Costs, by Firm Size, 2002 to 2003

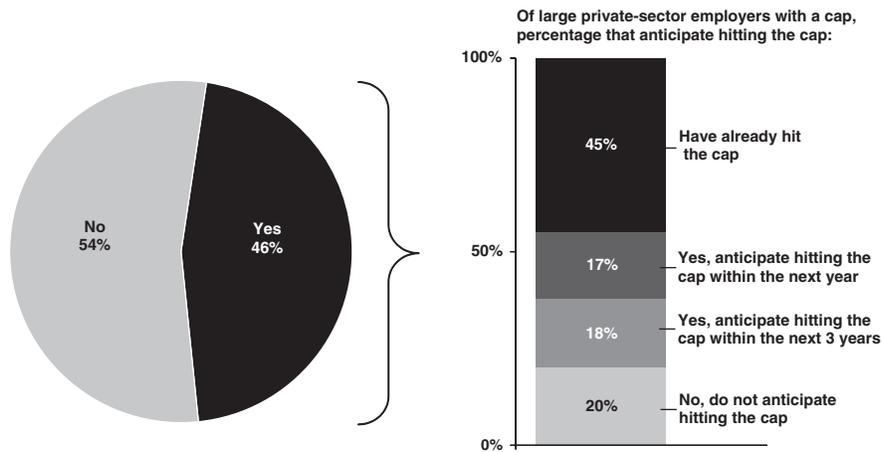


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 5

### Percentage of Large Private-Sector Employers Having a Cap on Their Firm's Contribution to Retiree Health Benefits for Pre-65 Retirees

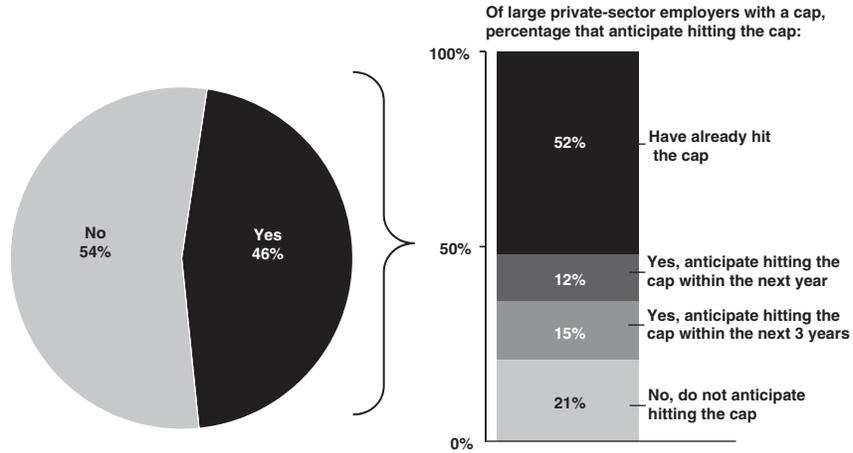


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 6

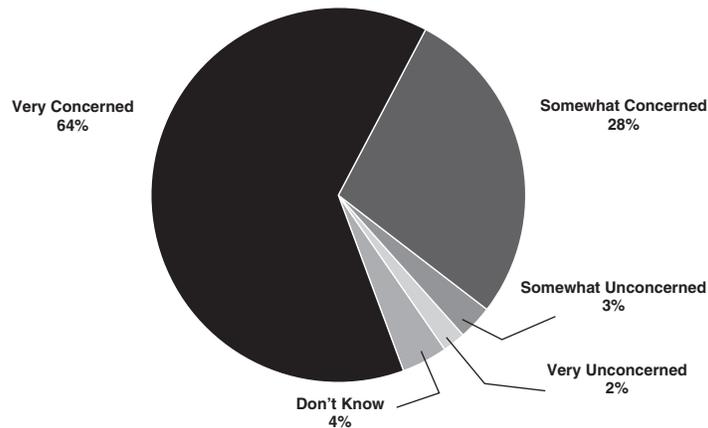
### Percentage of Large Private-Sector Employers Having a Cap on Their Firm's Contribution to Retiree Health Benefits for 65+ Retirees



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 7

### CEO Concerns About Retiree Health Care Costs, as Reported by Large Private-Sector Employers



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Reflects responses to the question, "To the best of your knowledge, how much would you say your firm's CEO is concerned about retiree health care costs?" Figures do not add to 100% due to rounding.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.



# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

**SECTION 3**

**PREMIUMS**



# PREMIUMS

Total premiums—the sum of both employer and retiree contributions—vary widely. Premiums are typically higher for pre-65 retirees, where the employer plan is generally the sole source of coverage, than for those age 65+, where the employer plan is typically secondary to Medicare. Demographics, plan type (e.g., a PPO or HMO), plan design, and scope of coverage are also key factors affecting the utilization of health benefits and the overall cost of the plan (and hence the premiums) for both pre-65 and age 65+ retirees. Another factor for pre-65 retirees is whether the claims of such retirees are pooled with those of active employees in calculating the premium.

For individual retirees, contributions can vary based on the retiree's years of service with the firm, the type of health plan selected, the date of retirement, the size of the firm, whether the individual retired before or after turning age 65, and whether the plan is collectively bargained.

In more than half of the largest pre-65 and age 65+ retiree health plans offered by employers in this survey, retiree contributions differ based on the retiree's years of service with their company. In these firms, employees with fewer years of employment have larger premium contributions while those with more years of service pay less. Thus, employees retiring in the same year who are the same ages could be subject to different retiree contributions, depending on their years of service with the firm.

Because there can be wide variations in premiums for retiree health coverage, large employers were asked to provide an average total premium and average retiree contribution for new retirees (those retiring on or after January 1, 2003) in the plan with the largest enrollment of pre-65 and age 65+ retirees.

In this report, the total premiums and retiree contributions to premiums are weighted by firm size and then by the number of retirees in the largest employer health plan. This gives greater weight to the responses of larger firms that have a larger number of retirees. More detailed information regarding premiums is included in Appendix I.

All premium information collected in this survey refers solely to new retirees (i.e., those retiring in 2003), and therefore does not represent the premium information for all retirees with employer-sponsored coverage. It does not include retiree contribution information, for example, for earlier generations of retirees who may typically pay a lower percentage of the total premium than newer retirees, as the earlier generations may have had their contribution level grandfathered or protected under a previous collective bargaining agreement between the employer and the labor union, where applicable.

For convenience, we use the term “premium” to include “premium equivalents,” which is the term for the employer and retiree contributions in plans that are self-insured. Since the vast majority of firms in our survey are multi-state employers (90 percent), one would expect a large percentage of these retiree health plans to be self-insured, rather than insured plans.

## Total Premiums (Employer and Retiree Contributions Combined)

- Total premiums (both employer and retiree contributions combined) are generally higher for pre-65 retirees than for age 65+ retirees.
  - For retiree-only coverage, the weighted average total monthly premium for new pre-65 retirees (\$427) is about twice the amount of the weighted average premium for newly retiring age 65+ retirees (\$212 per month) (Exhibit 8).
  - For coverage of both retirees and spouses, the total weighted average monthly premium is \$845 for pre-65 retirees and \$419 for age 65+ retirees (Exhibit 9).
  - Fifty-five percent of surveyed employers report that the premium for pre-65 retirees is based on the claims experience of those retirees only. Forty-five percent report that the pre-65 premiums reflect a blend of the experience of active employees and pre-65 retirees.
- Average total monthly premiums for individuals retiring in 2003 vary by type of health plan.
  - For new pre-65 retirees, the average total monthly premium is lowest for HMO plans (\$334 per month) and highest for indemnity/managed indemnity plans (\$408 per month) (Exhibit 10).
  - For age 65+ retirees, the average total monthly premium was lowest for employer-sponsored Medicare+Choice or other HMOs (\$199 per month) and highest for POS plans (\$259 per month).
- Average total monthly premiums for new retirees vary somewhat by firm size.
  - For new pre-65 retirees, average total monthly premiums are lower in the firms with 1,000-4,999 employees (\$356 per month) than in jumbo firms with 20,000 or more employees (\$437 per month). In this case, the larger companies may have richer plan designs or collectively bargained plans or may have more retirees located in higher-health-cost areas of the country (Exhibit 10).
  - For retirees age 65+, there is little variation in average total monthly premiums across firms of different sizes. Since these plans typically coordinate with Medicare, there may be less variation in overall plan designs than for pre-65 retirees, where the benefits are more often similar to those provided to active employees.

## Pre-65 Retiree Contributions to Total Premiums

The vast majority of employers (92 percent) require newly retiring pre-65 retirees to share in the cost of retiree health coverage by contributing to the total monthly premium. Retiree contributions vary based on a number of factors, including whether there is a pooling of retiree claims with active employee claims.

### Retiree Contribution Amounts:

The weighted average retiree contribution to premiums for new pre-65 retirees is \$166 per month (\$345 per month for new pre-65 retirees and spouses), based on health plans offered by employers with the largest number of enrolled retirees. When firms that do not require retirees to pay any portion of the premium are excluded, the weighted average contribution for new pre-65 retirees increases to \$180 per month (Exhibit 10).<sup>19</sup>

- The amount that new pre-65 retirees contribute toward the total premium also varies by type of plan. For individuals retiring in 2003 with retiree-only coverage, the average monthly retiree contribution by pre-65 retirees is lowest for HMO plans (\$116 per month) and highest for PPO plans (\$179 per month), the plan type most commonly offered to pre-65 retirees (Exhibit 10).
- The average retiree contribution toward the premium among new pre-65 retirees ranges from about \$148 per month (firms with 1,000–4,999 employees) to \$191 per month (firms with 10,000–19,999 employees) (Exhibit 10).

### Share of Total Premium Paid by Pre-65 Retirees:

- New pre-65 retirees contributed 39 percent of the total weighted average premium, on average, in 2003 (Exhibit 11).
  - Average retiree contributions, however, mask notable variations in the share of premiums actually paid by new retirees. For example, 22 percent of employers require new pre-65 retirees to pay 100 percent of the premium while, on the other end of the spectrum, eight percent of employers require no retiree contributions to premiums under the health plan with the largest number of enrollees (Exhibit 11).
  - As a percent of the total premium, new pre-65 retirees in 2003 contribute between 35 percent of the total for HMO plans and 46 percent of the total for PPO plans.

### Increases in Pre-65 Retiree Contribution Amounts, 2002 to 2003:

- Between 2002 and 2003, the weighted average increase in retiree contributions was 20 percent for new pre-65 retirees in the health plan with the largest number of enrollees (Exhibit 12).<sup>20</sup>
  - More than a fifth (21 percent) of employers report no increase in the pre-65 retiree contributions between 2002 and 2003, 23 percent report an increase of up to 10 percent, and 31 percent report increases between 11 and 20 percent (Exhibit 12).
  - The average annual increase in pre-65 retiree premium contributions was highest for HMO plans (28 percent) and lower for POS (22 percent) and PPO plans (19 percent). The average percentage change in retiree contributions for pre-65 retirees was lowest for indemnity/managed indemnity plans (10 percent) (Exhibit 13).

---

<sup>19</sup> The remaining average pre-65 retiree contribution amounts reported in this section include firms that do not require retirees to pay any portion of the premium.

<sup>20</sup> The pre-65 weighted average increases reported in this section include those firms that reported no change, i.e., a zero percent increase, in retiree contributions from 2002 to 2003.

- By firm size, the average annual increase in pre-65 retiree contributions was highest in firms with 10,000–19,999 employees (21 percent) and lowest for those with 1,000–4,999 employees (17 percent) (Exhibit 14).

## Age 65+ Retiree Contributions to Total Premiums

Similar to pre-65 retirees, the vast majority of employers (89 percent) require newly retiring age 65+ retirees to share in the cost of retiree health coverage by contributing to the total monthly premium. Still, retiree contributions to premiums vary by plan type and firm size.

### Retiree Contribution Amounts:

- The weighted average retiree contribution for new age 65+ retirees in 2003 is \$83 per month for retiree-only coverage (\$174 per month for new retirees and spouses) in health plans with the largest number of retirees enrolled. When firms that do not require retirees to pay any portion of the premium are excluded, the weighted average contribution for new 65+ retirees increases to \$94 per month (Exhibit 10).<sup>21</sup>
  - Retiree contributions vary substantially by type of plan. For retiree-only coverage, the average monthly retiree contribution for new age 65+ retirees is highest for PPO plans (\$105 per month) and lowest for POS plans (\$65 per month). Retiree contributions in 2003 for new age 65+ retirees average \$79 for employer-sponsored M+C plans or other HMOs, and \$80 for indemnity/managed indemnity plans (Exhibit 10).
  - On average, retiree contributions for age 65+ retirees vary slightly by firm size, from about \$80 per month (firms with 5,000–9,999 employees) to \$93 per month (firms with 1,000–4,999) for retiree-only coverage (Exhibit 10).

### Share of Total Premium Paid by Age 65+ Retirees:

- New Medicare-eligible retirees contributed 39 percent of the total weighted average premium, on average, in 2003 for retiree-only coverage in the health plan with the largest number of retirees enrolled (Exhibit 11).
  - The weighted average age 65+ retiree contribution to the total premium masks significant variations in the share of the total premium paid by new retirees. For example, 21 percent of employers require new age 65+ retirees to pay 100 percent of the premium, while 11 percent of employers report that new age 65+ retirees pay nothing toward the premium for coverage under the health plan with the largest number of retirees enrolled (Exhibit 11).
  - By plan type, new age 65+ retirees contribute a smaller share of the total premium for POS plans (25 percent) and the largest share for PPOs (50 percent). Retiree contributions are 40 percent for M+C plans/other HMOs and 38 percent for indemnity/managed indemnity coverage.

---

<sup>21</sup> The remaining average 65+ retiree contribution amounts reported in this section include firms that do not require retirees to pay any portion of the premium.

- By firm size, average age 65+ retiree contributions for new retirees, as a share of total premiums, varies from 38 percent (5,000–9,999 employees) to 44 percent (1,000–4,999 employees).

Increases in Age 65+ Retiree Contribution Amounts, 2002 to 2003:

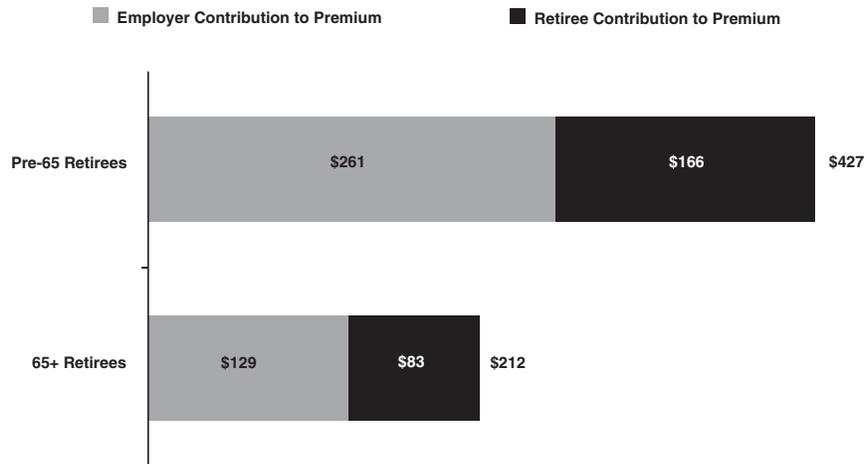
- Between 2002 and 2003, the weighted average increase in the age 65+ retiree contribution was 18 percent for new age 65+ retirees in plans with the largest number of retirees enrolled (Exhibit 12).<sup>22</sup>
  - More than a quarter (27 percent) of employers report no change in age 65+ retiree contributions in the largest health plan between 2002 and 2003, while 25 percent report an increase of up to 10 percent, and 26 percent report an increase of between 11 and 20 percent for new retirees (Exhibit 12).
  - The average annual increase in age 65+ retiree contributions was highest for M+C plans/other HMOs (29 percent), followed by PPOs (18 percent), indemnity/managed indemnity plans (17 percent), and POS plans (13 percent) (Exhibit 13).
  - By firm size, the average annual increase in age 65+ retiree contributions for retiree-only coverage was highest in firms with 5,000-9,999 employees (21 percent) (Exhibit 14).

---

<sup>22</sup> The 65+ weighted average increases reported in this section include those firms that reported no change, i.e., a zero percent increase, in retiree contributions from 2002 to 2003.

Exhibit 8

### Weighted Average Monthly Premiums for New Retirees

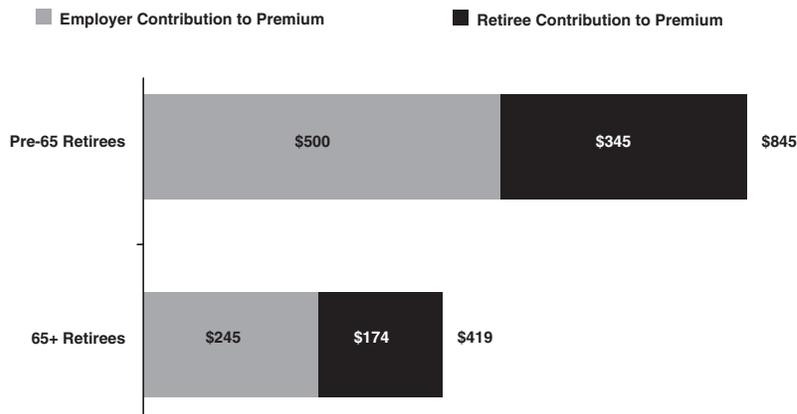


**Note** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003 (new retirees), in plans with the largest number of enrolled retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 9

### Weighted Average Monthly Premiums for New Retirees and Spouses



**Note** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003 (new retirees), in plans with the largest number of enrolled retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 10

### Average Monthly Premiums for New Pre-65 and 65+ Retirees, by Plan Type and Firm Size

	Pre-65 Retirees			65+ Retirees		
	Total Premium (Employer + Employee Share)	Retiree Contribution to Premium		Total Premium (Employer + Employee Share)	Retiree Contribution to Premium	
		All Plans	Among Firms that Require Retiree Contributions		All Plans	Among Firms that Require Retiree Contributions
<b>Weighted Average</b>	\$427	\$166	\$180	\$212	\$83	\$94
<b>By Plan Type:</b>						
HMO*	\$334	\$116	\$128	\$199	\$79	\$96
PPO	\$386	\$179	\$186	\$210	\$105	\$112
POS	\$394	\$145	\$168	\$259	\$65	\$71
Indemnity/ Managed Indemnity	\$408	\$139	\$163	\$211	\$80	\$90
<b>By Firm Size:</b>						
1,000-4,999	\$356	\$148	\$161	\$210	\$93	\$102
5,000-9,999	\$384	\$163	\$172	\$210	\$80	\$89
10,000-19,999	\$384	\$191	\$205	\$211	\$82	\$95
20,000+	\$437	\$165	\$180	\$212	\$83	\$94

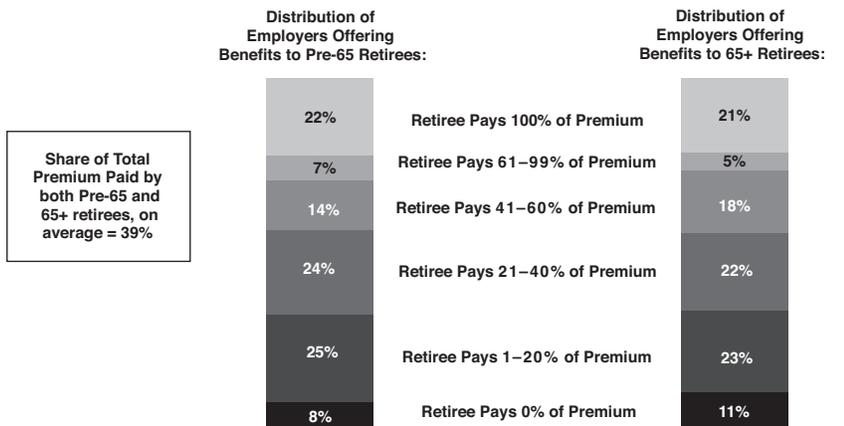
\*Includes Medicare+Choice for 65+ retirees.

**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003 (new retirees), in plans with the largest number of enrolled retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 11

### Distribution of Employers Offering Health Benefits to New Pre-65 and 65+ Retirees, by Share of Premium Paid by Retirees



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003 (new retirees), in plans with the largest number of enrolled retirees.

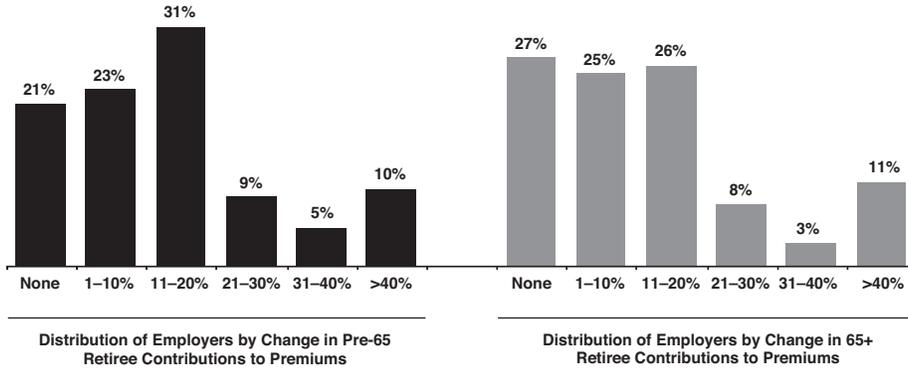
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 12

### Distribution of Employers by Change in Retiree Contributions, 2002 to 2003

Average Increase for New Pre-65 Retirees = 20%

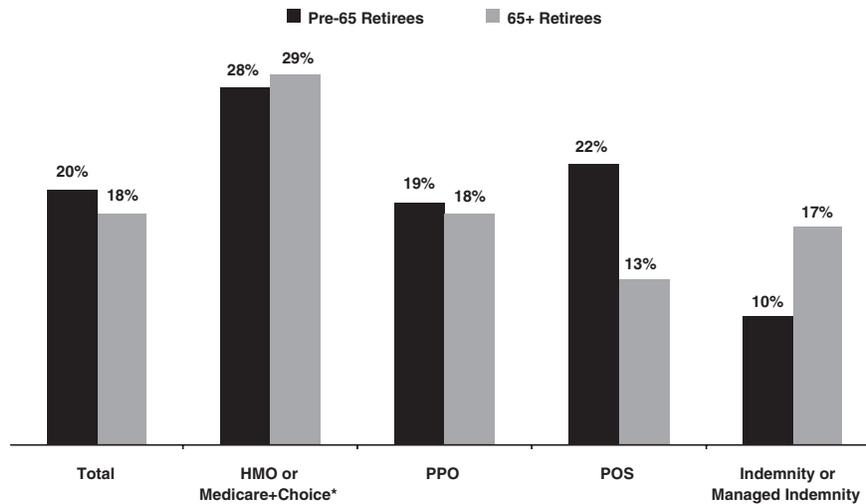
Average Increase for New 65+ Retirees = 18%



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring in 2002 and 2003, respectively, in plans with the largest number of enrolled retirees.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 13

### Average Annual Increase in Retiree Contributions for New Retirees, by Type of Health Plan, 2002 to 2003

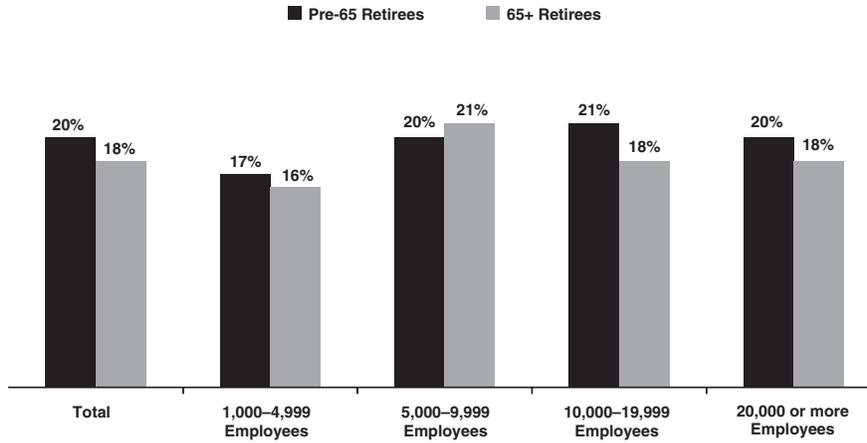


\*Medicare+Choice for 65+ retirees only.

**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring in 2002 and 2003, respectively, in plans with the largest number of enrolled retirees.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 14

### Average Annual Increase in Retiree Contributions for New Retirees, by Firm Size, 2002 to 2003



**Note:** "Total" represents weighted average increase. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring in 2002 and 2003, respectively, in plans with the largest number of enrolled retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.



# RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE

Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits

## **SECTION 4**

### **COST-SHARING AND OUT-OF-POCKET SPENDING**



# COST-SHARING AND OUT-OF-POCKET SPENDING

When looking at the financial obligation of retirees, premiums are only a part of the story. Typically, employers that offer retiree health benefits require cost-sharing for health care services but limit the financial exposure of retirees through annual limits on retiree out-of-pocket costs for covered services.

## Cost-Sharing

To understand common cost-sharing features of retiree plans, the survey asked employers about their retiree health plans with the largest pre-65 and age 65+ enrollment.

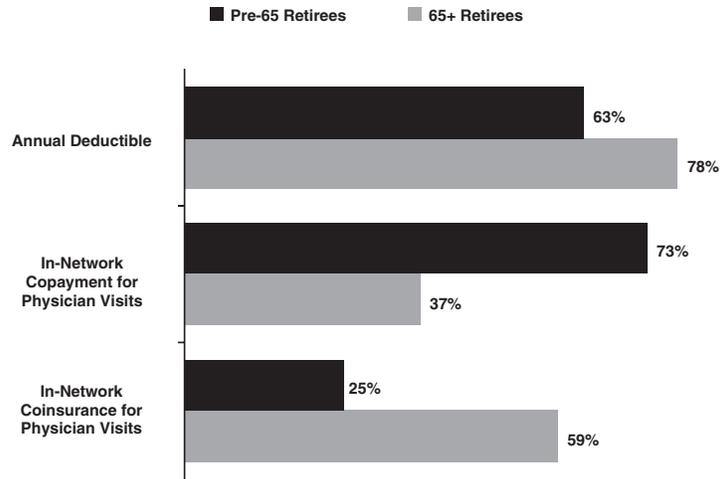
- Nearly two-thirds of the largest pre-65 plans (63%) have an annual deductible that must be met before the plan begins to pay health care expenses, compared to more than three-quarters of the largest age 65+ plans (78%) (Exhibit 15).
  - The most commonly observed deductibles for the largest pre-65 and age 65+ retiree plans are \$250 for single coverage and \$500 for retiree and spouse coverage.
  - About six in ten employer plans that have a deductible report that the deductible counts toward the out-of-pocket limit in the largest pre-65 and age 65+ plans.
- Flat-dollar copayments for primary care and specialty physician visits are far more common among the largest pre-65 plans, while coinsurance is more typical among the largest age 65+ plans (Exhibit 15).
  - Nearly three-fourths of the largest pre-65 plans (73 percent) require a copayment for primary care and specialty physician visits; \$15 per visit is the most common copayment charge.
  - About six in ten of the largest age 65+ plans (59 percent) require coinsurance for primary care and specialty physician visits, with the most common rate equal to 20 percent of costs.
  - Retirees who use out-of-network providers are more apt to pay a higher coinsurance rate to encourage retirees to seek care from in-network providers.

## Limits on Retiree Out-of-Pocket Spending

- Eighty-four percent of the largest pre-65 retiree plans in this survey have an annual out-of-pocket limit on retiree costs for new retirees in 2003 (Exhibit 16).
- Seventy-eight percent of the largest age 65+ plans have an annual out-of-pocket limit.
  - The most common annual limit on retirees' out-of-pocket spending is \$1,000 for single retiree coverage in pre-65 retiree health plans and \$1,500 for single retiree coverage in age 65+ plans.

Exhibit 15

### Percentage of Large Private-Sector Employers with Selected Plan Features

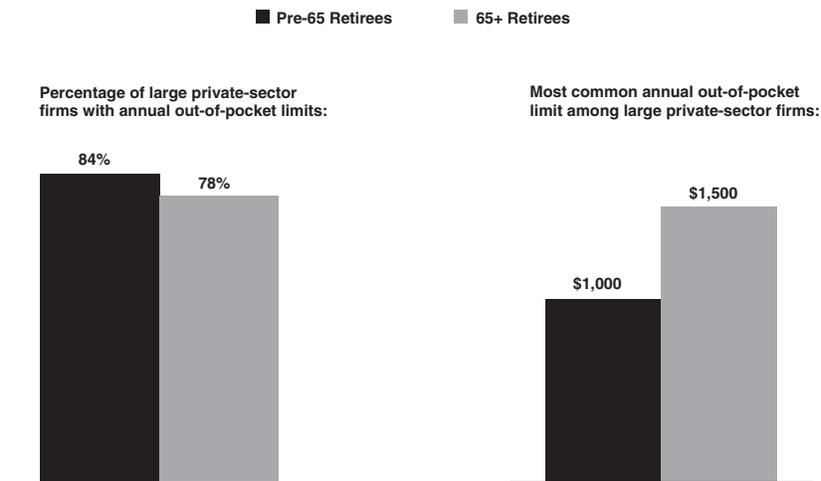


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 16

### Annual Out-of-Pocket Limits Among Large Private-Sector Firms



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees. Annual out-of-pocket limit amounts are for retiree-only coverage.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

## **SECTION 5**

### **PRESCRIPTION DRUGS**



# PRESCRIPTION DRUGS

Prescription drugs are a critical component of retiree health benefits. For those age 65 and older, employer-sponsored retiree health benefits are the primary source of drug coverage, assisting about one in three seniors with Medicare.<sup>23</sup> To understand the scope and structure of prescription drug benefits offered to seniors, we asked employers to describe the prescription drug provisions for the plan with the largest number of age 65+ retirees.

- The vast majority of employers that offer retiree health benefits (93 percent) provide coverage for prescription drugs. Most (84 percent) offer drug benefits as part of the firm's retiree health benefit plan, while a small share (eight percent) do so as a separate, employer-subsidized stand-alone drug plan. Only one percent offer an unsubsidized drug discount card or other program (Exhibit 17).
- Among plans with the largest number of age 65+ retirees, 64 percent of surveyed employers report that drug benefits are subject to the overall plan design, meaning the plan does not impose deductibles and out-of-pocket limited for drug benefits separate from other covered benefits (Exhibit 18).
  - Slightly more than a quarter (26 percent) have a separate annual drug deductible; the most common deductible is \$50.
  - Fifteen percent of plans have a separate annual out-of-pocket maximum (or stop-loss) for pharmacy claims; the most common out-of-pocket limit for drugs is \$1,000.
  - Benefit limits for drugs are fairly uncommon with only eight percent of the largest plans reporting a separate limit on drug benefits in 2003.
- Most plans (90 percent) offer both retail and mail-order coverage (Exhibit 19). Among employers that offer drug benefits, 19 percent require enrollees to use mail-order.

Employers use a variety of cost-sharing strategies for prescription drug benefits.

- Sixty-six percent of employers contract directly with a pharmacy benefit manager (PBM) to administer the prescription drug plan that enrolls the largest number of age 65+ retirees.
- The majority of firms in this study (55 percent) have a three-tiered plan design in which generic drugs, formulary/preferred drugs, and non-formulary/non-preferred drugs are each subject to different copayments/coinsurance rates (Exhibit 20).
  - By contrast, 22 percent of firms say their largest 65+ plan has two tiers for prescriptions with generic drugs subject to a different copayment and/or coinsurance rate than all other drugs.

---

<sup>23</sup> Congressional Budget Office, *Issues in Designing a Prescription Drug Benefit for Medicare*, October 2002.

— Eighteen percent say all prescription drugs are subject to the same copayment and/or coinsurance rate.

Among employer plans with a three-tiered drug design, about two-thirds require copayments for pharmaceuticals purchased at retail pharmacies, nearly one-third require coinsurance payments, and only about five percent use a combination of copayments and coinsurance (Exhibit 21).

For drugs purchased at retail pharmacies, median copayment amounts range from \$10 for generics, to \$20 for brand-name drugs on the formulary/preferred list, to \$35 for brand-name drugs on the non-formulary/non-preferred list (Exhibit 22). Typically, retiree cost-sharing covers a 30-day supply or a lesser amount, as prescribed.

Where coinsurance is used for prescriptions filled at retail pharmacies, coinsurance rates are typically 20 percent for generics and brand-name formulary/preferred drugs and 35 percent for non-formulary/non-preferred drugs.

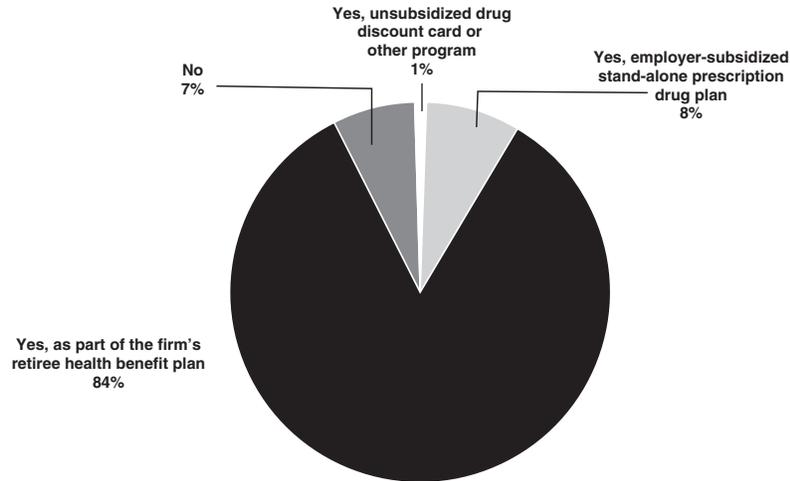
Among employer plans offering a mail-order option with a three-tiered drug design, 84 percent require retirees to pay fixed-dollar copayments, 13 percent impose a coinsurance, and 3 percent use a combination of copayments and coinsurance (Exhibit 21).

For drugs purchased through mail-order pharmacies, median copayment amounts range from \$15 for generics to \$30 for brand-name drugs on the formulary/preferred list and \$60 for brand-name drugs on the non-formulary/non-preferred list (Exhibit 23). Typically, the amount covers a 90-day supply of medication.

Where coinsurance is used, coinsurance rates for mail-order, as for retail purchases, tend to be 20 percent for generics and brand-name formulary/preferred drugs and 35 percent for non-formulary/non-preferred drugs.

Exhibit 17

### Percentage of Large Private-Sector Employers Offering Prescription Drug Benefits to 65+ Retirees

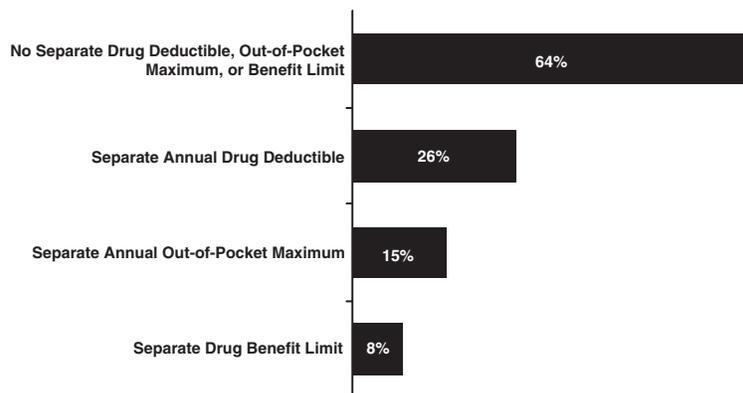


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 18

### Prescription Drug Plan Design Features Specific to 65+ Retirees

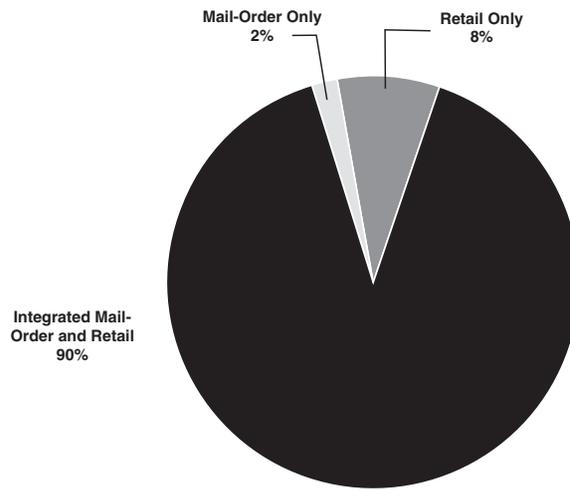


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees. Percentages do not sum to 100% as some employers reported more than one separate drug feature.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 19

### Prescription Drug Delivery Methods For 65+ Retirees

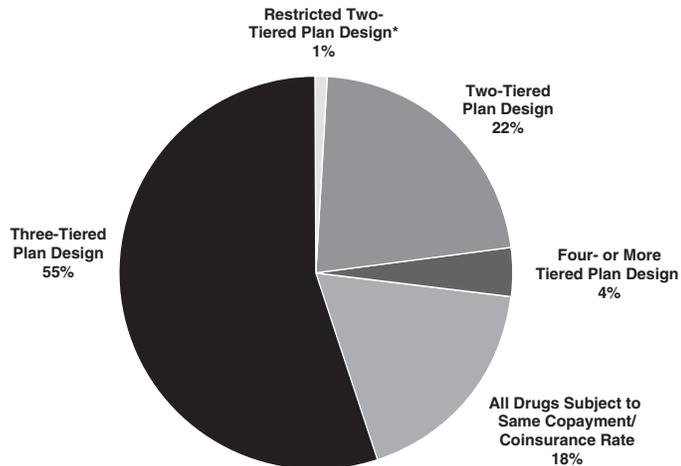


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 20

### Prescription Drug Cost-Sharing Design for 65+ Retirees



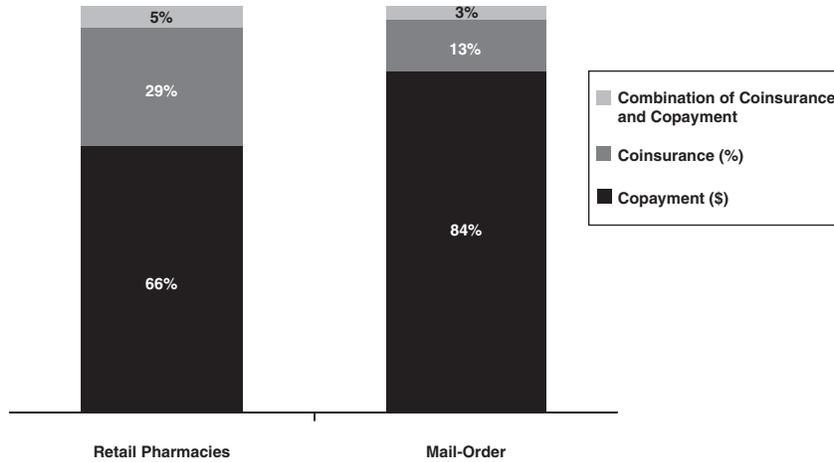
\*Generic drugs are subject to a different copayment and/or coinsurance rate than formulary/preferred drugs; nonformulary/nonpreferred drugs are not covered under the plan.

**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 21

### Prescription Drug Cost-Sharing Approaches for 65+ Retirees in Plans with 3-Tiered Cost-Sharing

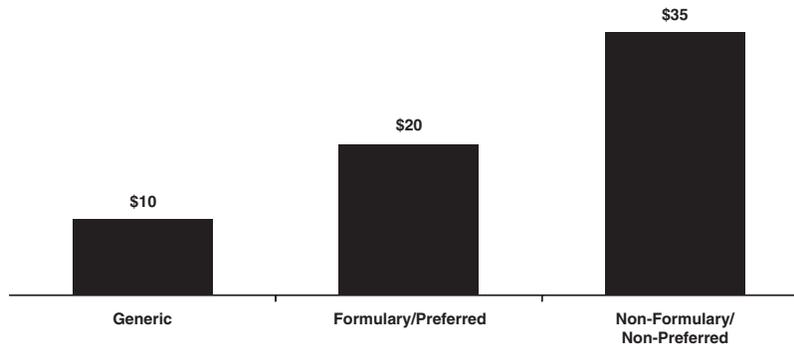


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 22

### Median Drug Copayments for 65+ Retirees at Retail Pharmacies, by Drug Category [Among Plans with 3-Tiered Cost-Sharing]

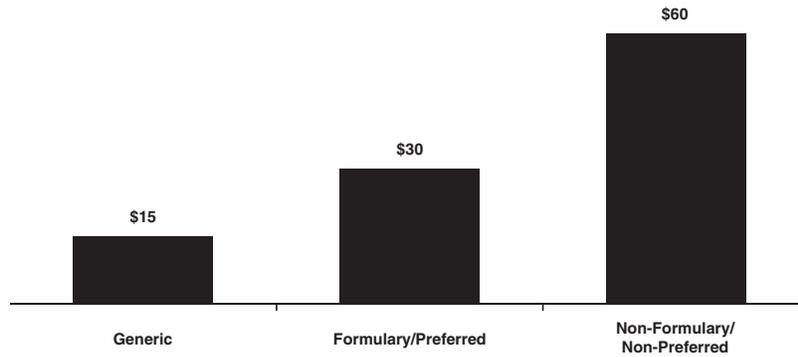


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees. Retail prescriptions typically cover a 30-day supply of the medication. Generic drugs may be produced and/or distributed by many firms. Formulary/preferred drugs are brand-name drugs with no generic substitutes. Non-formulary/non-preferred drugs are brand-name drugs with no generic substitutes.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 23

### Median Drug Copayments for 65+ Retirees at Mail-Order Pharmacies, by Drug Category [Among Plans with 3-Tiered Cost-Sharing]



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits, describing plans with the largest number of enrolled 65+ retirees. Mail-order prescriptions typically cover a 90-day supply of the medication. Generic drugs may be produced and/or distributed by many firms. Formulary/preferred drugs are brand-name drugs with no generic substitutes. Non-formulary/non-preferred drugs are brand-name drugs with no generic substitutes.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

## **SECTION 6**

### **CHANGES MADE BY LARGE EMPLOYERS IN PAST YEAR**



# CHANGES MADE BY LARGE EMPLOYERS IN PAST YEAR

Employers offering retiree health benefits have made substantial changes in recent years in an effort to control rising costs, and all signs point to sustained efforts to slow the growth in retiree health obligations in the future. In the past year, surveyed firms have increased retiree contributions to premiums and increased plan design cost-sharing requirements. A much smaller share of employers in this survey have terminated health benefits for future retirees entirely. While most indicators suggest a reduction in benefits for retirees, one in eight large employers report having added benefits or improved coverage for retirees in the past year.

Prescription drug costs are a major focus for employers. A previous study by Hewitt for the Kaiser Family Foundation projected that in 2003, under certain retiree health plan designs, as much as 80 percent of retiree health costs for age 65+ retirees would be attributable to prescription drugs.<sup>24</sup>

In the past year, employers have looked to higher cost-sharing requirements and new strategies to manage utilization to help rein in cost increases. Still, prescription drug spending by employers is expected to continue increasing at double-digit rates.<sup>25</sup>

## Coverage

Among large, private-sector firms that now provide retiree health benefits, 10 percent have terminated all subsidized health benefits for *future* retirees in the past year (Exhibit 24).

- Among surveyed firms that terminated benefits for future retirees, most did so for new hires, meaning retirees who were *hired* after a specific date; the most common hire date was January 1, 2003. A small number of firms terminated benefits for retirees who will *retire* after a specified date. This approach would most likely affect those who may be planning on retiring in several years.
- One-third (35%) of the firms that terminated benefits for future retirees in the past year also indicated that they provided access-only to health benefits with retirees paying 100 percent of the cost.
- Firms that have terminated benefits tend to be publicly traded companies (82 percent) and in the manufacturing sector (62 percent).
- Eleven percent of surveyed firms report making a change to provide access-only to group health benefits, with retirees paying 100 percent of the costs.
- Six percent of surveyed employers shifted to a defined contribution approach.

---

<sup>24</sup> Hewitt Associates for The Henry J. Kaiser Family Foundation, *The Implications of Medicare Prescription Drug Proposals for Employers and Retirees*, July 2000.

<sup>25</sup> Hewitt Associates, *Health Care Expectations: Future Strategy and Direction*, 2004.

- Two percent say they put in place a catastrophic plan coupled with a medical savings account (not shown).

## Retiree Contributions

- Seventy-one percent of surveyed employers report having increased retiree contributions to premiums in the past year. Nearly half (45 percent) report increases in contributions for dependent coverage (Exhibit 24).

## Cost-Sharing

- During the past year, over half (53 percent) of surveyed employers report increases in plan design cost-sharing, which could include deductibles, copayments, and coinsurance for a range of services, including physician, hospital and prescription drugs, as well as limits on retirees' out-of-pocket spending (Exhibits 24 and 25).

Surveyed employers made the following cost-sharing changes in the past year:

- Increased physician office copayments (37 percent);
- Raised deductibles (34 percent);
- Increased out-of-pocket limits (29 percent);
- Increased hospital copayments (26 percent); and
- Increased out-of-network cost-sharing (20 percent).

## Prescription Drug Benefit Changes

Large employers have implemented a variety of measures to control rising drug costs during the past year, including plan design changes that increase cost-sharing for retirees as well as strategies to manage utilization of prescription drugs (Exhibit 26).

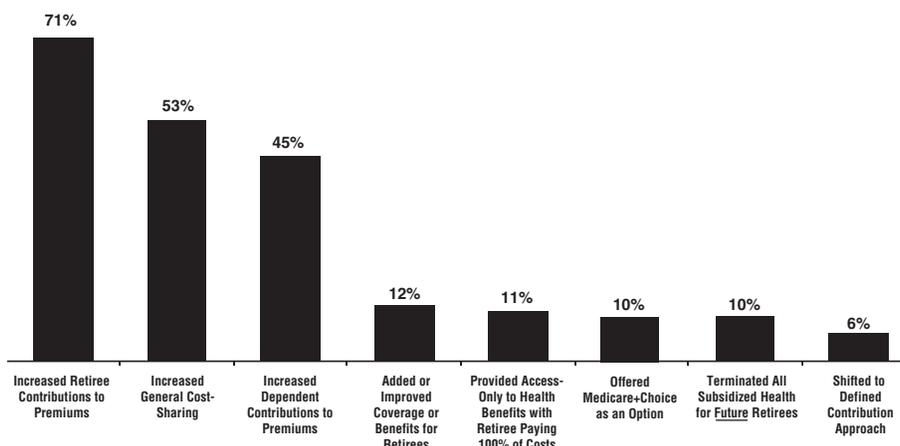
- More than half (57 percent) of surveyed employers have increased prescription drug copayments or coinsurance.
  - Nearly one-third (32 percent) imposed three-tiered copayments for pharmaceuticals. Only four percent imposed a four- or more tiered structure (not shown).
- With respect to utilization management strategies, 42 percent put into place prior authorization requirements, 20 percent imposed rules related to therapeutic interchange (formulary interventions by pharmacy benefit managers), and 14 percent implemented closed or partially-closed formularies (Exhibit 26).

Sixteen percent of employers implemented step therapy provisions, in which patients receive progressively higher-cost treatments only if lower-cost alternatives are ineffective.

- Fourteen percent of employers replaced fixed dollar copayments for drugs with coinsurance, a potentially significant shift.
- Twelve percent began requiring mandatory mail-order refills for maintenance drugs.
- One percent of all employers say they eliminated prescription drug coverage within the past year (not shown).

Exhibit 24

### Percentage of Large Private-Sector Employers Making Changes to Retiree Health Benefits in the Past Year

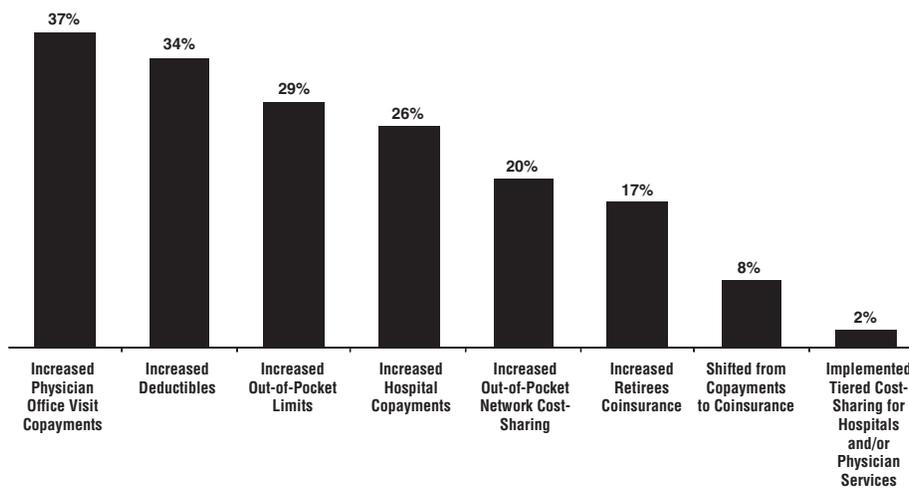


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 25

### Percentage of Large Private-Sector Employers Making Cost-Sharing Changes to Retiree Health Benefits in the Past Year

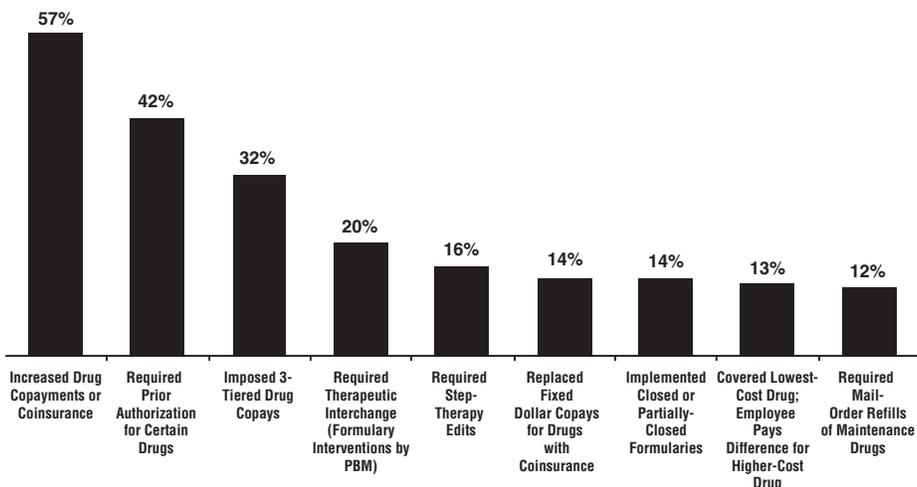


**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 26

### Percentage of Large Private-Sector Employers Making Changes to Manage Retiree Prescription Drug Costs in the Past Year



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.



# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

## **SECTION 7**

### **LOOKING TO THE FUTURE**



# LOOKING TO THE FUTURE

Looking ahead, the majority of surveyed employers say they are very or somewhat likely to make changes in their retiree health plans within the next three years. Most of these changes would involve higher contributions and/or cost-sharing for retirees. Despite the implementation of more aggressive prescription drug cost management tools within the last year, most employers say they are very or somewhat likely to raise retirees' cost-sharing for pharmaceuticals in the next three years and many expect to impose more stringent controls on utilization.

## Coverage

- Only two percent of surveyed employers say they are very or somewhat likely to terminate all subsidized benefits for *current* retirees (Exhibit 27).
  - By contrast, 20 percent say they are very or somewhat likely to terminate all subsidized health benefits for future retirees. Sixty-five percent of these employers say this will affect future retirees who were hired after a specific date; the most commonly specified hire dates were January 1, 2004 and January 1, 2005.
- There is also serious consideration being given to providing access-only to health benefits, with over a quarter of firms (26 percent) reporting they are very or somewhat likely to ask retirees to pay 100 percent of the cost of coverage.
- More than one in five surveyed employers say they are very or somewhat likely to shift to a defined contribution approach (22 percent) or to offer catastrophic benefits coupled with medical savings accounts (25 percent).
- Ten percent of surveyed firms say they are very or somewhat likely to add or improve benefits for retirees.

## Retiree Contributions

- Eighty-six percent of surveyed employers say they are very or somewhat likely to increase retiree contributions to premiums in the next three years. Seventy percent say they are very or somewhat likely to increase contributions for dependents (Exhibit 27).

## Cost-Sharing

- Four of five surveyed employers (81 percent) say they are very or somewhat likely to increase cost-sharing requirements for retirees (Exhibit 27). Specifically, employers say they are very or somewhat likely to make the following changes in the near future (Exhibit 28):
  - Increase deductibles (75 percent);
  - Increase physician copayments (69 percent);

- Raise out-of-pocket limits (65 percent);
- Increase hospital copayments (59 percent);
- Increase cost-sharing for out-of-network care (54 percent);
- Shift from copayments to coinsurance (40 percent); and
- Implement tiered cost-sharing for hospitals and/or physicians (31 percent).

## Changes to Manage Prescription Drug Costs

While only two percent of all surveyed employers say they are very or somewhat likely to eliminate prescription drug coverage in the next three years (Exhibit 27), a number of other prescription drug benefit design changes appear more likely (Exhibit 29).

- More than eight in ten surveyed employers (85 percent) say they are very or somewhat likely to increase retiree copayments or coinsurance for prescription drugs.
- Half of surveyed employers (50 percent) say they are very or somewhat likely to shift from fixed dollar copayments for prescription drugs to a coinsurance approach. Coinsurance approaches expose retirees to higher out-of-pocket spending as the cost of drugs rise. They also may provide stronger financial incentives for retirees to choose generic drugs where available.
- Employers say they are very or somewhat likely to impose tiered-cost sharing for prescription drugs within the next three years:
  - Three-tiered cost-sharing for retirees (44 percent); and
  - Four-tiered cost-sharing for retirees (29 percent).
- More than one-third (38 percent) of employers say they are very or somewhat likely to impose specific deductibles for pharmaceuticals within the next three years. A quarter (24 percent) say they are very or somewhat likely to cap or decrease the annual drug benefit in the future.

In addition to prescription drug cost-sharing changes, employers say they are very or somewhat likely to do the following:

- Impose prior authorization requirements for certain prescriptions in the next three years (60 percent);
- Require use of mail-order for maintenance drugs (51 percent);
- Require therapeutic interchange (i.e., formulary interventions by the PBM) (46 percent);

- Require step-therapy edits in which the patient receives progressively higher-cost treatments only if lower-cost alternatives are ineffective (42 percent); and
- Use closed or partially-closed formularies within the next three years (37 percent).

## Perspectives on the Medicare Drug Debate

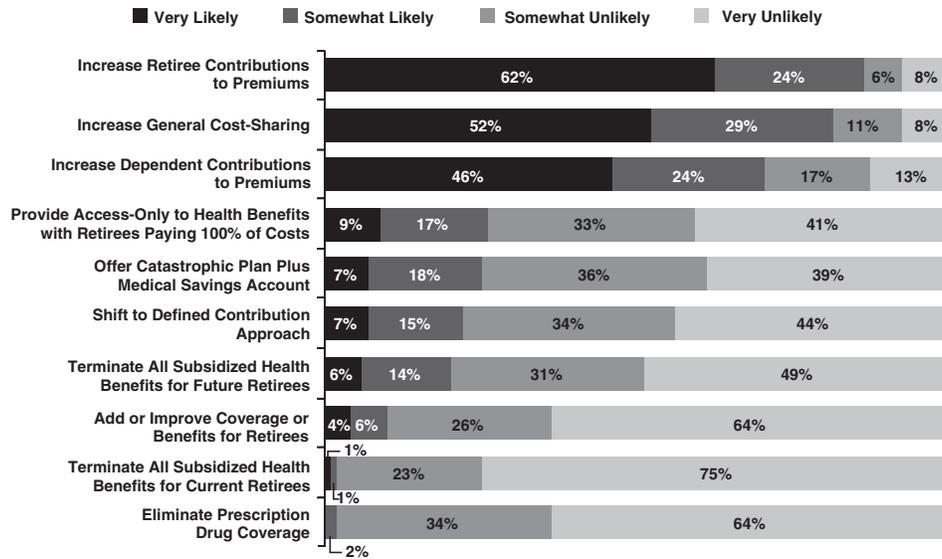
Given the critical role that employer and union plans now play in financing drug coverage for retirees, the issue of retiree health benefits received considerable attention in the recent Medicare debate, and contributed to the final shape of the new legislation. Policymakers raised concerns about the possibility that a new Medicare benefit would accelerate the erosion of highly-valued retiree health benefits, which are the primary source of drug coverage for the Medicare population today, assisting one in three beneficiaries. How employers will respond to the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* with respect to benefits offered to Medicare-eligible retirees is a critical concern, but will only become apparent after employers have had sufficient time to understand and analyze implications for their firms.

This survey was fielded before the final specifications of the drug bill were decided. Thus, the study did not ask employers to speculate about how they might respond to unspecified incentives to maintain retiree health coverage. Instead, the survey assessed employers' perceptions of the potential savings employers thought they might experience with the passage of a Medicare drug benefit. Our findings only reflect employer speculations about savings from an unspecified Medicare drug benefit, not employers' responses to the new drug legislation.

In 2003, the majority of employers surveyed (56 percent) say they think their firm would save money if an unspecified Medicare prescription drug benefit were enacted and 17 percent say they do not think their firm would save money. The remaining 27 percent say they do not know (Exhibit 30).

Exhibit 27

### Likelihood of Making Changes to Retiree Health Benefits in the Next Three Years

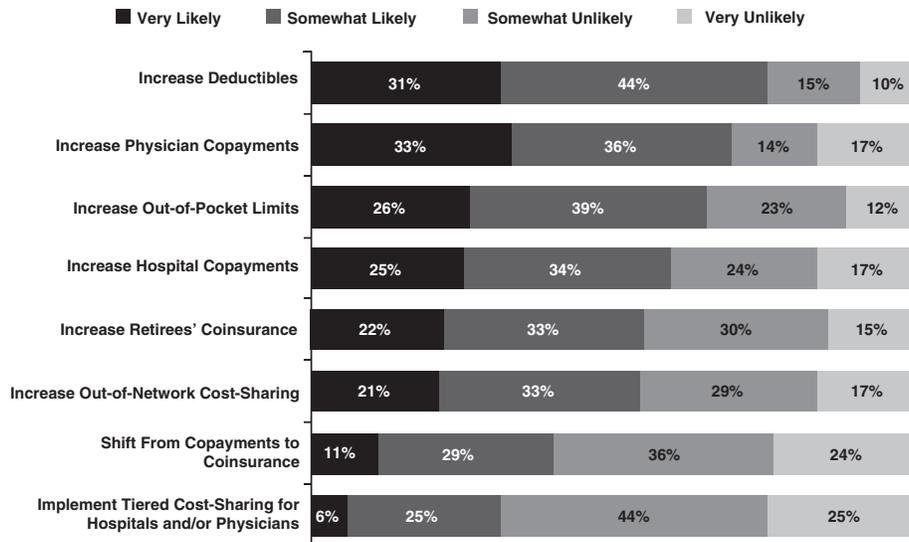


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 28

### Likelihood of Making Changes to Cost-Sharing for Retiree Health Benefits in the Next Three Years

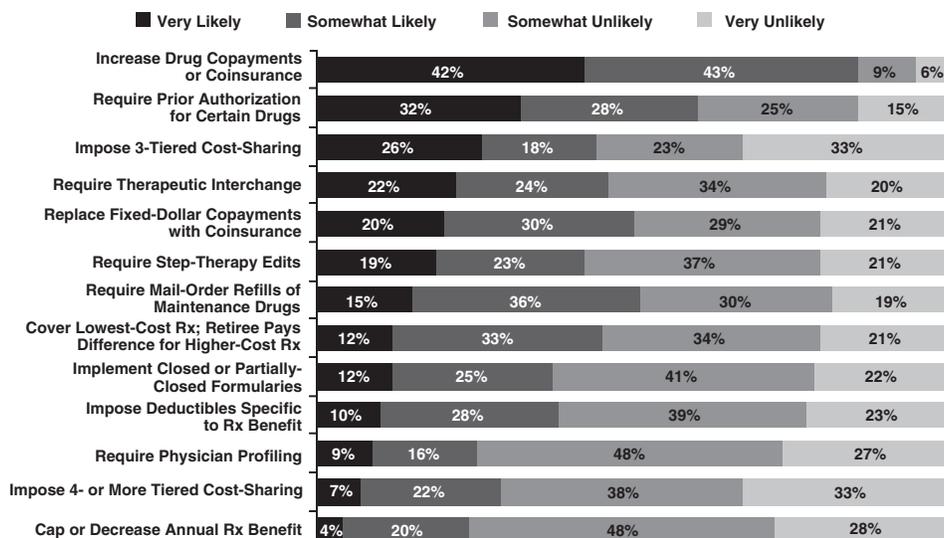


Note: Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.

SOURCE: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 29

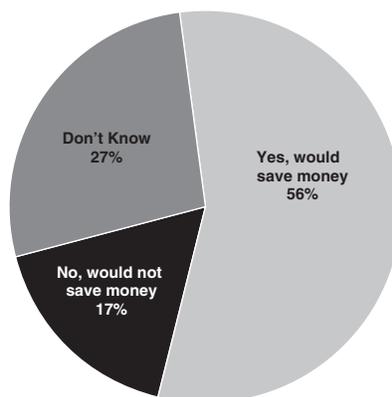
### Likelihood of Making Changes to Manage Retiree Drug Costs in the Next Three Years



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

Exhibit 30

### Percentage of Large Private-Sector Employers Who Said They Think Their Firm Would Save Money If a Medicare Drug Benefit Were Enacted



**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Question was asked of employers several months prior to the enactment of the new *Medicare Prescription Drug, Improvement, and Modernization Act of 2003*, and before final specifications of the employer subsidies were known.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.



# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

**APPENDIX I**

**METHODS**



# METHODS

## Survey Approach

This survey, conducted by The Henry J. Kaiser Family Foundation and Hewitt Associates, was designed to capture information on retiree health programs offered to pre-65 and Medicare-eligible retirees by large private-sector employers, i.e., employers having at least 1,000 employees. The survey focuses on large employers because large employers are significantly more likely than small and mid-sized employers to offer retiree health benefits. According to the Kaiser/HRET *Survey of Employer-Sponsored Health Benefits, 2003*, retiree health benefits are offered by 54 percent of firms with 5,000 or more employees; 48 percent of firms with 1,000–4,999 employees; 32 percent of firms with 200–999 employees; 20 percent of firms with 50–199 employees; and up to 11 percent or less of firms with fewer than 50 employees.

By design, the Kaiser/Hewitt survey focused exclusively on those large private employers that currently provide retiree health coverage, versus surveying all employers, many of whom do not offer coverage. This survey is based on a non-probability sample of large employers because there is no database that identifies all private-sector firms from which a random sample could be drawn. A list of approximately 2,000 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 a public database called Standard & Poor's Research Insight.<sup>SM</sup> Despite interest in examining year-to-year trends in retiree health benefits, this study does not compare new 2003 findings with the results from the 2002 Kaiser/Hewitt survey. Trend analysis would not be valid given the nonrandom nature of the sample, the fact that the samples from each year consist of different companies and different plans offered by those companies, and because sample size constraints preclude a constant sample analysis.

The survey was conducted between June and September 2003. 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 on-line. 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 on-line survey, with 82 percent completing the survey in that manner, versus 18 percent that completed and returned the printed questionnaire.

## Characteristics of Participating Employers

Overall, 498 employers responded to the survey. Employers not providing coverage, employers with fewer than 1,000 employees, and governmental employers were excluded, leaving a total of 408 large private employers whose responses are included in the survey analysis. These employers represent 45 percent of Fortune 100 companies and 30 percent of Fortune 500 companies. The surveyed employers include half (52 percent) of the 100 companies with the largest retiree health liabilities in 2001.

Most of the surveyed employers (362) provide retiree health coverage to both pre-65 and age 65+ retirees, but some only provide coverage to either pre-65 retirees or to age 65+ retirees, but not both. In this survey, 406 employers provide pre-65 coverage and 364 provide coverage to age 65+ retirees. The overwhelming majority (90 percent) of surveyed employers are multi-state employers that represent a broad range of manufacturing (45%) and non-manufacturing (55%) industries. Seventeen percent of the total are large subsidiaries of a parent organization.

These 408 surveyed employers together reported having 8,302,724 employees, with an average of 20,350 employees per employer and a median of 6,106 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 20.8 million employees and family members.

The surveyed employers together reported a total of 3,578,215 retirees, with an average of 8,923 retirees and a median of 1,306 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 5.9 million retirees and family members.

The employers in this sample provide health benefits to an estimated 3.9 million Medicare-eligible retirees and their spouses, representing about a third of the roughly 12 million nonfederal retirees with employer-sponsored health coverage.

In terms of the overall distribution of firms, 42 percent have 1,000–4,999 employees and 58 percent have 5,000 or more employees (Table A1).

<b>Table A1</b>					
<b>2003 Sample Characteristics, by Firm Size</b>					
	<b>Total</b>	<b>1,000–4,999</b>	<b>5,000–9,999</b>	<b>10,000–19,999</b>	<b>20,000+</b>
<b>Number of Firms</b>	408	173	76	62	97
<b>Firms as a Percent of Total</b>	100%	42.4%	18.6%	15.2%	23.8%
<b>Number of Retirees</b>	3,578,215	201,734	246,695	301,245	2,828,541
<b>Number of Workers</b>	8,302,724	460,842	531,331	862,109	6,448,442

**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.  
**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.

## Total Cost of Retiree Health Benefits in 2002

Among surveyed employers, the total cost (employer and employee share) of providing retiree health benefits to pre-65 retirees, age 65+ retirees, and dependents was \$18.11 billion in 2002. The total was derived by taking the average total cost by firm size for the 373 surveyed employers who responded to the total cost question, and then applying that average cost per size of firm to the 35 employers who did not respond to the question. This resulted in a total cost of \$2.14 billion for the 35 non-responding employers added to the \$15.97 billion for the 373 responding employers. The total cost of retiree health coverage of firms in this study represents more than a quarter of the total estimated cost of health coverage for active workers, retirees, and dependents.

The total dollar expenditures for the respondents were estimated assuming that the premium rates provided 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 rates for the largest plan. Given that for most respondents, the largest retiree plan represents a significant portion of retirees, this should provide a reasonable proxy of total cost. The cost for active employees was estimated assuming that the active rate equals 62.5 percent of the pre-65 rate. This adjustment produces an active rate that is close to the expected active rate in Hewitt Associates' 2003 Hewitt Health Value Initiative (HHVI) survey that collects detailed active plan costs for over 400 major employers. Using this active rate 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 (90 percent), 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" as well.

The total premium and retiree contribution information is gathered with respect to the surveyed employers' retiree health plan with the largest enrollment of pre-65 retirees and age 65+ retirees, respectively. 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).

The premium and retiree contribution information is gathered with respect to employees newly retiring on or after January 1, 2003, to minimize survey burden on respondents and maximize 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 also 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.

Table A2				
<b>Retiree Enrollment in Plan with Largest Participation, by Firm Size</b>				
	1,000–4,999 Employees	5,000–9,999 Employees	10,000–19,999 Employees	20,000 or more Employees
<b>Pre-65 Retirees</b>				
<b>Average Number of Pre-65 Retirees in Largest Plan</b>	151	553	569	5,769
<b>Average Percent of Pre-65 Retirees Covered in Largest Plan</b>	61%	53%	59%	57%
<b>Age 65+ Retirees</b>				
<b>Average Number of Age 65+ Retirees in Largest Plan</b>	495	1,605	1,570	12,999
<b>Average Percent of Age 65+ Retirees Covered in Largest Plan</b>	74%	69%	63%	71%
<small><b>Note:</b> Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.</small>				
<small><b>SOURCE:</b> Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.</small>				

To address the variation in retiree and employee populations among firms in the survey sample, the average total premium per retiree and the average retiree contribution were weighted toward the total premium per retiree 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 2003 over 2002 is weighted similarly.

In this year's report, the weighted average retiree contribution toward the total premium is calculated and reported in two ways. First, the study reports an average that includes the contribution amount reported by every firm, including contributions of \$0 (some firms do not require their retirees to pay any portion of the monthly premium). In addition, the survey reports a new average retiree contribution, which excludes from the calculation those firms whose retirees pay nothing, or \$0, towards the premium. This second reported average sheds some additional light on the issue of retiree costs, particularly among the majority of firms that require retirees to pay part of the monthly premium. Finally, the retirees' share of the total premium was computed by dividing the average 2003 retiree contribution reported for new retirees by the average 2003 total premium reported for new retirees.

Table A3

**Total Premiums and Retiree Contributions, by Firm Size, 2003  
(Median and Mean)**

	1,000–4,999 Employees	5,000–9,999 Employees	10,000–19,999 Employees	20,000 or more Employees
<b><u>Pre-65 Retirees</u></b>				
<b>Total Premium</b>				
<b>Median</b>	\$332	\$394	\$375	\$445
<b>Mean</b>	\$356	\$384	\$384	\$437
<b>Average Retiree Contribution</b>				
<b>Median</b>	\$102	\$132	\$150	\$101
<b>Mean</b>	\$148	\$163	\$191	\$165
<b><u>Age 65+ Retirees</u></b>				
<b>Total Premium</b>				
<b>Median</b>	\$211	\$209	\$207	\$211
<b>Mean</b>	\$210	\$210	\$211	\$212
<b>Average Retiree Contribution</b>				
<b>Median</b>	\$65	\$57	\$57	\$48
<b>Mean</b>	\$93	\$80	\$82	\$83

**Note:** Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003, 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.

**SOURCE:** Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004.



# **RETIREE HEALTH BENEFITS NOW AND IN THE FUTURE**

**Findings from the Kaiser/Hewitt 2003  
Survey on Retiree Health Benefits**

## **APPENDIX II**

### **DEFINITIONS OF HEALTH PLANS**



# DEFINITIONS OF HEALTH PLANS

(in alphabetical order)

## Health Maintenance Organizations (HMOs)

HMOs provide prepaid benefits for most health care needs, with no bills or claims forms for the enrollee to submit. The enrollee chooses a primary care physician (PCP) from a list of providers. Often the enrollee must contact the PCP to be referred to a specialist, although some plans have relaxed that requirement and permit self-referral for selected providers. In some cases, if care is received from a doctor or facility other than the selected PCP or without being referred by the PCP, HMOs may not provide any benefits coverage for those expenses, even if the doctor or facility is in the HMO network.

## Indemnity Plans

Indemnity plans provide the same coverage no matter which doctor or hospital the enrollee uses. The plan reimburses for covered medical services, as long as the expenses are reasonable and customary. The enrollee may need to file claim forms to be reimbursed. Coverage levels are usually lower in indemnity plans when compared with the in-network benefits of other plan types. Indemnity plans allow the enrollee to use any licensed doctor or provider for covered care.

## Managed Indemnity Plans

Managed Indemnity plans are a lot like traditional indemnity plans. What usually makes managed indemnity different is pre-certification, which means that some of the care members receive is subject to pre-approval. Like most indemnity plans, the enrollee may need to file claim forms to be reimbursed and is allowed to use any licensed doctor or provider for covered care.

## Medicare+Choice (M+C) Plans

Medicare+Choice plans are private plans under contract with Medicare that offer a prepaid package of Medicare-covered benefits and perhaps other benefits as well, as opposed to the “traditional” fee-for-service Medicare plan. The vast majority of M+C plans are HMOs.

## Point-of-Service (POS) Plans

POS plans maintain networks (lists) of participating doctors and hospitals. If the enrollee lives in an area that the POS network supports, he/she must choose a primary care physician (PCP) from the network when he/she enrolls. When the PCP coordinates all the care, the level of benefits is highest and the enrollee avoids having to file his/her own claims. Benefits coverage is typically lower if the enrollee chooses to go out of network for care.

## Preferred Provider Organizations (PPOs)

PPOs maintain networks of participating doctors and hospitals. If the enrollee lives in an area that the PPO network supports, the enrollee has the choice of using in-network or out-of-network providers. When in-network providers are used, the level of benefits is highest and the enrollee avoids having to file claims. A primary care physician (PCP) is not required to coordinate care.

**The Henry J. Kaiser Family Foundation**  
2400 Sand Hill Road  
Menlo Park, CA 94025  
(650) 854-9400 Fax: (650) 854-4800

**Washington Office:**  
1330 G Street NW  
Washington, DC 20005  
(202) 347-5270 Fax: (202) 347-5274

[www.kff.org](http://www.kff.org)

**Hewitt Associates**  
100 Half Day Road  
Lincolnshire, IL 60069  
(847) 295-5000

[www.Hewitt.com](http://www.Hewitt.com)

Additional copies of this publication (#6105) are available on the  
Kaiser Family Foundation's website at [www.kff.org](http://www.kff.org).