CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

December 2004

THE HENRY J. KAISER FAMILY FOUNDATION

- AND -

Hewitt

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ACKNOWLEDGEMENTS

The authors gratefully acknowledge Molly Voris of the Kaiser Family Foundation for her substantial contributions in the preparation of this report.

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EXECUTIVE SUMMARY

Introduction

Interest in employer-sponsored retiree health plans remains very high, especially because of the drug benefit provision of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (P.L. 108-73) that will take effect on January 1, 2006. Given that rapidly approaching date, employers, retirees and policymakers all have a major stake in knowing how employers will respond to the new options available to employers under the MMA. This survey by the Kaiser Family Foundation and Hewitt Associates, conducted between May and September 2004, is the third in a series of such surveys that provide detailed information on the state of retiree health benefits. This study provides the most current and comprehensive set of survey results on how private-sector employers expect to respond to the MMA beginning in 2006.

The current state of employer-sponsored health benefits is of great interest because these plans are often a critical source of relatively generous health insurance for retirees. For the majority of workers who retire before they turn age 65 and are eligible for Medicare, the coverage provided under employer plans is often difficult, if not impossible, to find anywhere else. For retirees ages 65 and older, employer-sponsored plans help by filling gaps in the Medicare benefit package and by providing additional cost-sharing protections, such as limits on retiree out-of-pocket expenses, which traditional Medicare fee-for-service does not provide. Employer plans remain the primary source of prescription drug coverage for seniors on Medicare; and typically, this coverage is more generous than the standard prescription drug benefit that will be offered by Medicare plans beginning in 2006.

However, there is significant concern about the erosion of this coverage driven in part by double-digit increases in retiree health costs. Between 1988 and 2004, the share of large employers (200 or more employees) offering retiree health benefits declined from 66 percent to 36 percent,[1] a trend which is likely to increase the number of future retirees without such coverage. Retiree health benefits have become a focal point in negotiations between labor and management,[2] and retiree health costs have been cited as a factor in recent bankruptcy filings. Of critical concern is the extent to which these negotiations will result in benefit terminations or cost-shifting to retirees, particularly among financially distressed companies.

This report provides a detailed description of large, private-sector retiree health benefits, including prescription drug coverage, in 2004. It describes the actions employers have taken in the past year and are planning to take in 2005 before the MMA takes effect. It concludes with a discussion of employers' likely responses to the MMA, based on their understanding of the law at the time the survey was conducted.

[1] *Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2004.*

[2] *Wall Street Journal,* 11/10/04; *Chicago Tribune,* 11/07/04; *Charlotte Observer,* 10/23/04.

Survey Methods

The data in this report reflect the responses of 333 large firms that currently offer health benefits to retirees, based on an online survey conducted between May and September 2004.[3] The large firms that participated in this survey, defined as private-sector employers with 1,000 or more employees, represent 32 percent of all Fortune 100 companies and 20 percent of all Fortune 500 companies.[4] The overwhelming majority (87 percent) are multi-state employers that represent a broad range of manufacturing (44 percent) and non-manufacturing (56 percent) industries.

The survey includes responses from 153 firms (45.9 percent) with 1,000 to 4,999 employees, 112 firms (33.6 percent) with 5,000 to 19,999 employees, and 68 "jumbo" firms (20.4 percent) with 20,000 or more workers. Together, these employers have over 6.5 million employees and nearly 3 million retirees. They provide health benefits that impact the lives of approximately 4.9 million retirees and dependent family members, and 16.3 million employees and dependent family members. The employers in this sample provide health benefits to an estimated 3.5 million Medicare-eligible retirees and their spouses, representing more than a quarter (29 percent) of the roughly 12 million nonfederal retirees with employer-sponsored health coverage.[5]

This study is based on a non-probability sample of large private-sector firms that offer retiree health benefits.[6] Despite interest in examining trends in this area, comparisons between the new 2004 findings and results from the 2003 Kaiser/Hewitt survey are somewhat limited. Given the nonrandom nature of this sample and the fact that the samples each year include different companies and different plans offered by those companies, study findings may not be strictly comparable from year to year.

Information was collected on a variety of topics, including costs, premiums, retiree contributions, prescription drug benefits, recent changes in benefits, the likelihood of making changes for the 2005 plan year, and the implications of the Medicare drug law 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 and to ease the reporting burden for 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, 2004—to whom we refer throughout

[3] The study focuses on large employers because these firms are far more likely than mid- and small-sized firms to offer retiree health benefits. According to the *Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2004*, retiree health benefits are offered by 60 percent of firms with 5,000 or more employees, 43 percent of firms with 1,000–4,999 employees, 31 percent of firms with 200–999 employees, 10 percent of firms with 50–199 employees and up to 9 percent of firms with fewer than 50 employees.

[4] These companies account for one-third (35 percent) of the 500 companies with the largest retiree health liability in 2003.

[5] Estimates of nonfederal retirees with employer-sponsored coverage from Congressional Budget Office, letter to Honorable William M. Thomas, November 14, 2003.

[6] 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,℠ a commercial database.

this report as "new retirees." As a result, the premium information does not represent *all* retirees with employer-sponsored coverage.

Highlights

Coverage and Plan Options. The vast majority of surveyed private-sector firms with 1,000+ employees that offer retiree health benefits provide coverage for both pre-65 retirees and age 65+ retirees (89 percent). These large employers provide retiree health benefits to salaried employees (92 percent), hourly employees (87 percent), and grandfathered employees or retirees (70 percent). Among those employers that provide retiree health benefits to both salaried and hourly employees, 87 percent provide the same benefits to salaried and hourly employees.

Pre-65 retirees have somewhat greater choices of health plans than do age 65+ retirees because pre-65 retirees often have the same plan choices as active employees, while age 65+ retirees are generally offered somewhat fewer options that coordinate with Medicare. Seventy-three percent of surveyed employers provide new pre-65 retirees a choice of two or more health plans, while 54 percent of employers provide new age 65+ retirees a choice of two or more health plans.

The most common plan offered by employers to pre-65 retirees is a PPO option (83 percent), whereas the most common plan offered to age 65+ retirees is an indemnity or managed indemnity plan (56 percent).

Employers were asked to estimate the percentage of their firms' active workforce who will be eligible for employer-subsidized retiree health benefits when they retiree. Respondents estimate that 59 percent of active workers will be eligible for retiree health benefits, on average, when they retire. Seven percent of employers estimate that none of their active employees will be eligible for retiree health benefits; 16 percent of employers estimate that 100 percent of their firm's active employees will be eligible for subsidized health benefits when they retire.

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 $15.5 billion in 2003.[7]

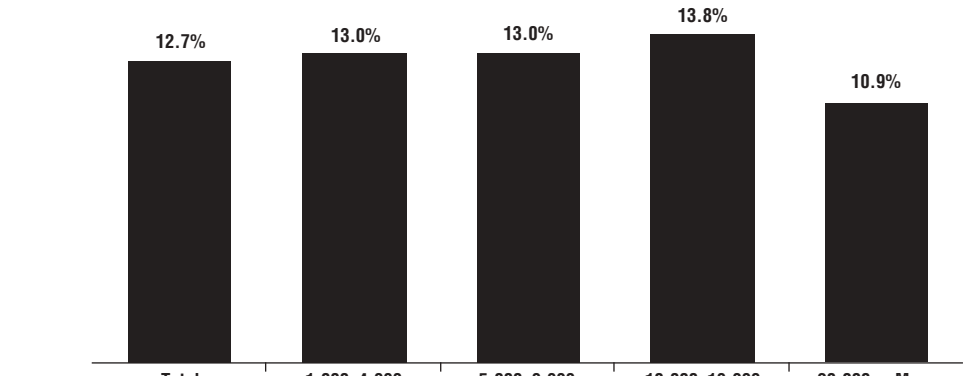
According to these employers, the total cost of providing retiree health benefits increased by an estimated 12.7 percent, on average, between 2003 and 2004 with somewhat lower cost increases reported by firms with 20,000 or more employees (Exhibit E1). This growth rate is fairly consistent with the 12.3 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.[8] By 2004, total retiree health costs are estimated to be $17.4 billion for surveyed employers, based on employers' estimates of total cost increases between 2003 and 2004.

[7] The total cost of retiree health benefits for employers participating in the 2004 survey is lower than the total cost reported by employers in the *Kaiser/Hewitt 2003 Survey on Retiree Health Benefits* because there are fewer participating companies in the 2004 survey (333 vs. 408). The average cost per firm in the 2004 survey was higher than the average cost per firm in the 2003 survey ($46.9 million vs. $42.8 million). See note 9.

[8] Hewitt Associates, "Health Care Costs Show Signs of Moderating, but Still Outpace Inflation," press release, October 11, 2004, based on data from the Hewitt Health Value Initiative.™

Exhibit E1

Average Increase in Total Retiree Health Costs, by Firm Size, 2003 to 2004



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

The average total cost of retiree health among all the surveyed employers was $46.9 million per firm in 2003,[9] but varied substantially by firm size. Among jumbo firms with 20,000 or more employees, the total cost of providing retiree health benefits was $189 million, on average, in 2003, and within this group, some companies report total costs in excess of $1 billion. This compares to an average of $22 million for firms with 10,000–19,999 employees, $14.2 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. Eighty-nine percent of all respondents said their CEO is very (58 percent) or somewhat (31 percent) concerned about retiree health care costs. Total costs for retiree health benefits among surveyed companies represent more than a quarter (29 percent) of the total costs of health coverage for active workers, retirees, and dependents.

Caps on Future Obligations

Many large employers have placed caps on their future financial obligations for retiree health coverage 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. When employers place financial caps on their retiree health obligations, retirees tend to pay a greater share of costs as medical costs rise above a pre-determined amount.

[9] By comparison, the average cost per firm in the *Kaiser/Hewitt 2003 Survey on Retiree Health Benefits* was $42.8 million among 408 large firms. Although the surveys consist of different samples and are not strictly comparable from year to year, for reference purposes, if 408 employers had the 2004 average cost of $46.9 million per firm, total retiree costs for 408 companies would be $19.1 billion in 2004, versus $18.1 billion in 2003.

- 54 percent of all surveyed firms report having a cap on their firms' contribution to retiree health benefits in any plan offered to retirees in 2004.

- Among firms with a cap, 70 percent report having more than one plan with a cap across the firms' retiree health plans.

- Among firms with a cap, 84 percent have a cap for the largest pre-65 retiree health plan, and 89 percent have a cap for their largest age 65+ retiree health plan.

  — For firms that have a cap on their largest pre-65 retiree health plan, 53 percent have already hit the cap, and 28 percent anticipate hitting the cap in the next one to three years.

  — For firms with a cap on their largest age 65+ retiree health plan, 56 percent have already hit it, and another 27 percent anticipate hitting the cap in the next one to three years.

Nine out of ten 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. Among employers that have held firm on the cap or intend to hold firm on the cap, 30 percent say they have taken steps to soften the impact of the cap on pre-65 and 65+ retiree contributions to premiums.

In the 2004 survey, we took the additional step of not only determining the percentage of large companies with caps but also the percentage of retirees in plans that are capped, based on the largest plan offered by the surveyed employers.

- 54 percent of retirees in the largest pre-65 plans are in plans that are capped, as are 51 percent of retirees in the largest age 65+ plan.

Premiums. Total premiums (the sum of employer and retiree contributions) are typically higher for pre-65 retirees than they are for those ages 65+ because the employer plan is the main source of coverage (i.e., no Medicare) for pre-65 retirees but secondary to Medicare for retirees age 65+. Likewise, retiree contributions to premiums are, on average, higher for pre-65 retirees than for age 65+ retirees. Premiums 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 in order to give greater weight to the responses of larger firms that have a greater number of retirees.[10]

The following information presents average total premiums and retiree contributions for new retirees (those retiring on or after January 1, 2004) in the employer-sponsored retiree health plan with the largest number of retirees enrolled.

Pre-65 Retirees

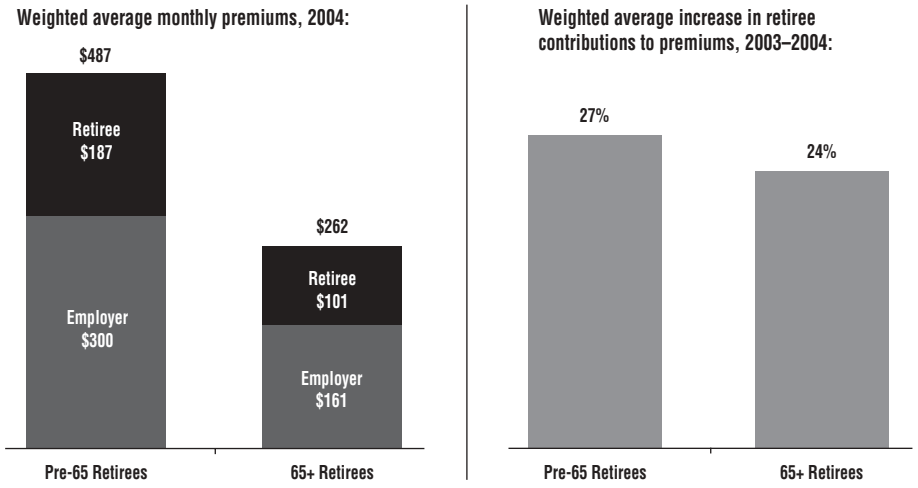
- For newly retiring pre-65 retirees, the weighted average total premium for retiree-only coverage is $487 per month (Exhibit E2).

  — Average total monthly premiums are lower in firms with 1,000–4,999 employees ($391 per month) than in jumbo firms with 20,000 or more employees ($499 per month). In this case,

[10] See *Appendix I: Methods* for additional information.

Exhibit E2

Average Monthly Premiums for New Retirees



Note: Includes firms that do not require retiree contributions. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004 (new retirees), in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

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.

- The weighted average retiree contribution to the total premium paid by new pre-65 retirees is $187 per month for retiree-only coverage. After excluding firms that do not require pre-65 retirees to pay any portion of the premium, the weighted average contribution for new pre-65 retirees increases to $202 per month.

  — On average, new pre-65 retiree contributions are 38 percent of the total weighted average premium in 2004, with substantial numbers of retirees paying much less or more than the average.

- Between 2003 and 2004, the weighted average increase in retiree contributions was 27 percent for new pre-65 retirees in the health plan with the largest number of enrollees.

Age 65+ Retirees

- For newly retiring age 65+ retirees, the weighted average total premium for retiree-only coverage is $262 per month (Exhibit E2).

  — 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.

- The weighted average retiree contribution for new age 65+ retirees is $101 per month for retiree-only coverage. After excluding firms that do not require retiree contributions to the premium, the weighted average retiree contribution rises to $113 per month.

  — On average, new age 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.

- Between 2003 and 2004, the weighted average increase in the retiree contribution was 24 percent for new age 65+ retirees in plans with the largest number of retirees enrolled.

Distribution of Employers by Share of Premium Paid by Retiree

- 21 percent of surveyed employers require new pre-65 retirees to pay 100 percent of the total premium in the largest plan, while 6 percent do not require retiree contributions to premiums in the health plan with the largest number of enrollees.

- 19 percent of firms require new age 65+ retirees to pay 100 percent of the total premium, while 11 percent of employers do not require retiree contributions to premiums in the health plan with the largest number of enrollees.

Prescription Drug Benefits. For retirees ages 65 and older, employer-sponsored health benefits are the primary source of drug coverage, assisting more than one in three seniors with Medicare. The vast majority of employer plans with the largest number of age 65+ enrollees provide coverage for prescription drugs (98 percent). Most (93 percent) offer drug benefits as part of the firm's retiree health benefit plan, while a small share (5 percent) do so as a separate, employer-subsidized stand-alone drug plan. Only 2 percent do not offer prescription drug benefits to age 65+ retirees. Typically, employer-sponsored drug benefits include both retail and mail-order options; 21 percent of firms that offer drug benefits say they have a mandatory mail-order feature.

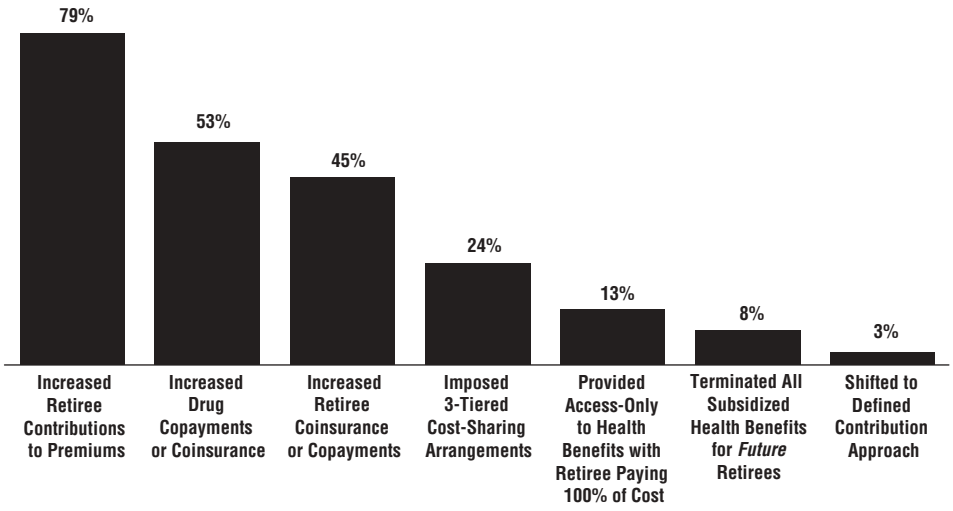
Nearly two-thirds of the largest 65+ retiree plans with drug benefits report that these benefits are subject to the overall plan design (58 percent), meaning they do not impose separate deductibles or out-of-pocket limits for their drug benefits versus other covered benefits. About a quarter (27 percent) of the largest age 65+ retiree plans providing drug benefits have a separate annual deductible (with $50 the most common drug deductible reported), and 18 percent impose a separate annual maximum for out-of-pocket drug expenses. Separate drug benefit limits are very uncommon with only 9 percent of the largest plans reporting them. Separate premiums for prescription drug benefits are rare with only 3 percent of firms charging a monthly premium for drug benefits in 2004. As a result, employer-sponsored retiree drug coverage is more generous than the standard drug benefit that will be offered under Medicare in 2006.

Employers use a variety of cost-sharing strategies for prescription drug benefits. More than half of surveyed firms (58 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.

- 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

Exhibit E3

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 offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

formulary/preferred list, and $35 for brand-name drugs on the non-formulary/non-preferred list, and typically cover a 30-day supply of medication.

- For employer plans with three-tiered cost-sharing and a mail-order feature, median copayment amounts range from $20 for generics to $40 for brand-name drugs on the formulary/preferred list and $70 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 (Exhibit E3).

- 79 percent of large private-sector firms increased retiree contributions to premiums and 45 percent increased cost-sharing requirements for retirees in the past year.

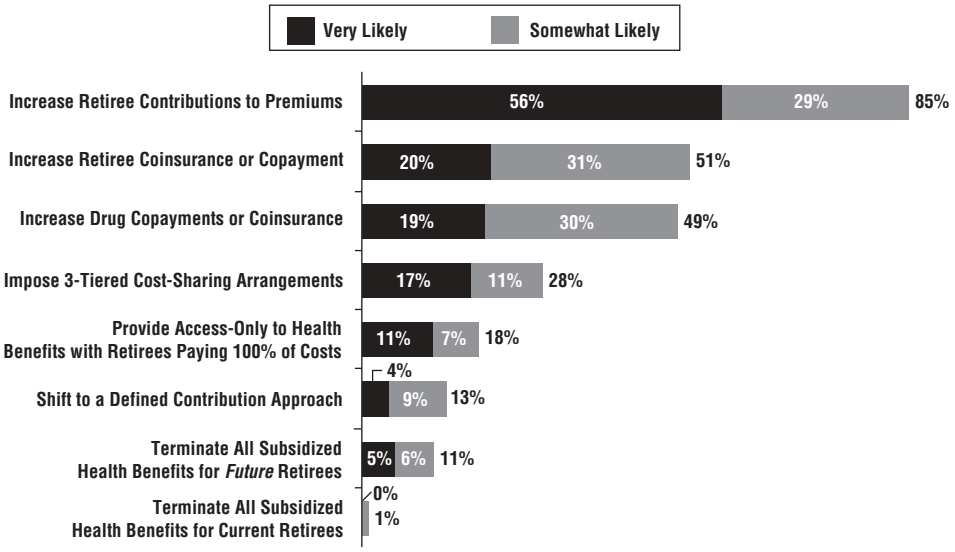
- 8 percent of surveyed employers eliminated subsidized health benefits for future retirees in the past year.

  — Termination of benefits reported by these employers primarily affect employees *hired* after a specific date rather than employees who will *retire* after a specified date.

  — Nearly half 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.

Exhibit E4

Likelihood of Making Changes to Retiree Health Benefits for the 2005 Plan Year



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

- 3 percent say they shifted to a defined contribution approach, and 3 percent say they put in place a catastrophic plan coupled with a health savings account.

- 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

To help manage costs in the last year, employers have raised cost-sharing requirements and implemented new strategies to manage utilization of drugs, but no surveyed employers have eliminated drug coverage for retirees within the last year.

- 53 percent of surveyed employers have increased prescription drug copayments or coinsurance.

- 24 percent imposed three-tiered copayments for pharmaceuticals. Only 4 percent imposed a four- or more tiered structure.

- 15 percent of employers replaced fixed dollar copayments for drugs with coinsurance, a potentially significant shift.

Changes for the 2005 Plan Year. Looking forward, large private-sector employers are considering a number of changes in their retiree health plans, many of which would require higher retiree contributions and cost-sharing requirements in 2005 (Exhibit E4).

- The vast majority of large employers say they are very or somewhat likely to raise premiums and/or cost-sharing requirements for retirees for the 2005 plan year, including:

  — Increasing contributions to premiums by retirees (85 percent) and dependents (75 percent);

  — Increasing retiree coinsurance or copayments for health care services (51 percent);

  — Increasing deductibles (43 percent); and

  — Raising out-of-pocket limits (37 percent).

- While only a small share say they are very or somewhat likely to terminate subsidized coverage for current retirees (1 percent), more than 1 in 10 employers say they are very or somewhat likely to terminate coverage for future retirees (11 percent). Most of these terminations are expected to affect "new hires" only.

Prescription Drugs

Despite the implementation of more aggressive cost-management tools in the past year, nearly half of surveyed employers say they are very or somewhat likely to increase drug copayments or coinsurance for pharmaceuticals for the 2005 plan year (49 percent). A quarter of surveyed employers (24 percent) say they are very or somewhat likely to replace fixed dollar copayments for prescription drugs with a coinsurance approach. Coinsurance approaches expose retirees to higher out-of-pocket spending as the cost of drugs rise and create greater financial incentives for retirees to save money by using lower-cost brand or generic products.

Many expect to impose more stringent controls on utilization in the future, including:

- Prior authorization requirements (40 percent);

- Therapeutic interchange (29 percent); and

- Step-therapy edits (31 percent).

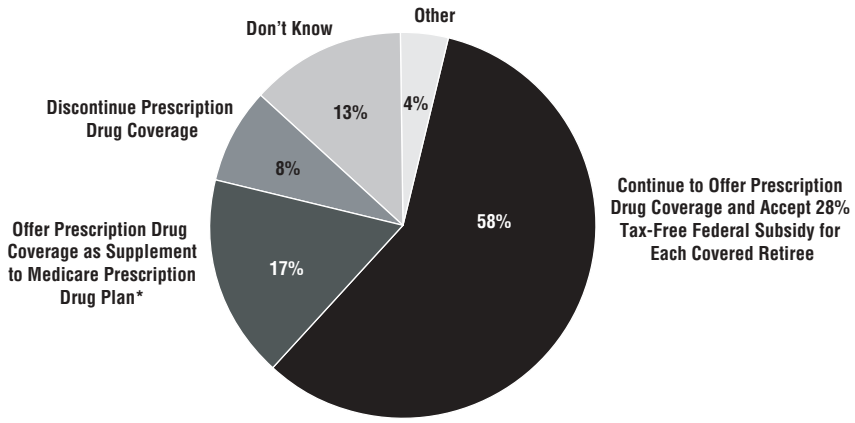
However, only 5 percent say that they are very or somewhat likely to eliminate retiree drug coverage altogether.

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. As the implementation of the Medicare Modernization Act (MMA) proceeds, many lawmakers remain concerned about whether the Medicare drug benefit will accelerate the erosion of relatively generous and highly valued employer-sponsored retiree health coverage—the primary source of drug coverage for the Medicare population today.

The MMA provides multiple options for employers who wish to continue providing assistance to retirees in terms of drug coverage. The law includes financial incentives for those employers that provide prescription drug benefits to Medicare-eligible retirees and dependents if that coverage is at least actuarially equivalent to the standard Medicare drug benefit defined in the law. Medicare will provide these employers tax-free payments equal to 28 percent of allowable drug costs between $250

Exhibit E5

Strategies Firms Are Likely to Choose Under the Medicare Drug Law



*Medicare would be primary payer.
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plan with the largest number of age 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

and $5,000 for each covered retiree in 2006, estimated to be on average, $611 per retiree.[11] Other options allow employers to wrap around Medicare Part D coverage or to become the sponsor of a prescription drug plan (PDP) or a Medicare Advantage prescription drug plan (MA-PD). Our findings reflect employer reactions about how they are likely to respond to the new Medicare drug law in 2006, based on what they knew about the law at the time the survey was conducted.

The majority of employers say they are likely to continue to offer drug benefits to their Medicare-eligible retirees[12] (Exhibit E5):

- 58 percent of responding firms—representing an estimated 77 percent of age 65+ retirees in the largest plans offered by respondents—said their firm is likely to continue to offer prescription drug benefits and accept the per retiree 28 percent tax-free drug subsidy.

  — 85 percent of these employers say they plan to retain current benefit levels;

  — 7 percent of these employers plan to modify the actuarial value of the plan to match the standard Part D benefit; and

[11] Centers for Medicare and Medicaid Services (CMS), "Notice of Proposed Rulemaking (NPRM) regarding the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)," *Federal Register,* August 3, 2004.

[12] Refers to strategy reported for firms' largest group of age 65+ retirees. On average, 74 percent of surveyed firms' age 65+ retirees are enrolled in their firms' largest plans.

— 8 percent do not know.

- 17 percent of responding firms—representing an estimated 6 percent of age 65+ retirees in the largest plans offered by respondents—said their firm is likely to offer prescription drug coverage as a supplement to the Medicare prescription drug plan (Medicare would be the primary payer).

- 8 percent of responding firms—representing an estimated 4 percent of age 65+ retirees in the largest plans offered by respondents—said they would discontinue drug coverage. Some employers in this group indicated they would contribute toward the retiree's Part D premium.

- 13 percent said they do not know which strategy their firm is likely to choose and 4 percent said "other" strategy.

About a third (34 percent) of surveyed firms said they had already evaluated the financial impact of the MMA. About half (47 percent) said they plan to evaluate the impact within 6 months after the survey was conducted and 16 percent said they plan to analyze the new law within 7–12 months.

Among firms that have analyzed the financial impact of the MMA drug law, 15 percent expect a "significant" (20 percent or more) reduction in their annual, before tax, FAS 106 accounting costs, and 34 percent expect a "moderate" (6–19 percent) reduction; while 17 percent expect a "nominal" (1–5 percent) reduction and 8 percent expect no reduction (0 percent). The remaining 26 percent either did not know or expect a different financial impact of the law.

Employers were asked how likely they would be to separate the 65+ retiree prescription drug election or premium from their overall retiree health plan, in response to the MMA. The majority (58 percent) of employers said they are unlikely to separate drug coverage from their overall retiree health plan in response to the new law (24 percent "very unlikely" and 34 percent "somewhat unlikely"). One-third (34 percent) said they are very likely (9 percent) or somewhat likely (25 percent) to make such a change. Clearly, how employers fully respond to incentives beginning in 2006 will become apparent after these employers have had sufficient time to evaluate the impact of the law on their firms.

Nearly three-quarters of employers said they are likely (32 percent "very likely" and 40 percent "somewhat likely") to give their age 65+ retirees educational materials about the Medicare drug benefit. Given the complexity of the new law, such educational efforts could help ease the transition for retirees as the drug law goes into effect.

Conclusion

Findings from this 2004 retiree health benefits survey confirm that employers are continuing to modify retiree health plans in ways similar to what they have done in the past. Costs are continuing to rise at double-digit rates, leading employers to increase retiree contributions and cost-sharing and to consider eliminating subsidized retiree health coverage for new hires in particular. Nevertheless, surveyed employers project that the majority of their current workers will continue to be eligible for health benefits when they retire. There is virtually no interest in terminating subsidized benefits for current retirees in 2005 or in dropping prescription drug benefits for retirees.

Most surveyed employers indicate that they are likely to continue drug coverage for age 65+ retirees after the Medicare drug benefit goes into effect. However, because of the uncertainties that existed at the time the survey was conducted and because employer responses may change over time, further research is needed to monitor employer responses on an ongoing basis. The majority of companies had yet to determine the financial impact of the MMA at the time of the survey, though virtually all companies are expected to do so by early 2005, if not sooner. Most of the employers who participated in this study completed the survey before the proposed MMA regulations were published. The final regulations—which should address a number of issues of critical importance to employers—are not expected before early 2005. Employers' responses to the new law may change after they have had an opportunity to monitor its implementation and assess the availability of new Medicare drug plans over time.

In the meantime, this survey indicates that most large private-sector employers expect to stay the course for 2006. This finding suggests that the vast majority of retirees who now receive employer-sponsored drug benefits from large private-sector firms continue to receive them either as part of their current plan or as a supplement to Medicare, at least in the early stages of the MMA. Those retirees who do lose employer-sponsored coverage when the Medicare benefit goes into effect in 2006, however, are likely to encounter higher out-of-pocket costs under Medicare prescription drug plans in that the benefits provided by employers are typically far more generous than the standard Medicare drug benefit. The relative generosity of employer health benefits helps to explain concerns about the erosion of employer coverage after the Medicare drug benefit goes into effect. With employers and retirees clearly concerned about rising health care costs, ongoing efforts to monitor the effects of the MMA are essential.

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

SECTION 1

COVERAGE AND HEALTH PLAN OPTIONS

COVERAGE AND HEALTH PLAN 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, filling a gap until they become eligible for Medicare. For retirees ages 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 will not provide until 2006.

Employers offering benefits to age 65+ retirees currently use a variety of strategies to coordinate with Medicare. Under the most common approach, known as "carveout," 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 employer plan. Under another approach, known as "full coordination of benefits," 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.

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. PPOs are the most common plan type that surveyed employers provide pre-65 retirees; indemnity plans are the most frequently provided plan for age 65+ retirees.

Covered Individuals

- 89 percent of surveyed employers that offer retiree health benefits provide coverage for both pre-65 and age 65+ retirees and 11 percent of employers offer retiree health benefits to pre-65 retirees only.[13]

- Surveyed employers typically provide retiree health benefits to salaried employees (92 percent of employers), hourly employees (87 percent), and grandfathered employees or retirees (70 percent). 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 employees or retirees (Exhibit 1).

  — Among employers that provide retiree health benefits to both salaried and hourly employees, 87 percent provide the same benefits to salaried and hourly employees, 13 percent provide different benefits.

- 52 percent of all surveyed firms offer retiree health benefits to both union and non-union employees, 1 percent offer these benefits to union-employees only, and 47 percent offer retiree health benefits to non-union employees only (Exhibit 2).

[13] Less than 1 percent of employers offer health benefits exclusively to age 65+ retirees.

- All surveyed employers offer retiree health benefits to the spouses of retirees and most offer these benefits to other dependents (82 percent).

- 42 percent of all surveyed employers offer retiree health benefits to part-time workers.

Choice of Health Plans

Pre-65 retirees have somewhat greater choice of plans than do age 65+ retirees. This is because pre-65 retirees often have the same plan choices as active employees, while age 65+ retirees are generally offered fewer plans that coordinate with Medicare.

When asked about the number of health plan options available to new retirees, defined as those retiring on or after January 1, 2004 (Exhibit 3):

- 27 percent of firms that provide retiree health benefits to pre-65 retirees offer one employer-sponsored plan, compared with 46 percent of firms offering one plan to age 65+ retirees.

- 25 percent of employers report providing new pre-65 retirees a choice of two health plans; 23 percent of employers provide age 65+ retirees a choice of two health plans.

- 48 percent of employers provide pre-65 retirees a choice of three or more health plans; 31 percent provide age 65+ retirees 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, Medicare Advantage plans (formerly called M+C plans) (Exhibit 4).[14]

- Surveyed employers most frequently provide pre-65 retirees the option of coverage under PPOs (83 percent), followed by HMOs (58 percent), indemnity (or managed indemnity) plans (38 percent), and POS plans (29 percent). Again, pre-65 retirees are often covered by the active employee plans, so they typically have somewhat greater access to PPOs and HMOs than do age 65+ retirees.

- The most common types of plans that surveyed employers provide to age 65+ retirees are indemnity (or managed indemnity) plans (56 percent), followed by Medicare Advantage or other HMO plans (43 percent), and PPOs (43 percent).

Share of Active Workers Likely to be Covered in the Future

Employers were asked to provide an estimate of the percentage of their firms' active employees who will be eligible for employer-subsidized retiree health benefits when they retire. Surveyed firms

[14] For definitions of these health plans, see Appendix II: Definitions of Health Plans.

estimate that, on average, 59 percent of active workers will be eligible for retiree health benefits when they retiree.

- The share of active workers likely to be covered in the future is fairly consistent across firms of different sizes ranging from 56 percent, on average, among firms with 5,000–9,999 employees to 59 percent among firms with 1,000–4,999 employees, 61 percent among firms with 20,000 or more employees, and 63 percent, on average, among firms with 10,000–19,999 employees.

- The share of active workers likely to be covered in the future is also fairly consistent between the manufacturing sector (61 percent) and the non-manufacturing sector (58 percent).

Among surveyed employers:

- 7 percent estimate that none of their active employees will be eligible for employer-subsidized retiree health benefits when they retire;

- 22 percent of employers estimate that up to 25 percent of workers, on average, will be eligible for benefits;

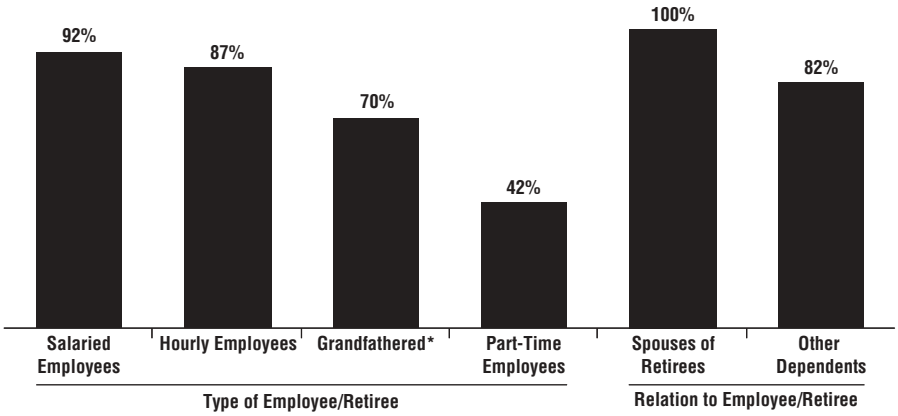
- 24 percent estimate that between 26 and 75 percent of workers, on average, will receive benefits;

- 31 percent estimate that between 76 and 99 percent of their workforce, on average, will be eligible for retiree health benefits when they retire; and

- 16 percent estimate that 100 percent of their firm's active employees will be eligible for subsidized health benefits when they retire.

Exhibit 1

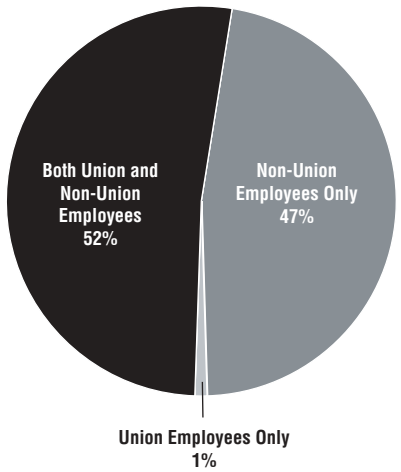
Percentage of Large Private-Sector Employers Offering Retiree Health Benefits to Selected Individuals



*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 offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 2

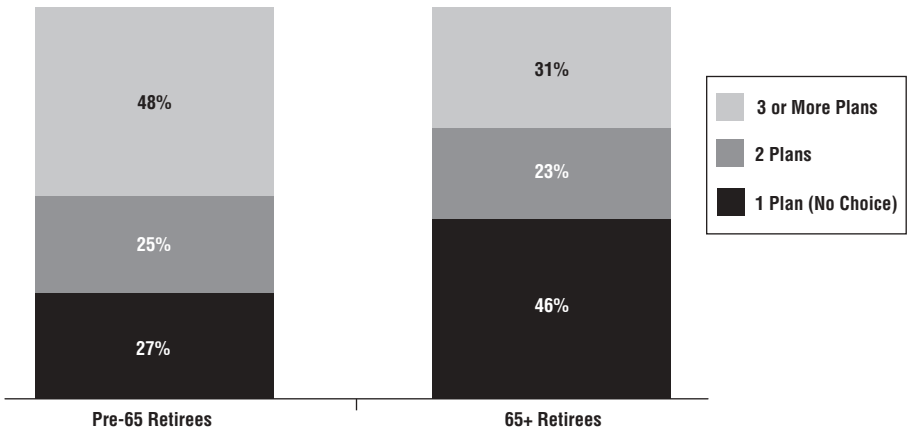
Percentage of Large Private-Sector Employers Offering Retiree Health Benefits to Union and Non-Union Employees



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

Exhibit 3

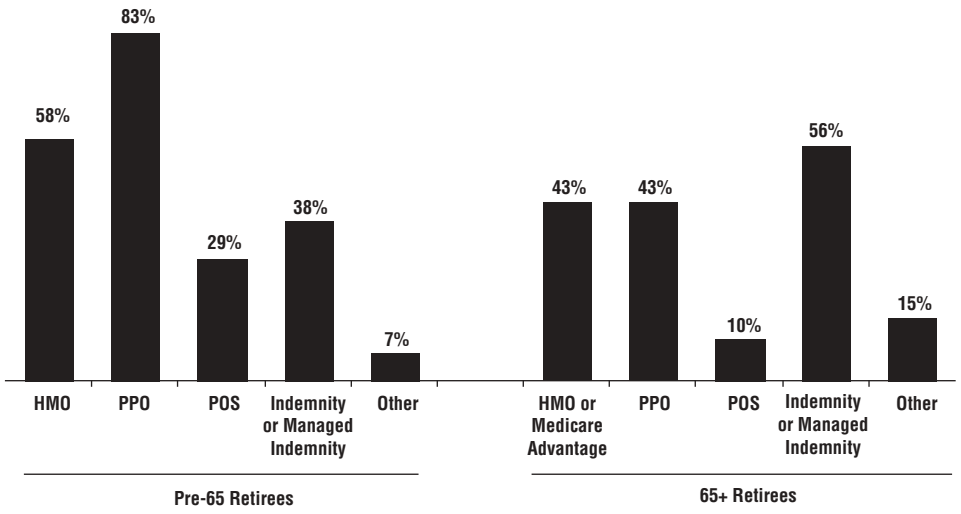
Percentage of Large Private-Sector Employers Providing Retirees with a Choice of Health Plans



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Choice of health plans for full-time employees retiring on or after January 1, 2004.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 4

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 offering retiree health benefits. Type of health plan for full-time employees retiring on or after January 1, 2004.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 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 study. 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 and remain a significant source of tension in negotiations between labor and management. High costs have contributed to both the decline in employer sponsorship of retiree health benefits in the past decade and the shift in costs from employers to retirees. Many large employers have imposed caps on their future financial obligations for retiree health benefits.

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. 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 and retiree costs of providing health coverage to all retirees (pre-65 and age 65+) and their dependents.

Total Costs

- Among the 333 surveyed employers, the 2003 estimated total cost (employer and retiree contributions) of providing health benefits to pre-65 and age 65+ retirees and their dependents was $15.5 billion.[15]

- Between 2003 and 2004, the total cost of providing retiree health benefits increased by an estimated 12.7 percent, on average, among employers in this survey (Exhibit 5).

  — This is roughly comparable to the 12.3 percent national average increase in large employer costs of providing health benefits to active workers during the same time period, according to a report previously released by Hewitt Associates based on a different sample of large employers.[16]

- In 2004, retiree health benefits for these employers are expected to reach $17.4 billion, calculated based on their estimates of the average increase in total annual costs from 2003 to 2004.

- 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

[15] The total cost of retiree health benefits for employers participating in the 2004 survey is lower than the total cost reported by employers in the *Kaiser/Hewitt 2003 Survey on Retiree Health Benefits* because there are fewer participating companies in the 2004 survey (333 vs. 408). The average cost per firm in the 2004 survey was higher than the average cost per firm in the 2003 survey. See note 17.

[16] Hewitt Associates, "Health Care Costs Show Signs of Moderating, but Still Outpace Inflation," press release, October 11, 2004, based on data from the Hewitt Health Value Initiative.™

surveyed employers with at least 1,000 employees was $46.9 million per firm in 2003.[17] Among jumbo firms with 20,000 or more employees, the average total cost of providing retiree health benefits was $189 million per firm in 2003. For some jumbo firms, the total costs exceeded $1 billion or more.

— For employers with 1,000–4,999 employees, the average annual 2003 total cost per firm was $4.1 million, compared to $14.2 million for employers with 5,000–9,999 employees, and $22 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,[18] many large employers have placed caps on their future financial obligations 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 benefits 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.[19] Sometimes the cap is indexed to rise as future costs rise.

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

- 54 percent of all surveyed firms that offer retiree health coverage report having a cap on their firms' contributions toward retiree health benefits in any plan offered to retirees. Among the companies with caps, 70 percent report that there is more than one plan with a cap across the firms' retiree health plans (Exhibit 6).

- Among the plans with a cap, 84 percent have a cap for the largest pre-65 retiree health plan and 89 percent have a cap for their largest age 65+ retiree health plan (Exhibits 7 and 8).

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[17] By comparison, the average cost per firm in the *Kaiser/Hewitt 2003 Survey on Retiree Health Benefit*s was $42.8 million among 408 large firms. Although the surveys consist of different samples and are not strictly comparable from year to year, for reference purposes, if the 2004 average cost of $46.9 million per firm were applied to 408 employers, total retiree costs for 408 companies would be $19.1 billion in 2004, versus $18.1 billion in 2003.

[18] 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.

[19] Hewitt Associates, *Retiree Health Trends and Implications of Possible Medicare Reforms,* prepared for The Kaiser Family Foundation, September 1997.

— Among firms that have a cap on their largest pre-65 retiree health plan, 53 percent of firms say they have already hit the cap. Over one-quarter of this group (28 percent) anticipate hitting the cap in the next one to three years.

— Among firms that have a cap on their largest age 65+ retiree health plan, 56 percent of firms say they have already hit the cap. Another 27 percent of this group anticipates hitting the cap in the next one to three years.

- Nine out of ten 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 (92 percent for largest pre-65 plan; 91 percent for largest 65+ plan).

- Among employers that have held firm on the cap or intend to hold firm on the cap, 30 percent say they have taken steps to soften the impact of the cap on pre-65 and 65+ retiree contributions to premiums. Strategies to soften the impact of the cap include: (1) modifying existing coverage with lower cost options, such as prescription drug only plans or catastrophic plans; (2) modifying cost-sharing requirements to reduce retiree premium contributions; and (3) indexing the cap based on an alternative definition of inflation.

In the 2004 survey, we took the additional step of not only determining the percentage of large companies with caps but also the percentage of retirees in plans that are capped, based on the largest plan offered by the surveyed employers.

- 54 percent of retirees in the largest pre-65 plans are in plans that are capped, as are 51 percent of retirees in the largest age 65+ plan.

Employer Cost Worries

The costs associated with retiree health obligations appear to be a significant concern for company CEOs. Based on reports from the human resources professionals who participated in the survey, 89 percent said their CEO is very or somewhat concerned about retiree health care costs (Exhibit 9).

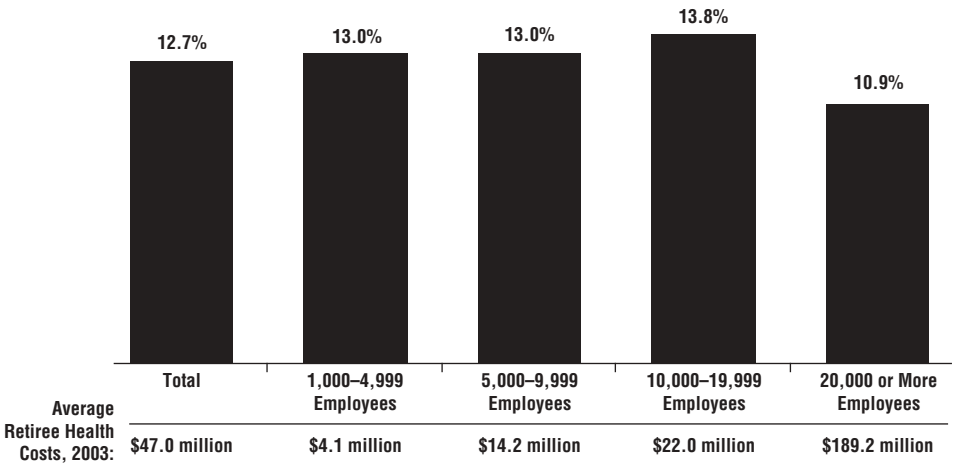
- 58 percent say their CEO is very concerned about retiree health costs and another 31 percent say their CEO is somewhat concerned about retiree health costs.

Retiree health costs account for a relatively large share of firms' total health care expenses.

- Retiree health costs among surveyed companies represent more than a quarter (29 percent) of the total health costs for active workers, retirees, and dependents.

Exhibit 5

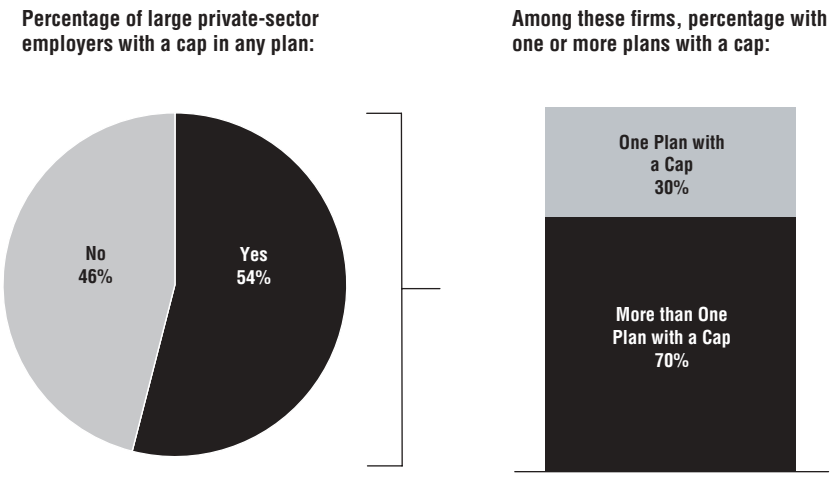
Average Increase in Total Retiree Health Costs, by Firm Size, 2003 to 2004



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

Exhibit 6

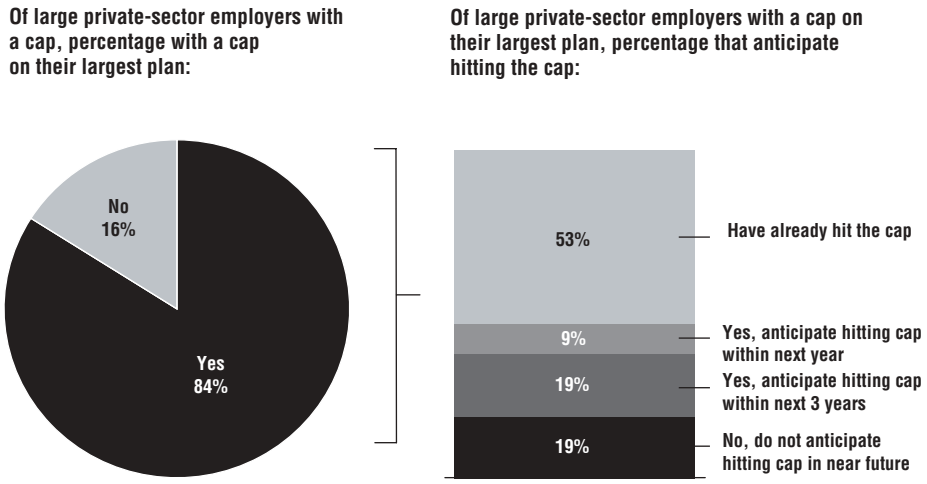
Percentage of Large Private-Sector Employers Having a Cap on Their Firm's Contribution to Retiree Health Benefits



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 7

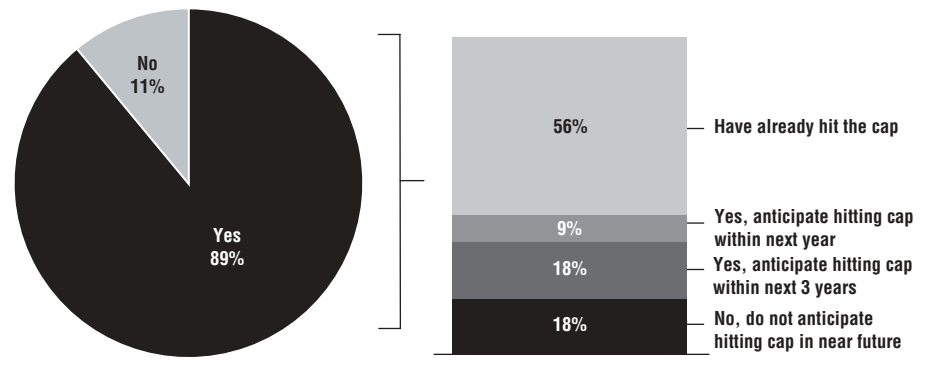
Percentage of Large Private-Sector Employers Having a Cap on Their Firm's Contribution to Retiree Health Benefits for Pre-65 Retirees in Their Largest Plan, Among Firms with Caps



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 8

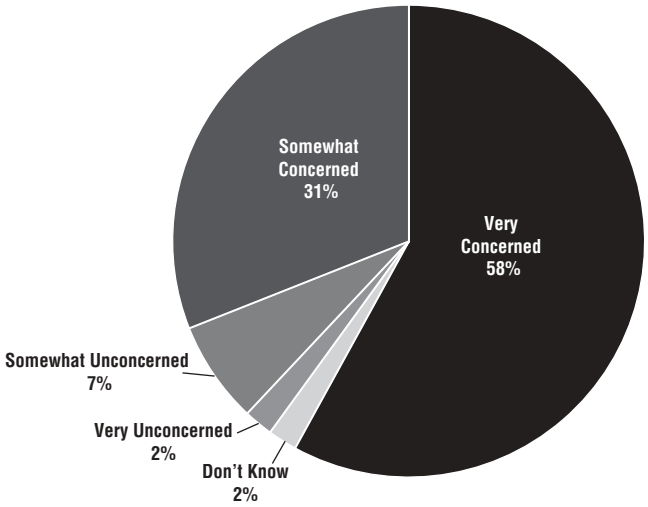
Percentage of Large Private-Sector Employers Having a Cap on Their Firm's Contribution to Retiree Health Benefits for 65+ Retirees in Their Largest Plan, Among Firms with Caps



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 9

CEO Concerns About Retiree Health Care Costs, as Reported in Survey of Large Private-Sector Employers



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

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

SECTION 3

PREMIUMS

PREMIUMS

Total premiums for retiree health benefits—the sum of both employer and retiree contributions—vary widely.[20] 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.

In a given firm, retiree contributions to premiums can vary widely depending 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 the employer. In firms with service-related contributions, retirees with fewer years of employment typically pay a larger share of the total premium than others in the same firm with more years of service. Thus, employees retiring in the same year who are the same ages and have the same health plan options could be subject to different retiree contributions, depending on their years of service with the firm and the type of plan they select.

All premium information collected in this survey refers solely to new retirees (i.e., those retiring in 2004), 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.

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 those retiring on or after January 1, 2004 (new retirees) in the plan with the largest enrollment of pre-65 and age 65+ retirees.

In this section, we use two approaches to examine total premiums and retiree contributions to premiums. We present weighted average premiums to describe the experiences of retirees, and thus weight premiums and retiree contributions to premiums by firm size and number of retirees in each firm's largest health plan. We use the weighted average when presenting the average total premium, the average retiree contribution to premium, the average share of total premiums paid by retirees, and the average annual increase in retiree contributions to premiums from 2003 to 2004.

[20] 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 (87 percent), one would expect a large percentage of these retiree health plans to be self-insured, rather than insured plans.

We also present unweighted averages for some purposes. We use the unweighted average to show the distribution of employers by the share of premium paid by new retirees in the largest plan; the distribution of employers by the average annual increase in retiree contributions to premiums, 2003 to 2004; and the average annual increase in retiree contributions to premiums, by plan type and by firm size.

Pre-65 Retirees

Total Average Premium (Employer and Retiree Contributions Combined)

- For retiree-only coverage, the weighted average total monthly premium (both employer and retiree contributions combined) for new pre-65 retirees is $487. Total premiums are generally higher for pre-65 retirees than for age 65+ retirees (Exhibit 10).

- For coverage of both retirees and spouses, the total weighted average monthly premium is $1,124 for pre-65 retirees and their spouses.

- Just over half of all surveyed employers (54 percent) report that premiums for pre-65 retirees are based on the claims experience of those retirees only. The remaining 46 percent report that the pre-65 premiums reflect a blend of the experience of active employees and pre-65 retirees.

- For new pre-65 retirees, the average total monthly premium is lowest for HMO plans ($371 per month) and highest for PPO plans ($452 per month) (Exhibit 11).

- For new pre-65 retirees, average total monthly premiums are lower in the firms with 1,000-4,999 employees ($391 per month) than in jumbo firms with 20,000 or more employees ($499 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.

Retiree Contributions to Total Premium

The vast majority of employers (94 percent) require newly retiring pre-65 retirees to share in the cost of retiree health coverage by contributing to the total monthly premium.

- The weighted average retiree contribution to premiums for new pre-65 retirees is $187 per month ($387 per month for new pre-65 retirees and spouses), based on health plans offered by employers with the largest number of enrolled retirees. After 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 $202 per month.[21]

  — The amount that new pre-65 retirees contribute toward the total premium also varies by type of plan. For individuals retiring in 2004 with retiree-only coverage, the average monthly retiree contribution by pre-65 retirees is lowest for POS plans ($135 per month) and highest for PPO plans ($203 per month), the plan type most commonly offered to pre-65 retirees.

[21] 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.

— The average retiree contribution toward the premium among new pre-65 retirees also varies by firm size, ranging from $187 per month (firms with 1,000–4,999 employees) to $217 per month (firms with 10,000–19,999 employees).

- New pre-65 retirees contributed, on average, 38 percent of the total weighted average premium in 2004 for retiree-only coverage in the health plan with the largest number of retirees.

- Between 2003 and 2004, the weighted average increase in retiree contributions was 27 percent for new pre-65 retirees in the health plan with the largest number of enrollees.[22]

Distribution of Employers by Share of Premium Paid by Retiree

- There are significant variations in the share of the total premium that employers require retirees to contribute. For example, 21 percent of employers require pre-65 retirees to pay 100 percent of the total premium in the largest plan, while 6 percent report that new pre-65 retirees pay nothing toward the premium in the health plan with the largest number of enrollees (Exhibit 12).

Distribution of Employers by Change in Retiree Contributions, 2003–2004

- Fourteen percent of employers report no increase in the pre-65 retiree contributions between 2003 and 2004, 22 percent report an increase of up to 10 percent, and 32 percent report increases between 11 and 20 percent (Exhibit 13).

Change in Retiree Contributions by Firm Size and Plan Type

- By firm size, the average annual increase in pre-65 retiree contributions was highest in firms with 5,000–9,999 employees (33 percent) and lowest for those with 10,000–19,999 employees (15 percent) (Exhibit 14).

- Employers report the average annual increase in pre-65 retiree premium contributions was highest for POS plans (33 percent) and lower for HMO (24 percent) and PPO plans (23 percent). The average percentage change in retiree contributions for pre-65 retirees was lowest for indemnity/managed indemnity plans (14 percent) (Exhibit 15).

Age 65+ Retirees

Total Average Premium (Employer and Retiree Contributions Combined)

- For retiree-only coverage, the weighted average total monthly premium is $262 for newly retiring age 65+ retirees (Exhibit 10).

- For coverage of both retirees and spouses, the total weighted average monthly premium is $600 for age 65+ retirees and their spouses.

[22] 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 2003 to 2004.

- For age 65+ retirees, the average total monthly premium was lowest for employer-sponsored Medicare Advantage or other HMOs ($213 per month) and highest for POS plans ($285 per month) (Exhibit 11).

- 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.

Retiree Contributions to Total Premium

As they do for pre-65 retirees, the vast majority of employers (89 percent) require new 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.

- The weighted average retiree contribution for new age 65+ retirees in 2004 is $101 per month for retiree-only coverage ($209 per month for new retirees and spouses) in health plans with the largest number of retirees enrolled. After 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 $113 per month.[23]

  — 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 employer-sponsored Medicare Advantage plans or other HMOs ($122 per month) and lowest for POS plans ($73 per month). Retiree contributions in 2004 for new age 65+ retirees average $108 for PPO plans, and $99 for indemnity/managed indemnity plans.

  — On average, retiree contributions for age 65+ retirees vary slightly by firm size, from about $122 per month (firms with 5,000–9,999 employees) to $97 per month (firms with 1,000–4,999 and 10,000–19,999 employees) for retiree-only coverage.

- New Medicare-eligible retirees contributed, on average, 39 percent of the total weighted average premium in 2004 for retiree-only coverage in the health plan with the largest number of retirees enrolled.

- Between 2003 and 2004, the weighted average increase in the age 65+ retiree contribution was 24 percent for new age 65+ retirees in plans with the largest number of retirees enrolled.[24]

[23] 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.

[24] 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 2003 to 2004.

Distribution of Employers by Share of Premium Paid by Retiree

- There are significant variations in the share of the total premium that employers require retirees to contribute. For example, 19 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 under the health plan with the largest number of retirees enrolled (Exhibit 12).

Distribution of Employers by Change in Retiree Contributions, 2003–2004

- More than one-fifth (21 percent) of employers report no change in age 65+ retiree contributions in the largest health plan between 2003 and 2004, while 26 percent report an increase of up to 10 percent, and 25 percent report an increase of between 11 and 20 percent for new retirees (Exhibit 13).

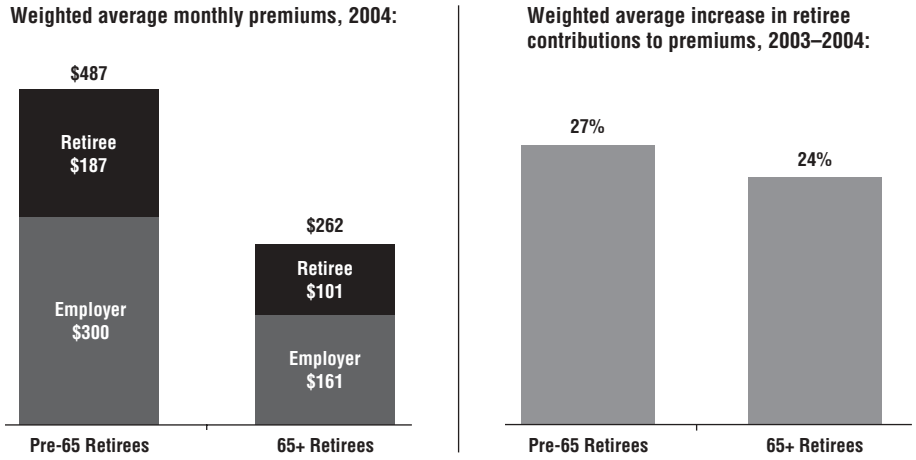
Change in Retiree Contributions by Firm Size and Plan Type

- By firm size, the average annual increase in age 65+ retiree contributions for retiree-only coverage was highest in firms with 20,000 or more employees (24 percent) (Exhibit 14).

- The average annual increase in age 65+ retiree contributions was highest for POS plans (24 percent), followed by PPOs (23 percent), indemnity/managed indemnity plans (21 percent), and Medicare Advantage plans/other HMOs (16 percent) (Exhibit 15).

Exhibit 10

Average Monthly Premiums for New Retirees



Note: Includes firms that do not require contributions. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004 (new retirees), in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 11

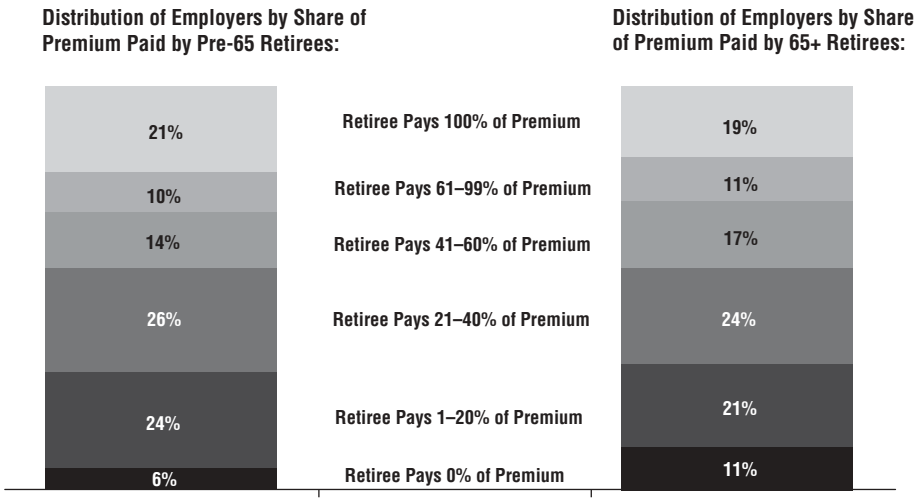
Average Monthly Premiums for New Pre-65 and 65+ Retirees by Plan Type and Firm Size

	Pre-65 Retirees			65+ Retirees		
	Total Premium (Employer + Employee Share)	Retiree Contributions to Premiums		Total Premium (Employer + Employee Share)	Retiree Contributions to Premiums	
		All Firms	Firms that Require Retiree Contributions		All Firms	Firms that Require Retiree Contributions
By Plan Type:						
HMO*	$371	$184	$191	$213	$122	$144
PPO	$452	$203	$210	$239	$108	$113
POS	$385	$135	$152	$285	$73	$90
Indemnity/ Managed Indemnity	$433	$163	$194	$274	$99	$113
By Firm Size:						
1,000–4,999	$391	$187	$198	$235	$97	$107
5,000–9,999	$423	$181	$188	$286	$122	$142
10,000–19,999	$467	$217	$222	$266	$97	$106
20,000+	$499	$185	$202	$262	$100	$112

*Includes Medicare Advantage for 65+ retirees.
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004, in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 12

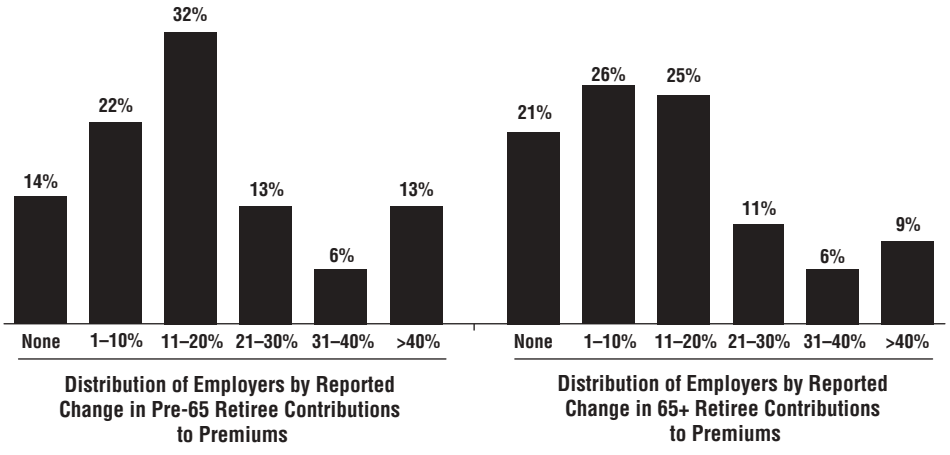
Distribution of Employers by Share of Premium Paid by Retiree



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004 (new retirees), in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 13

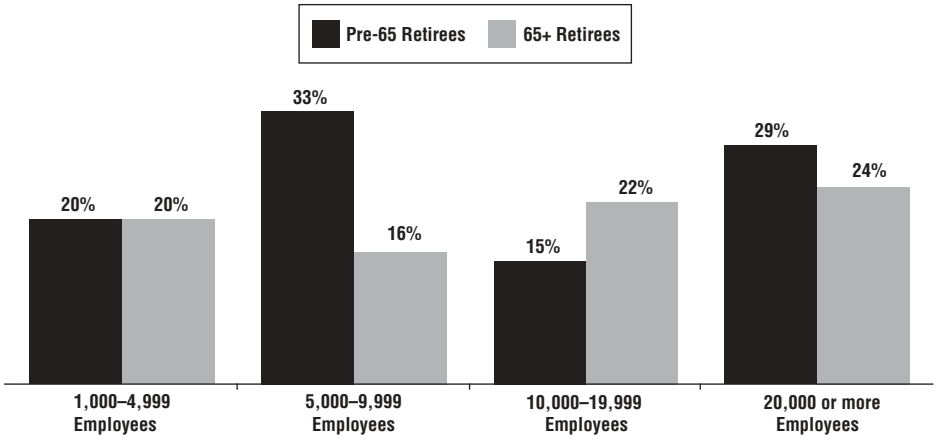
Distribution of Employers by Reported Change in Retiree Contributions to Premiums, 2003 to 2004



Note: Average increases in retiree contributions for new retirees across surveyed employers are 23% for pre-65 retirees and 21% for 65+ retirees (unweighted). Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Retiree contributions to premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2003 and 2004, respectively, in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 14

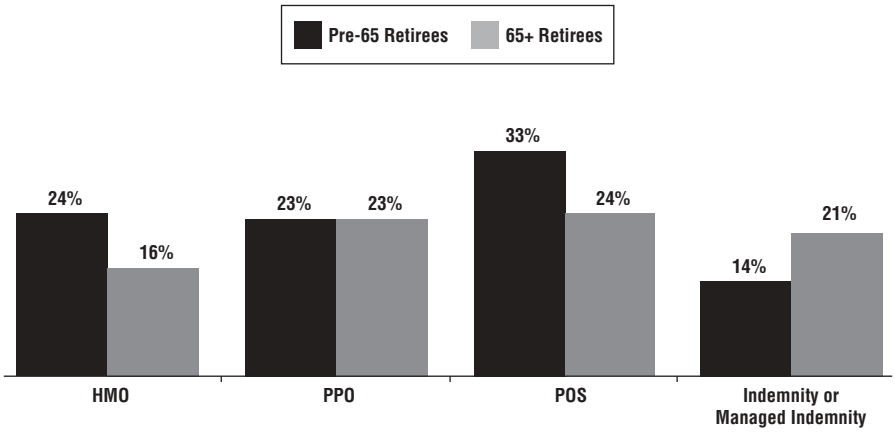
Employer-Reported Average Annual Increase in Retiree Contributions for New Retirees, by Firm Size, 2003 to 2004



Note: Average increases in retiree contributions for new retirees across surveyed employers are 23% for pre-65 retirees and 21% for 65+ retirees (unweighted). Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring in 2003 and 2004, respectively, in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 15

Employer-Reported Average Annual Increase in Retiree Contributions for New Retirees, by Type of Health Plan, 2003 to 2004



Note: Average increases in retiree contributions for new retirees across surveyed employers are 23% for pre-65 retirees and 21% for 65+ retirees (unweighted). Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring in 2003 and 2004, respectively, in plans with the largest number of enrolled retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

SECTION 4

PRESCRIPTION DRUGS

PRESCRIPTION DRUGS

Prescription drugs are a critical component of retiree health benefits. For those ages 65 and older, employer-sponsored retiree health benefits are the primary source of drug coverage, assisting more than one in three seniors with Medicare.[25] To understand the scope and structure of prescription drug benefits offered to seniors prior to the implementation of the Medicare drug benefit, we asked employers to describe the prescription drug provisions for the benefit plan with the largest number of age 65+ retirees. Findings from this survey confirm that prescription drug benefits currently offered by employers are significantly more generous than the drug benefits envisioned under the upcoming Medicare prescription drug benefit. The typical employer plan does not impose separate premiums or a separate deductible, nor does it suspend coverage at a given benefit level, until the retiree's drug spending reaches a specified out-of-pocket threshold.

- The vast majority of employers that offer retiree health benefits (98 percent) provide coverage for prescription drugs. Most (93 percent) offer drug benefits as part of the firm's retiree health benefit plan, while a small share (5 percent) do so as a separate, employer-subsidized stand-alone drug plan. Only 2 percent do not offer prescription drug benefits to age 65+ retirees (Exhibit 16).

- Among plans with the largest number of age 65+ retirees, 58 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 limits for drug benefits separate from other covered benefits (Exhibit 17).

  — 27 percent have a separate annual drug deductible; drug deductibles range from $25 to $250 and the most common deductible is $50.

  — 18 percent have a separate annual out-of-pocket maximum (or stop-loss) for pharmacy claims; out-of-pocket maximum amounts range from $50 to $5,000 and the most common out-of-pocket limit for drugs is $1,500.

  — Benefit limits for drugs are fairly uncommon with 9 percent of the largest plans reporting a separate cap on total drug covered expenses.

  — Only 3 percent have separate premiums for prescription drug benefits.

- 94 percent of plans offer both retail and mail-order coverage (Exhibit 18). Among employers that offer drug benefits, 21 percent require enrollees to use mail-order.

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

- 65 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.

[25] Medicare Payment Advisory Commission, *Healthcare Spending and the Medicare Program, A Data Book.* June 2004.

- 58 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 19).

- Only 4 percent have a drug cost-sharing design with four or more tiers.

- 19 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.

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

Three-Tiered Cost-Sharing Design

- Among employer plans with a three-tiered drug design, more than two-thirds (68 percent) require copayments for pharmaceuticals purchased at retail pharmacies, nearly one-quarter (24 percent) require coinsurance payments (retiree pays a specified percent of the cost of each prescription). Only 8 percent use a combination approach of copayments plus coinsurance for costs above the copayment (Exhibit 20).

  — 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 21). Typically, retiree cost-sharing at retail pharmacies 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, 25 percent for brand-name, formulary/preferred drugs, and 40 percent for non-formulary/non-preferred drugs (Exhibit 22).

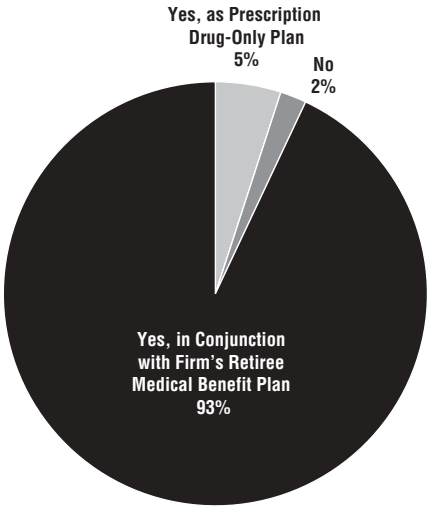
- Among employer plans offering a mail-order option with a three-tiered drug design, 85 percent require retirees to pay fixed dollar copayments, 10 percent impose coinsurance payments, and 5 percent use a combination of copayments and coinsurance.

  — For drugs purchased through mail-order pharmacies, median copayment amounts range from $20 for generics to $40 for brand-name drugs on the formulary/preferred list and $70 for brand-name drugs on the non-formulary/non-preferred list. Typically, the amount covers a 90-day supply of medication by mail-order.

  — Where coinsurance is used, coinsurance rates for mail-order, as for retail purchases, tend to be 20 percent for generics, 25 percent for brand-name, formulary/preferred drugs, and 40 percent for non-formulary/non-preferred drugs.

Exhibit 16

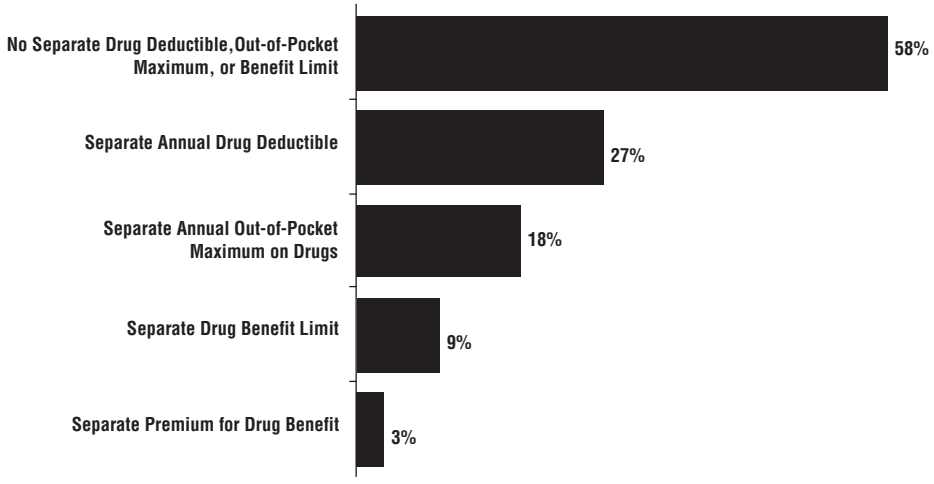
Percentage of Large Private-Sector Employers Offering Prescription Drug Benefits to 65+ Retirees



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

Exhibit 17

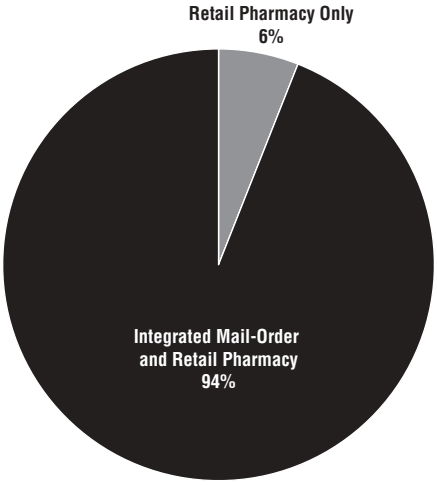
Prescription Drug Plan Design Features for 65+ Retirees



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees. Percentages do not sum to 100% as some employers reported more than one separate drug feature.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 18

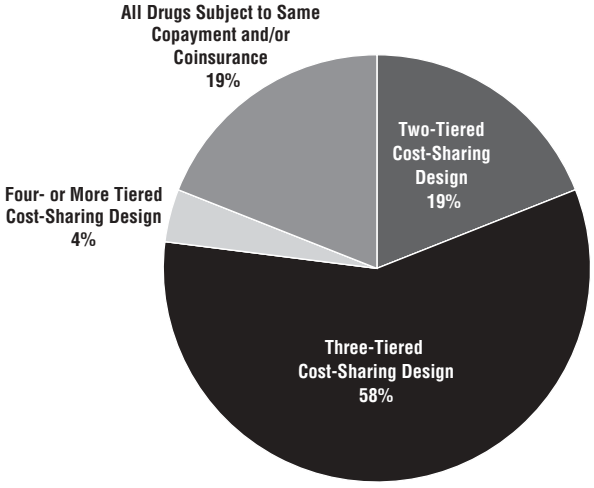
Prescription Drug Delivery Methods for 65+ Retirees



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

Exhibit 19

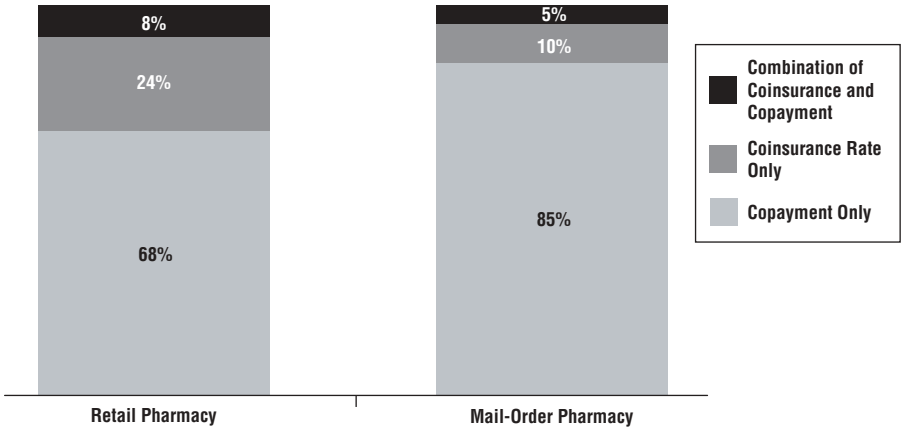
Prescription Drug Cost-Sharing Design for 65+ Retirees



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

Exhibit 20

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

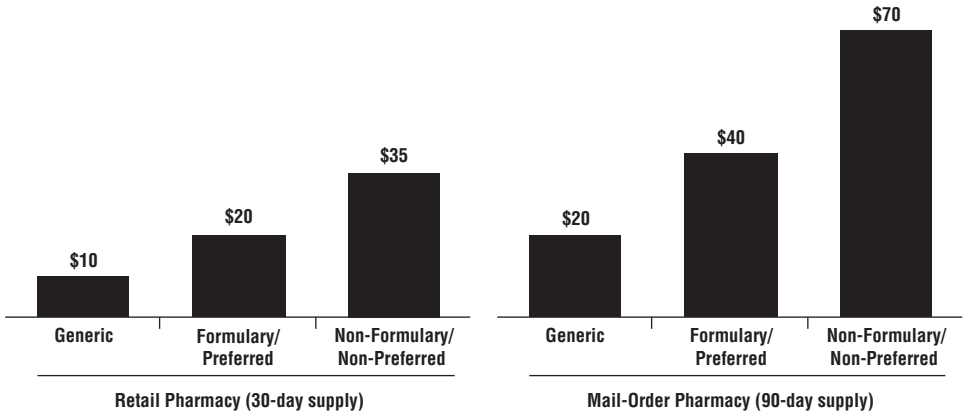


Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 21

Median Prescription Drug Copayments for 65+ Retirees, by Drug Category

[Among Plans with 3-Tiered Cost-Sharing]

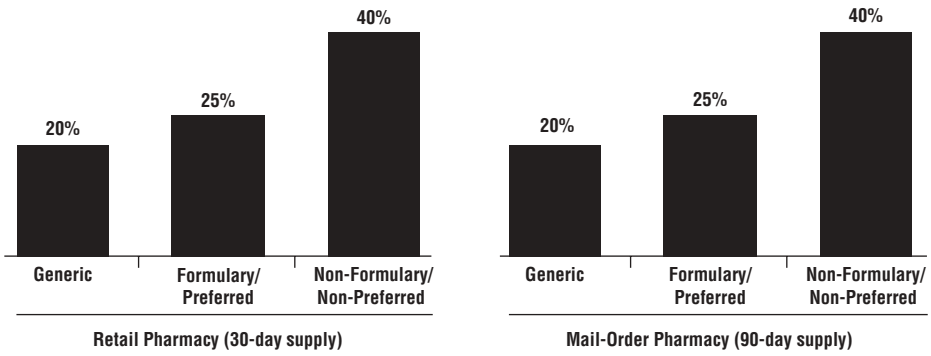


Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 22

Median Prescription Drug Coinsurance for 65+ Retirees, by Drug Category

[Among Plans with 3-Tiered Cost-Sharing]



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

SECTION 5

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 the past year in an effort to control rising costs, and survey responses point to sustained efforts to slow the growth in retiree health obligations in the 2005 plan year. Much like we have observed in previous years, the majority of surveyed firms have increased retiree contributions to premiums, and about half have increased general cost-sharing requirements for health care services in the past year. A much smaller share of employers in this survey have terminated health benefits for future retirees entirely. While most survey 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. Not surprisingly, large employers report having implemented a number of specific strategies to control rising drug costs. Just over half reported increasing copayments or coinsurance for retirees' prescription drugs in the past year.

Coverage

- Among large, private-sector firms that provide retiree health benefits, 8 percent terminated all subsidized health benefits for <u>future</u> retirees in the past year (Exhibit 23).
  - — Terminations reported by these employers primarily affect employees *hired* after a specific date rather than employees who will *retire* after a specified date.
  - — Nearly half 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.
- 3 percent of surveyed employers shifted to a defined contribution approach and 3 percent say they put in place a catastrophic plan coupled with a health savings account.

Retiree Contributions

- 79 percent of surveyed employers report having increased retiree contributions to premiums in the past year. More than two-thirds (68 percent) report increases in contributions for dependent coverage (Exhibit 24).
- 13 percent of all surveyed firms report making a change to provide access-only to group health benefits, with retirees paying 100 percent of the costs.

Cost-Sharing

- During the past year, nearly half (45 percent) of surveyed employers report increases in retiree cost-sharing in the form of copayments and coinsurance for a range of health care services.

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

— 37 percent raised deductibles; and

— 29 percent increased out-of-pocket limits.

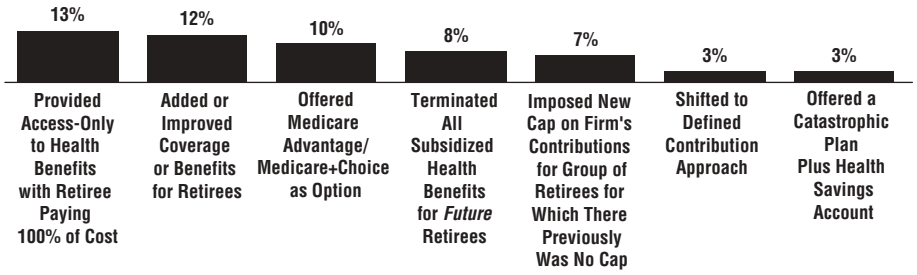
Prescription Drug Benefit Changes

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.

- 53 percent of surveyed employers have increased prescription drug copayments or coinsurance (Exhibit 25).
- 24 percent imposed three-tiered copayments for pharmaceuticals. Only 4 percent imposed a four- or more tiered structure.
- With respect to utilization management strategies: 37 percent put into place prior authorization requirements; 22 percent of employers implemented step-therapy provisions, in which patients receive progressively higher cost treatments only if lower cost alternatives are ineffective; 21 percent imposed rules related to therapeutic interchange (formulary interventions by PBMs); and 14 percent implemented closed or partially-closed formularies (Exhibit 26).
- 15 percent of employers replaced fixed dollar copayments for drugs with coinsurance, a potentially significant shift.
- 11 percent required mandatory use of mail-order for prescription refills or maintenance drugs.
- None of the surveyed employers eliminated prescription drug coverage within the past year.

Exhibit 23

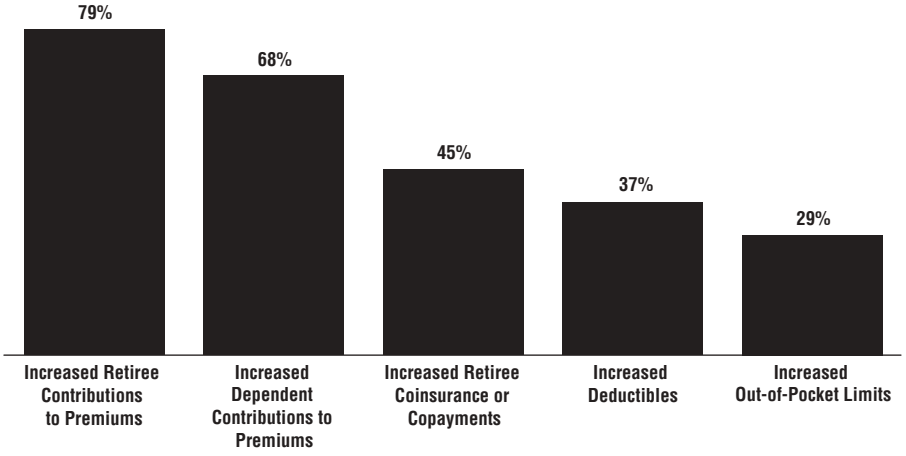
Percentage of Large Private-Sector Employers Making Changes to Retiree Health Benefits in the Past Year



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

Exhibit 24

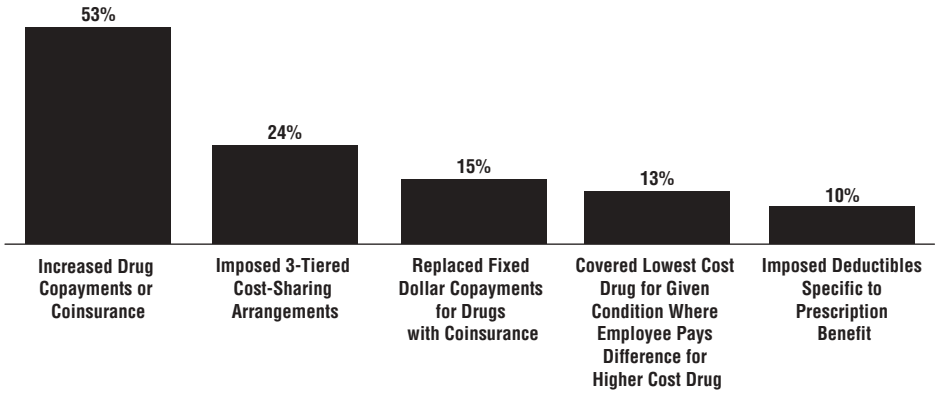
Percentage of Large Private-Sector Employers Making Changes to Retiree Contributions or Cost-Sharing for Retiree Health Benefits in the Past Year



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

Exhibit 25

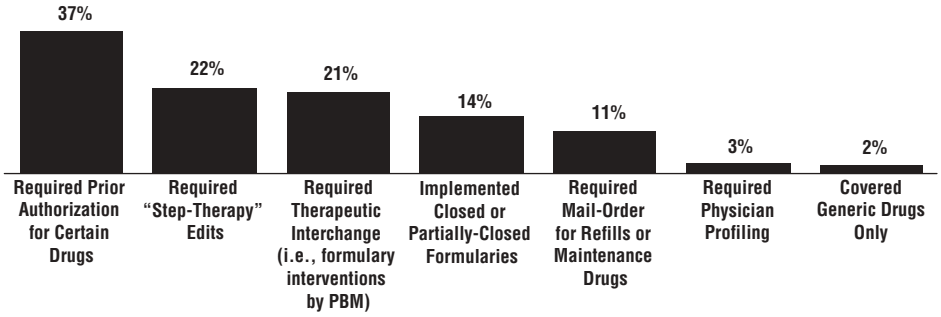
Percentage of Large Private-Sector Employers Making Changes in Cost-Sharing to Manage Retiree Prescription Drug Costs in the Past Year



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

Exhibit 26

Percentage of Large Private-Sector Employers Making Other 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 offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

SECTION 6

CHANGES ANTICIPATED BY LARGE EMPLOYERS FOR THE 2005 PLAN YEAR

CHANGES ANTICIPATED BY LARGE EMPLOYERS FOR THE 2005 PLAN YEAR

Looking ahead, the majority of surveyed employers say they are very or somewhat likely to make changes in their retiree health plans for the 2005 plan year. Most of these changes would involve higher retiree contributions and/or cost-sharing. Despite the implementation of more aggressive prescription drug cost management tools within the last year and the promise of a Medicare drug benefit in 2006, most employers say they are very or somewhat likely to raise retirees' cost-sharing for pharmaceuticals in 2005 and many expect to impose more stringent controls on utilization.

Coverage

• Only 1 percent of surveyed employers say they are very or somewhat likely to terminate all subsidized benefits for current retirees for the 2005 plan year (Exhibit 27).

— By contrast, 11 percent say they are very or somewhat likely to terminate all subsidized health benefits for future retirees.

- There is also serious consideration being given to providing access-only to health benefits, with 18 percent of firms reporting they are very or somewhat likely to ask retirees to pay 100 percent of the cost of coverage.

- 19 percent of surveyed employers say they are very or somewhat likely to offer catastrophic benefits, coupled with health savings accounts;[26] 13 percent of surveyed employers say they are very or somewhat likely to shift to a defined contribution approach.

- 11 percent of surveyed firms say they are very or somewhat likely to add or improve benefits for retirees.

Retiree Contributions

- 85 percent of surveyed employers say they are very or somewhat likely to increase retiree contributions to premiums for the 2005 plan year; 75 percent say they are very or somewhat likely to increase contributions for dependents (Exhibit 28).

Cost-Sharing

- 51 percent of surveyed employers say they are very or somewhat likely to increase retiree coinsurance or copayments for health care services.

— 43 percent say they are very or somewhat likely to increase deductibles;

[26] Under the Medicare Modernization Act, Medicare-eligible retirees may not make contributions to health savings accounts, although they may use funds accumulated prior to Medicare eligibility to pay for health care expenses.

— 37 percent say they are very or somewhat likely to raise out-of-pocket limits.

Changes to Manage Prescription Drug Costs

While only 5 percent of all surveyed employers say they are very or somewhat likely to eliminate prescription drug coverage for the 2005 plan year, a number of other prescription drug benefit and cost-sharing design changes appear more imminent (Exhibit 29).

- 49 percent of surveyed employers say they are very or somewhat likely to increase retiree copayments or coinsurance for prescription drugs.
- Employers say they are likely to impose tiered cost-sharing for prescription drugs for the 2005 plan year:
  - — 28 percent say they are very or somewhat likely to impose three-tiered cost-sharing;
  - — 14 percent say they are very or somewhat likely to impose four- or more tiered cost-sharing for retirees.
- 24 percent of surveyed employers say they are very or somewhat likely to replace fixed dollar copayments for prescription drugs with a coinsurance approach. Coinsurance approaches expose retirees to higher out-of-pocket spending as the cost of drugs rise. They also provide stronger financial incentives for retirees to choose generic drugs when available or lower cost brand-name alternatives.
- 20 percent of employers say they are very or somewhat likely to impose deductibles specifically for the prescription benefit in 2005.
- 17 percent of employers say they are very or somewhat likely to cover the lowest cost drug for a given condition and have retirees pay the difference for a higher cost drug.

In addition to prescription drug cost-sharing changes, employers say they are likely to adopt the following prescription drug measures for the 2005 plan year (Exhibit 30):

- 40 percent say they are very or somewhat likely to impose prior authorization requirements for certain prescriptions.
- 31 percent say they are very or somewhat likely to require step-therapy edits in which the patient receives progressively higher cost treatments only if lower cost alternatives are ineffective.
- 29 percent say they are very or somewhat likely to require therapeutic interchange (i.e., formulary interventions by the PBM).
- 25 percent say they are very or somewhat likely to require use of mail-order for prescription refills or maintenance drugs.
- 19 percent say they are very or somewhat likely to use closed or partially-closed formularies within the next three years.

- 7 percent say they are very or somewhat likely to cap or decrease the annual drug benefit.

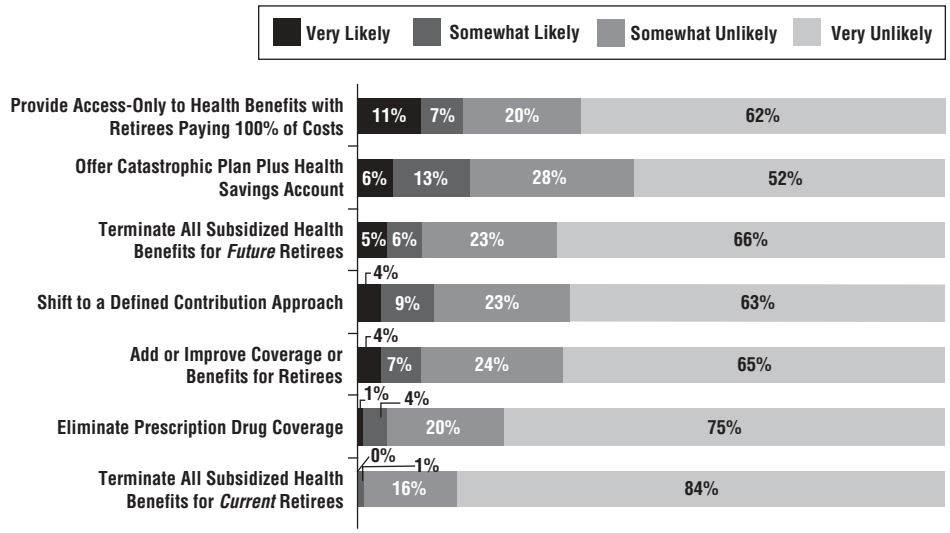
EEOC Proposed Interpretation of the Age Discrimination in Employment Act

In 2004, the Equal Employment Opportunity Commission (EEOC) voted to approve a rule stating that it is not a violation of the Age Discrimination in Employment Act if an employer offers Medicare-eligible retirees lesser or no retiree health benefits, compared to health benefits that the employer provides to pre-65 retirees. As of November 2004, the rule still requires further approval before it is final.

If the rule were finalized, the vast majority of surveyed employers (92 percent) said they would make no changes to their retiree health plans as a direct result of the rule. Only 1 percent of surveyed firms said they would eliminate retiree health benefits for Medicare-eligible retirees, and 7 percent said they would reduce benefits or increase retiree contributions for Medicare-eligible retirees as a direct result of the EEOC rule.

Exhibit 27

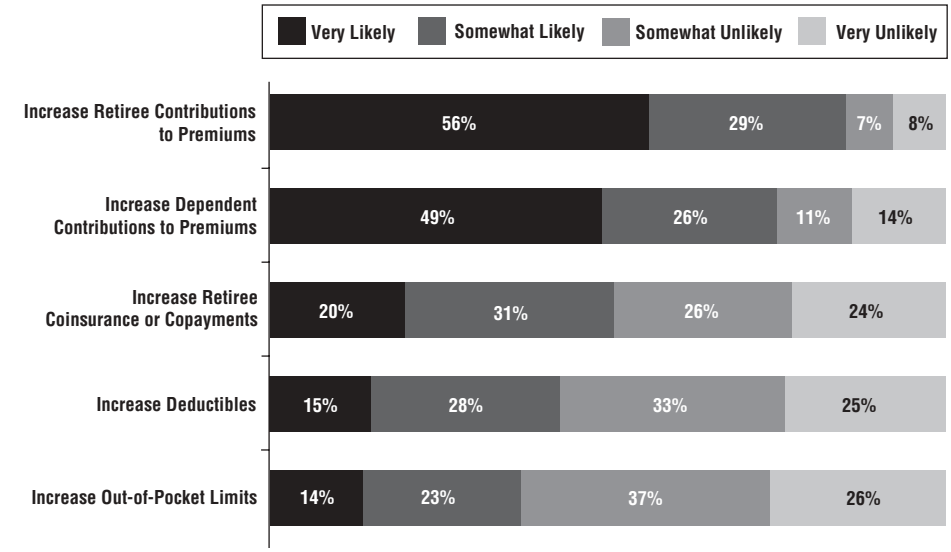
Likelihood of Making Changes to Retiree Health Benefits for Plan Year 2005



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 28

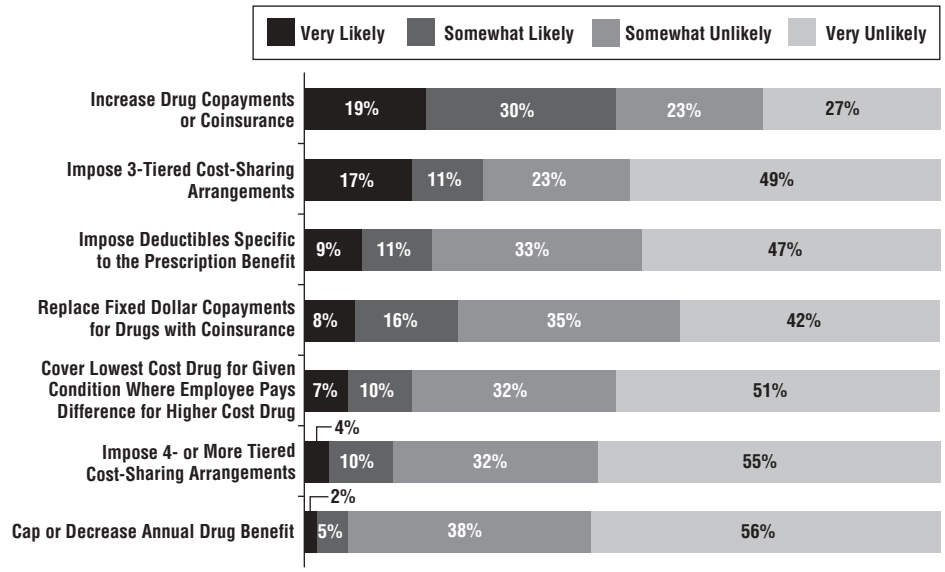
Likelihood of Making Changes to Retiree Contributions or Cost-Sharing for Retiree Health Benefits for Plan Year 2005



Notes: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 29

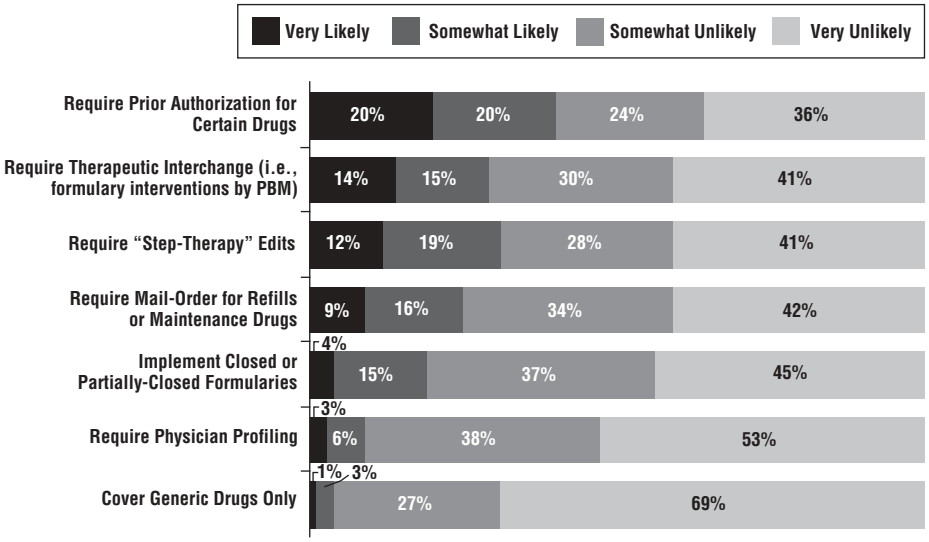
Likelihood of Making Changes to Cost-Sharing to Manage Retiree Prescription Drug Costs for Plan Year 2005



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 30

Likelihood of Making Other Changes to Manage Retiree Prescription Drug Costs for Plan Year 2005



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

SECTION 7

PERSPECTIVES ON EMPLOYER-SPONSORED RETIREE HEALTH BENEFITS AND THE MEDICARE MODERNIZATION ACT

PERSPECTIVES ON EMPLOYER-SPONSORED RETIREE HEALTH BENEFITS AND THE MEDICARE MODERNIZATION ACT

The interaction between employer-sponsored retiree health benefits and Medicare prescription drug coverage received considerable attention during the debate over the Medicare Modernization Act (MMA). As implementation of the MMA proceeds, this interaction continues to be a key issue for employers, retirees, regulators, and lawmakers. Many lawmakers, including both supporters and opponents of the MMA, are concerned about whether the new Medicare benefit will accelerate the erosion of relatively generous and highly valued employer-sponsored retiree health coverage—the primary source of drug coverage for the Medicare population today, assisting one in three beneficiaries. Employers are hopeful that the new Medicare drug benefit could help offset double-digit increases in retiree health costs and make it easier for them to continue providing retiree drug coverage.

The MMA provides multiple options for employers who wish to continue providing assistance to retirees in terms of drug coverage. For example, the MMA includes financial incentives for those employers that provide prescription drug benefits to Medicare-eligible retirees and dependents if that coverage is at least actuarially equivalent to the standard Medicare drug benefit defined in law. Medicare will provide these employers tax-free payments equal to 28 percent of allowable drug costs between $250 and $5,000 for each covered retiree in 2006, estimated to be, on average, $611 per retiree.[27] Other options will allow employers to wrap around Medicare Part D coverage or to become the sponsor of a PDP or a MA-PD plan. How employers choose to respond to these financial incentives beginning in 2006 is a critical concern.

Employers offering retiree health benefits were surveyed between May 18 and September 30, 2004, i.e., after the MMA was enacted. The majority of employers who completed the survey (86 percent) submitted their completed survey responses before the proposed regulations were published (August 3, 2004). The proposed regulations provide few definitive answers as to how CMS will interpret the new law.[28] But they do provide some general indication of CMS policy issues on topics of interest to employers, such as the definition of actuarial equivalence, calculating and tracking true out-of-pocket costs, administrative requirements, and coordination issues. The Administration is expected to clarify key issues with respect to implementation when it releases the final rule in the early part of 2005.

The 2004 Kaiser/Hewitt survey includes a series of questions to ascertain employers' familiarity with the new law, the extent to which they have analyzed the financial impact for their firm, and their likely response to the MMA. Although most respondents reported being familiar with the MMA, about two-thirds had not yet analyzed the financial impact at the time the survey was

[27] Centers for Medicare and Medicaid Services (CMS), "Notice of Proposed Rulemaking (NPRM) regarding the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)," *Federal Register,* August 3, 2004.

[28] *Medicare Modernization Act Proposed Regulations: A Detailed Analysis,* Hewitt Associates, August 2004 http://was4.hewitt.com/hewitt/resource/legislative_updates/united_states/proposed_medicare_regulations_0804.pdf

completed. Our findings reflect employer reactions about how they are likely to respond to the new Medicare drug law in 2006, based on their understanding of the law at the time the survey was conducted.

Actuarial Value of Current Drug Benefit Relative to the 2006 Medicare Drug Benefit

The findings confirm why employer-provided health benefits are highly valued by retirees and help explain why retirees may be concerned about losing these benefits when the new Medicare Part D benefit goes into effect. In describing the generosity of their firms' current prescription drug benefit for their age 65+ retirees, the majority of employers (69 percent) say the actuarial value of their firm's current prescription drug benefit is greater than the standard Medicare Part D benefit, as defined in law; only 5 percent said their plan is less generous, and 4 percent said their plan was equal in value. Another 22 percent of respondents said they did not know (Exhibit 31).

Familiarity with the MMA

With implementation of the new drug law scheduled for 2006, more than 8 in 10 respondents say their firms' decision-makers are familiar with the key provisions of the new law, with 29 percent saying they are "very familiar" and another 55 percent "somewhat" familiar (Exhibit 32). As might be expected, those who are directly responsible for health benefits—such as the VP for Human Resources and Director of Benefits—are highly involved in decisions regarding how the firm is likely to react to the new law. Respondents also indicated that more than half of all CEOs (53 percent) and two-thirds of all CFOs (66 percent) are reported to be very or somewhat involved in decisions regarding how their company will respond to the new drug law (Exhibit 33).

Response to the MMA

Based on what they knew about the law at the time of the survey, the majority of employers said they are likely to continue to offer drug benefits to their Medicare-eligible retirees (Exhibit 34):[29]

- 58 percent of responding firms—representing an estimated 77 percent of age 65+ retirees in the largest plans offered by respondents—said their firm is likely to continue to offer prescription drug benefits and accept the 28 percent tax-free drug subsidy for each covered retiree in the firm's largest plan.

- 17 percent of responding firms—representing an estimated 6 percent of age 65+ retirees in the largest plans offered by respondents—said their firm is likely to offer prescription drug coverage as a supplement to the Medicare prescription drug plan (Medicare would be the primary payer) in the firm's largest plan.

[29] Refers to strategy reported for firms' largest group of age 65+ retirees. On average, 74 percent of surveyed firms' age 65+ retirees are enrolled in their firms' largest plans.

- 8 percent of responding firms—representing an estimated 4 percent of age 65+ retirees in the largest plans offered by respondents—said they would discontinue drug coverage in the firm's largest plan, with some in this group indicating they would contribute toward the retiree's Part D premium.

- 13 percent said they do not know which strategy their firm is likely to choose and 4 percent said "other."

Employers who said they plan to continue benefits and accept the 28 percent subsidy (59 percent of the total) were then asked about possible changes in their benefits.

- 85 percent of these employers say they plan to retain current benefit levels;

- 7 percent of these employers plan to modify the actuarial value of the plan to match the standard Part D benefit; and

- 8 percent do not know.

Assessing the Financial Impact of the MMA

About a third (34 percent) of firms said they had already evaluated the financial impact of the MMA. Among the two-thirds of firms that had not evaluated the financial impact, over two-thirds (71 percent) said they plan to evaluate the impact within six months after the survey was conducted, a quarter (24 percent) said they plan to analyze the new law within 7–12 months, and five percent plan to analyze in more than 12 months (Exhibit 35).

The survey asked firms that had analyzed the financial impact of the MMA drug law to report the expected reduction in their annual, before tax, FAS 106 accounting costs (Exhibit 36):

- 15 percent of these firms reported a "significant" reduction of 20 percent or more;

- 34 percent reported a "moderate" reduction of 6–19 percent;

- 17 percent reported a "nominal" reduction of 1–5 percent;

- 8 percent reported no reduction (0 percent); and

- 26 percent either did not know, or responded "other."

Firms that analyzed the financial impact of the MMA drug law were as likely as firms that did not yet analyze the financial impact to say they are likely to maintain drug benefits and accept the 28 percent subsidy.

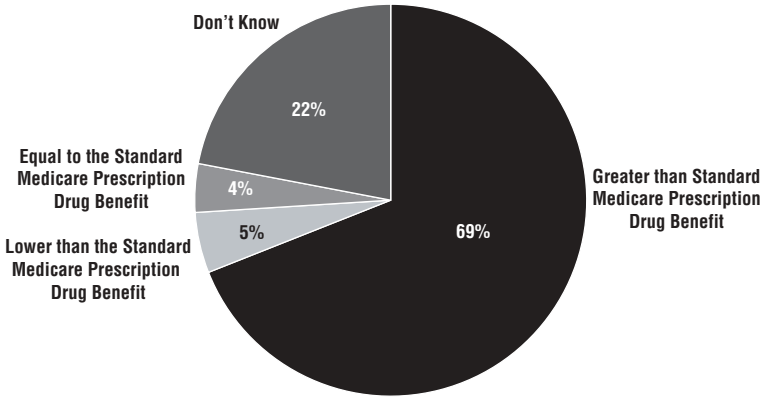
Other Responses to the MMA

Employers were asked how likely they would be to separate the 65+ retiree prescription drug election or premium from their overall retiree health plan, in response to the MMA. The majority (58 percent) of employers said they are unlikely to separate drug coverage from their overall retiree health plan in response to the new law (24 percent "very unlikely" and 34 percent "somewhat unlikely"), while a third are likely (9 percent "very likely" and 25 percent "somewhat likely") to make such a change (Exhibit 37).

Finally, we asked employers how likely their firm would be to provide age 65+ retirees with educational materials about the new Medicare drug benefit: nearly three-quarters said they are likely (32 percent "very likely" and 40 percent "somewhat likely") to give their retirees educational materials; 28 percent said they are unlikely to provide such materials (Exhibit 38). Given the complexity of the new law, such educational efforts could help ease the transition for retirees as the MMA is implemented.

Exhibit 31

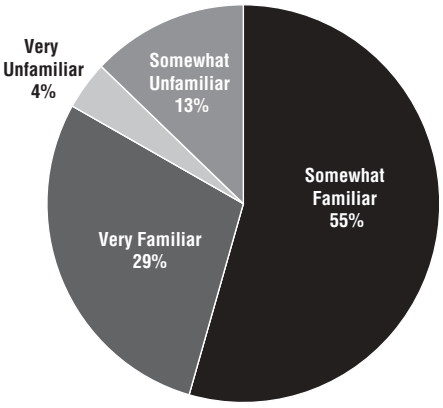
Employers' Assessment of Actuarial Value of Current Prescription Drug Benefit Compared to 2006 Standard Medicare Drug Benefit



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 32

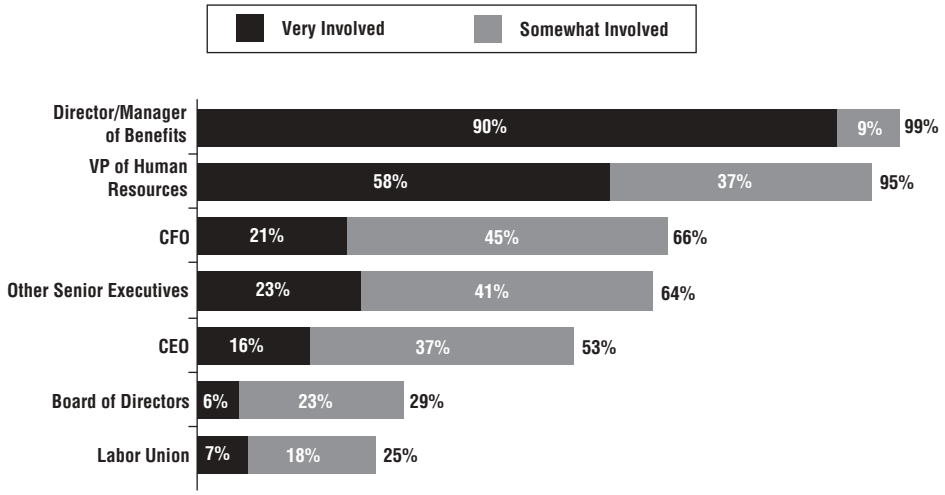
Familiarity of Firm Decision-Makers with Key Provisions in the Medicare Drug Law



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 33

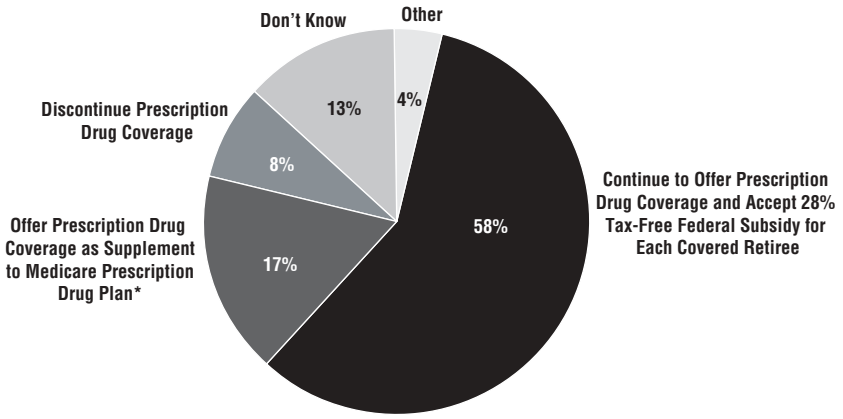
Level of Involvement of Firm Decision-Makers in Response to the Medicare Drug Law



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

Exhibit 34

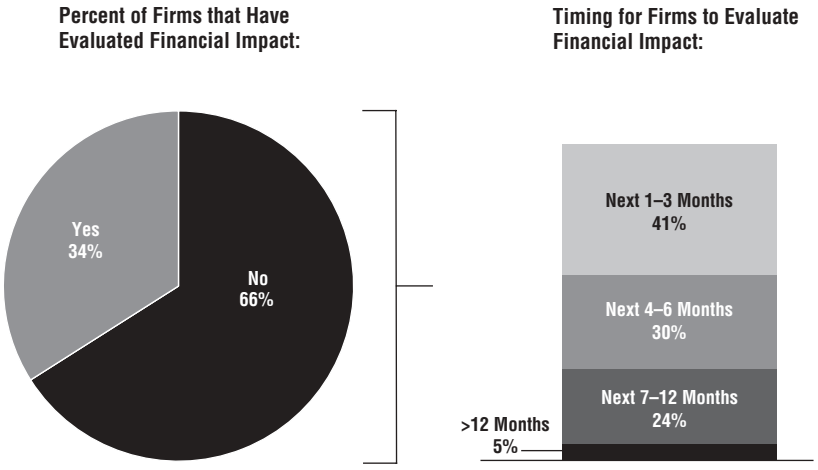
Strategies Firms Are Likely to Choose Under the Medicare Drug Law



*Medicare would be primary payer.
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plan with the largest number of age 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 35

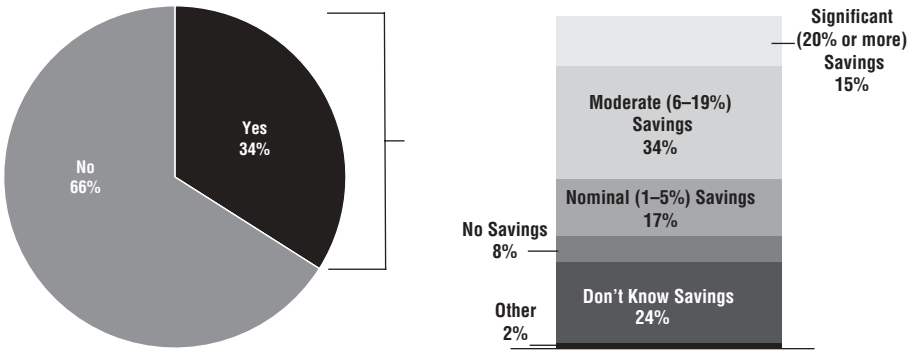
Evaluation of the Financial Impact of the Medicare Drug Law



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

Exhibit 36

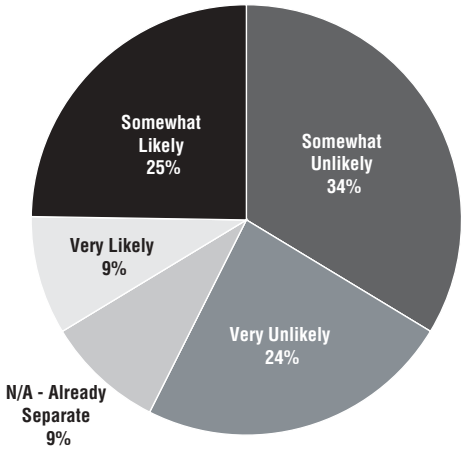
Projected Savings of the Medicare Drug Law



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

Exhibit 37

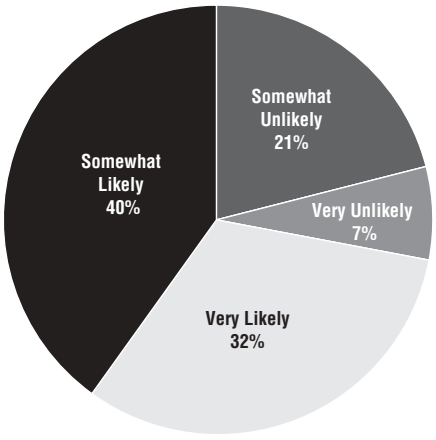
Likelihood of Separating 65+ Retiree Prescription Drug Election or Premium from Overall Retiree Health Plan



Note: Numbers may not add to 100% due to rounding. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 38

Likelihood of Providing 65+ Retirees with Educational Materials About the Medicare Drug Benefit



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

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits

APPENDIX I

METHODS

APPENDIX I: METHODS

Survey Approach

This survey, conducted by 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 they are significantly more likely than small- and mid-sized employers to offer retiree health benefits. According to the *2004 Kaiser/HRET Employer-Sponsored Health Benefits Survey,* retiree health benefits are offered by 60 percent of firms with 5,000 or more employees; 43 percent of firms with 1,000–4,999 employees; 31 percent of firms with 200–999 employees; 10 percent of firms with 50–199 employees; and up to 13 percent or less of firms with fewer than 50 employees.

By design, the Kaiser/Hewitt survey focused exclusively on 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.SM Despite interest in examining trends, comparisons between the new 2004 findings and results from the 2003 Kaiser/Hewitt survey are somewhat limited. Given the nonrandom nature of this sample and the fact that the samples each year include different companies and different plans offered by those companies, study findings may not be strictly comparable from year to year.

The survey was conducted between May 18 and September 30, 2004 and completed by human resources professionals at each of the firms. Most employers were e-mailed a note inviting them to participate in the survey; the remaining employers were invited via a letter. Both the e-mail note and the letter provided employers with a link to a website through which they could complete the survey 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 92 percent completing the survey in that manner, versus 8 percent that completed and returned the printed questionnaire.

Characteristics of Participating Employers

Overall, 368 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 333 large private employers whose responses are included in the survey analysis. These employers represent 32 percent of Fortune 100 companies and 20 percent of Fortune 500 companies. The surveyed employers include one-third (35 percent) of the 500 companies with the largest retiree health liabilities in 2003.

Most of the surveyed employers (296) 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, 331 employers provide pre-65 coverage and 298 provide coverage to age 65+ retirees. The overwhelming majority (87 percent) of surveyed employers are multi-state employers that represent a broad range of manufacturing (44 percent) and non-manufacturing (56 percent) industries. Nineteen percent of the total are large subsidiaries of a parent organization.

These 333 surveyed employers together reported having 6,536,167 employees, with an average of 19,628 employees per employer and a median of 6,000 employees. Using a typical ratio of family members to employees (2.5) identified by Hewitt actuaries, the surveyed employers provide benefits that impact the lives of about 16.3 million employees and family members. The surveyed employers together reported a total of 2,980,826 pre-65 and age 65+ retirees, with an average of 9,006 retirees and a median of 1,450 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 4.9 million retirees and family members.

The employers in this sample provide health benefits to an estimated 3.5 million Medicare-eligible retirees and their spouses, representing more than a quarter of the roughly 12 million nonfederal retirees with employer-sponsored health coverage.

In terms of the overall distribution of firms, 45.9 percent have 1,000 to 4,999 employees and 54.0 percent have 5,000 or more employees (Table A1).

Total Cost of Retiree Health Benefits in 2003

Among surveyed employers, the total cost (employer and retiree share) of providing retiree health benefits to pre-65 retirees, age 65+ retirees, and dependents was $15.47 billion in 2003. The total was derived by taking the average total cost by firm size for the 298 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 $1.47 billion for the 35 non-responding employers added to the $14 billion for the 298 responding employers.

The total cost of retiree health coverage of firms in this study represents more than a quarter (29 percent) of the total estimated cost of health coverage for active workers, retirees, and dependents. To make this estimate, the total dollar expenditures for the respondents were estimated assuming that the premium rates provided for the largest retiree plan are 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 average active rate in Hewitt Associates' 2004 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 (87 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 plans 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 firms' various locations and business lines. Requesting premium information for the largest plan is therefore the most administratively feasible option 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, 2004, 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.

To address the variation in retiree and employee populations among firms in the survey sample, the average total premium per retiree and the average per retiree contribution toward the total premium were weighted by employer size and number of retirees in the employer's largest plan. By doing so, the premiums of larger firms with the greater number of retirees are weighted more heavily than the relatively smaller firms that have fewer retirees. The average percentage increase in retiree contributions in 2004 over 2003 is weighted similarly.

In this year's report, the weighted average retiree contribution toward the total premium are 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 second 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 vast 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 2004 retiree contribution reported for new retirees by the 2004 total premium reported for new retirees.

Table A1

Sample Characteristics, by Firm Size, 2004

	Total	1,000–4,999 Employees	5,000–9,999 Employees	10,000–19,999 Employees	20,000+ Employees
Number of Firms	333	153	62	50	68
Firms as a Percent of Total	100%	45.9%	18.6%	15.0%	20.4%
Number of Retirees	2,980,826	169,778	195,115	278,018	2,337,915
Number of Workers	6,536,167	414,613	448,724	691,510	4,981,320

Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
Source: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Table A2

Retiree Enrollment in Plan with Largest Participation, by Firm Size, 2004

	All Retirees Largest Plan	1,000–4,999 Employees	5,000–9,999 Employees	10,000–19,999 Employees	20,000 or More Employees
Pre-65 Retirees					
Average Number of Pre-65 Retirees in Largest Plan	1,504	181	397	709	6,046
Average Percent of Pre-65 Retirees Covered in Largest Plan	58%	65%	47%	49%	56%
Age 65+ Retirees					
Average Number of Age 65+ Retirees in Largest Plan	4,530	476	1,498	2,232	16,712
Average Percent of Age 65+ Retirees Covered in Largest Plan	74%	80%	67%	61%	76%

Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
Source: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Table A3

Total Premiums and Retiree Contributions, by Firm Size, 2004
(Median and Mean)

	1,000–4,999 Employees	5,000–9,999 Employees	10,000–19,999 Employees	20,000 or More Employees
Pre-65 Retirees				
Total Premium				
Median	$355	$405	$471	$466
Mean	$391	$423	$467	$499
Average Retiree Contribution				
Median	$126	$127	$177	$130
Mean	$187	$181	$217	$185
Age 65+ Retirees				
Total Premium				
Median	$230	$236	$225	$221
Mean	$235	$286	$266	$262
Average Retiree Contribution				
Median	$74	$94	$79	$76
Mean	$97	$122	$97	$100

Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2004, 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 2004 Survey on Retiree Health Benefits, December 2004.

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 Advantage Plans

Medicare Advantage plans (called Medicare+Choice plans prior to the MMA) 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 Medicare Advantage plans are HMOs, although the MMA seeks to expand the availability of PPOs.

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 of 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.

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