

EBRI Special Analysis

How Many Medicare Beneficiaries Will Lose Employment-Based Retiree Health Benefits if Medicare Covers Outpatient Prescription Drugs?

July 18, 2003

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Benefits if Medicare Covers Outpatient Prescription Drugs?**

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Recent estimates from the Agency for Healthcare Research and Quality (AHRQ) reports that in 2002 11 percent of all private establishments in the United States offered health benefits to Medicare-eligible retirees.¹ Because these tend to be the largest firms, about 30 percent of all Medicare beneficiaries were covered by employment-based health benefits in 2001.²

Policymakers are concerned that a new Medicare drug benefit may cause employers to drop drug benefits that they provide to Medicare beneficiaries. The news media have reported Congressional Budget Office (CBO) estimates that 37 percent of Medicare beneficiaries with employment-based drug coverage would lose it under the recently passed Senate bill, and 31 percent would lose coverage under a similar bill passed by the House, as a result of employer decisions to eliminate drug coverage.

However, what has *not* been reported is that CBO is projecting this decline would happen during the 10-year budget estimating period. And as Employee Benefit Research Institute (EBRI) and other research³ has indicated, substantial decline might occur anyway due to existing business, accounting, and cost trends in employment-based retiree health benefits—whether or not Congress ultimately enacts a Medicare prescription drug benefit. Stated another way, there have been and currently are powerful forces at work in the marketplace that are shrinking the availability of retiree health benefits regardless of policy changes in Medicare.⁴

We believe it is possible that between 2 percent and 9 percent of current Medicare beneficiaries with employment-based retiree health benefits for prescription drug coverage would lose those benefits if Medicare provides outpatient prescription drug benefits, solely as a result of that change in the program.⁵ This translates into between 1 and 3 percent of all Medicare beneficiaries. However, no one knows with any certainty how many Medicare beneficiaries with employment-based retiree health benefits would see those benefits eliminated if Medicare provided drug coverage. The above estimate is constructed by extrapolating poll questions about future behavior and combining those

¹ www.meps.ahrq.gov/MEPSDATA/ic/2000/Tables_II/TIIA2e.pdf (last reviewed December 2002).

² Employee Benefit Research Institute estimates from the March 2002 Current Population Survey.

³ See Fronstin and Salisbury (2003).

⁴ It has been broadly reported, for example, that many companies that now provide current Medicare beneficiaries with supplemental health coverage are making very large unplanned contributions to their defined benefit pension plans. Continued pension funding pressure, combined with continued high health inflation, could cause non-unionized private employers to reduce retiree medical promises without reference to this legislation.

⁵ We believe most employers will choose to “wrap-around” Medicare for current retirees, as they generally do today.

questions with data on beneficiaries from 1998 and other assumptions. While such responses may be broadly helpful, they are inherently very imprecise.

Approximately 30 percent of Medicare beneficiaries are covered by employment-based retiree health benefits, presumably with prescription drug coverage.⁶ Available data suggest that 37 percent of retirees with employment-based health benefits from their own previous employer retired from non-unionized private-sector employment in 1998.⁷ The remainder retired from either public sector or unionized employment. Since it is much more difficult for public-sector employers and employers with unionized retirees to make changes to retiree health benefits because of both politics and collective bargaining, we treat the 37 percent of retirees from non-unionized private employment as vulnerable to an immediate change. This number is high, as we know that some employers have not reserved the legal right to end benefits, but we do not know how many. We therefore treat 37 percent of those with retiree health benefits that cover prescription drugs, as being at risk of full loss of those benefits due to Medicare drug benefits availability. These assumptions may or may not be correct, but no other data exist to validate these points.

Survey work conducted by Hewitt Associates and The Henry J. Kaiser Family Foundation found that 23 percent of large private-sector employers reported that they would likely drop drug benefits for retirees if Medicare provided drug coverage; however, we do not know if these employers were referring to current beneficiaries or future retirees. Other survey data from private-sector employers indicate that 14–22 percent are likely to eliminate all health benefits for *future retirees*, but only 4–5 percent are likely to do so for *current beneficiaries*, even in the absence of a Medicare drug benefit.

We use these estimates to assume that since 5 percent of employers are likely to drop all retiree health benefits for current retirees, even in the absence of a Medicare drug benefit that these same employers would likely drop all retiree health benefits, including drug benefits, if Medicare were to provide drug benefits. If we assume that 5 percent of private employers represents 5 percent of retirees with drug coverage, then 2 percent of Medicare beneficiaries would lose employment-based retiree health benefits that covered prescription drugs. If instead we assume that 23 percent of private-sector employers dropped drug coverage for retirees and also assumed that these employers affected 23 percent of retirees with employment-based drug coverage, then 9 percent of Medicare beneficiaries would lose employment-based retiree health benefits that covered

⁶ Employee Benefit Research Institute estimates from the March 2002 Current Population Survey. Undoubtedly, some of these individuals have employment-based health benefits through a current employer because the individual or spouse has continued to work past age 65. There is evidence that this trend has increased slightly since the mid-1990s both because of stock market losses and because this may be the only means by which an individual can obtain prescription drug benefits.

⁷ We found that 39 percent of persons ages 65+ with coverage in their own name through a former employer retired from the public sector. Similarly 39 percent were unionized. Overall, 63 percent were either unionized or public sector, while 37 percent were non-unionized from the private sector. While the data are incomplete in that we haven't identified Medicare beneficiaries under 65 nor spouses that are covered by these plans, we think this data can provide a more precise estimate of the number of beneficiaries that might lose retiree health benefits, given that these distinct populations face much different constraints when it comes to the future of promised benefits.

prescription drugs. Again, the assumptions may or may not be accurate, as they cannot be validated.

Why are such strong assumptions needed?

Only two studies, both conducted by Hewitt Associates and The Henry J. Kaiser Family Foundation, have examined how employers might change retiree health benefits if Medicare provided outpatient prescription drug benefits. These studies are a first step to understanding how many Medicare beneficiaries would lose retiree health benefits if Congress enacted a Medicare drug benefit—but these studies are not sufficient and were never intended to answer the specific question.

In the most recent study, released in December 2002, employers were mailed a letter during the summer of 2002 inviting them to participate in the survey (McArdle et al, 2002).⁸ A total of 435 large private employers were included in the survey analysis. The survey asked private-sector employers how they would respond if Congress approved Medicare drug coverage for 2005 with a deductible, coinsurance, and 100 percent stop-loss coverage for seniors with out-of-pocket expenses above \$4,000. Employers were told to presume this plan would offer either direct or indirect federal subsidies to employers who continued to provide retiree health benefits. Employers responded to the survey as follows:

- 18 percent would most likely eliminate drug coverage for Medicare eligible retirees.
- 5 percent would most likely eliminate drug coverage but pay the retirees' added premium.
- 3 percent would retain supplemental drug coverage and pay the retirees' added Medicare premium.
- 13 percent would retain primary drug coverage and accept the subsidy from Medicare.
- 62 percent would retain coverage as a supplement to Medicare coverage.

Overall, 23 percent of employers responding to the survey reported that they would most likely eliminate drug coverage for Medicare-eligible retirees. While this is the only currently available evidence that employers would drop drug coverage for retirees if Medicare provided drug benefits, the findings from this survey do not mean that 23 percent of Medicare beneficiaries with employment-based retiree health benefits will lose that coverage.

Why not?

1. The survey does not tell us anything about what percentage of Medicare beneficiaries with employment-based retiree health benefits these employers represent.
2. The survey does not tell us anything about what percentage of Medicare beneficiaries with employment-based retiree health benefits receive those benefits

⁸ The other study was conducted during the summer 1999.

from a public-sector employer. This group was not included in the survey. The only survey that we are aware of that would allow such identification is the Survey of Income and Program Participation (SIPP), conducted by the U.S. Census Bureau.⁹ Neither the Medicare Current Beneficiary Survey (MCBS) nor the Current Population Survey (CPS) allows users to identify the characteristics of employment associated with retiree health benefits. Initial EBRI estimates from SIPP indicate that 40 percent of retirees with employment-based health benefits in their own name provided by a former employer were previously employed in the public sector.

3. The survey does not tell us anything about what percentage of Medicare beneficiaries with employment-based retiree health benefits receive those benefits from employers with fewer than 1,000 employees, as those employers were not included in the study.
4. It cannot be determined if human resource (HR) and benefit managers responded to the survey, or if CEOs and other officers in a position to speak on behalf of what the employer might do responded to the survey. Like most employer surveys that require the respondent to provide detailed information about benefit packages, it is more likely that HR and benefit managers responded to the survey rather than did CEOs. CEOs and boards of directors, including compensation and audit committees, would likely be involved in any decision to eliminate prescription drug coverage for current retirees due to legal, accounting, governance, employee relations and public relations implications.
5. The survey does not tell us anything about how many Medicare beneficiaries with employment-based retiree health benefits are covered by union contracts. Initial EBRI estimates from SIPP indicate that 39 percent of retirees with employment-based health benefits in their own name provided by a former employer are covered by union contracts. Of these beneficiaries, more than 60 percent retired from the private sector. Hence, 37 percent of Medicare beneficiaries with employment-based retiree health benefits receive those benefits from previous non-union private-sector employment.
6. The survey is silent regarding whether or not responding employers were likely to eliminate benefits for *current retirees* or *future retirees*. While many employers have made changes to retiree health benefits since the mid-1990s, EBRI research has shown that these changes were disproportionately more likely to affect *future* retirees than *current* retirees. During the mid-1990s, employers quickly learned that they had the right to terminate or amend retiree health benefits only if they have proved that such a right has been reserved or stated in specific language and on a widely known basis (Davis, 1991). Many employers never reserved the right to make changes to the benefit of current retirees and so were forced to continue to provide retiree health benefits. It is likely that most employers offering retiree

⁹ We first learned this week that SIPP included such data on an occasional basis.

health benefits today to current retirees must maintain those benefits indefinitely or are covered by a collective bargaining (union) agreement. In fact, surveys have found that only 4–5 percent of employers are likely to report that they plan to eliminate benefits for *current retirees* in the near future, although 14–22 percent report that they plan to terminate benefits for *future retirees*—at most, about the same percentage that reported they would eliminate benefits for retirees if Medicare provided drug benefits (Holve, et al., 2002; McArdle et al., 2002).

Consequently, considering the factors listed above, we think that between 2 percent and 9 percent of current Medicare beneficiaries will lose employment-based retiree health benefits for prescription drugs if Medicare provides outpatient prescription drug benefits. These estimates are low because we assume retirees with employment-based coverage tied to former employment with a union or in the public sector will not see these benefits eliminated. We also assume that most private-sector employers that could drop retiree health benefits for current retirees have already done so. However, it should also be expected that current trends affecting future retirees will continue whether or not Medicare provides drug coverage. Driven by business reasons (accounting changes, costs, and regulatory/legal pressures for both pensions and retiree health benefits), employers are expected to continue to eliminate retiree health benefits for future retirees, while mostly maintaining those programs for current retirees who already have the benefit.

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Figure 1
Medicare Beneficiaries with Employment-Based Retiree Health Benefits for Prescription Drugs that Would Lose Such Coverage if Medicare Provided Drug Coverage (in Millions and as a Percent of Those With Employment-Based Retiree Health Benefits)

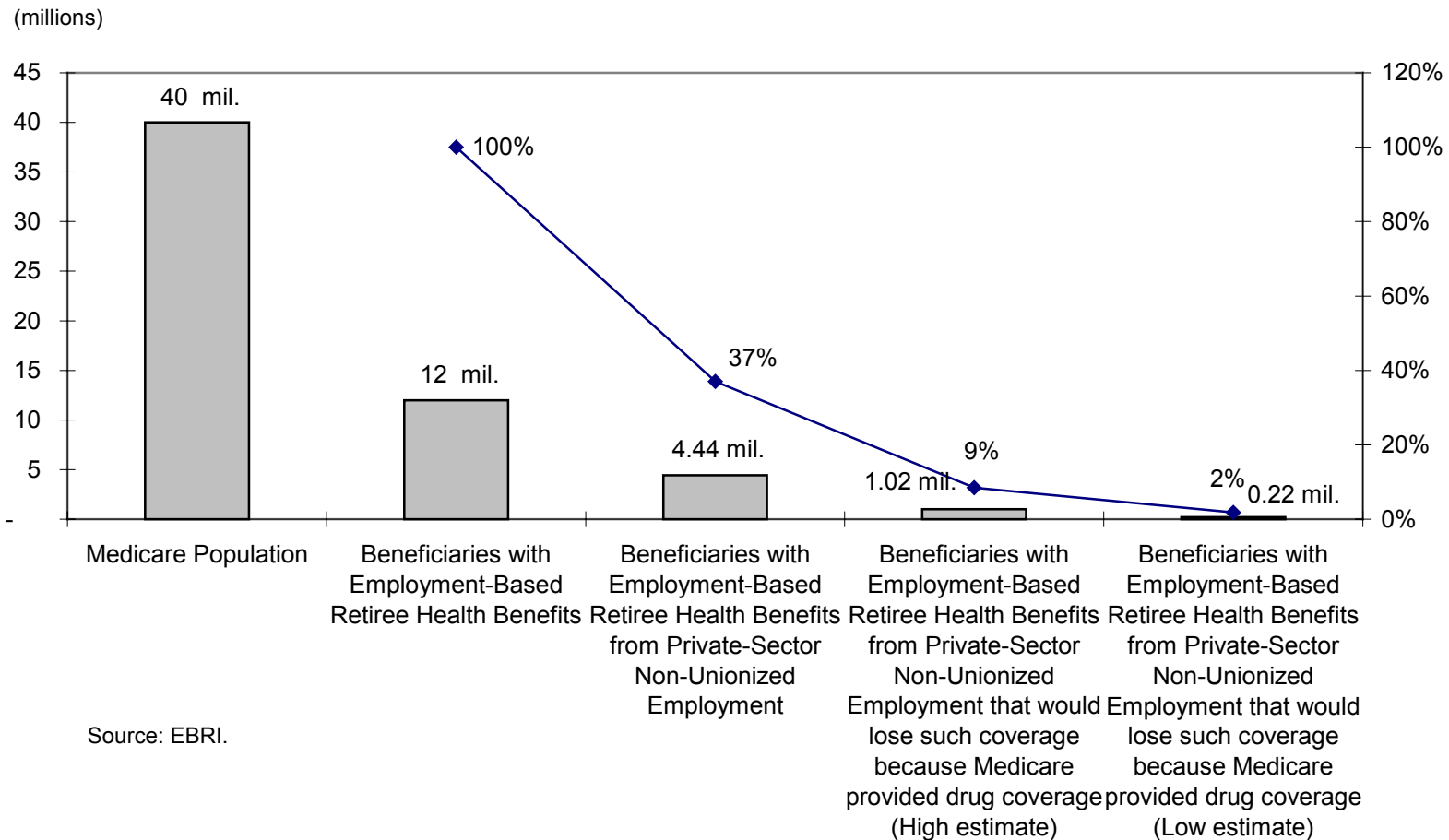


Figure 2
Medicare Beneficiaries with Employment-Based Retiree Health Benefits for Prescription Drugs that Would Lose Such Coverage if Medicare Provided Drug Coverage (in Millions and as a Percent of Medicare Beneficiaries)

