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News from EBRI

1100 13th St. NW • Suite 878 • Washington, DC 20005
(202) 659-0670 • www.ebri.org • Fax: (202) 775-6312

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CONTACTS: John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org
Paul Fronstin, EBRI, (202) 775-6352, Fronstin@ebri.org

New Research from EBRI:

Early Retiree Reinsurance Funds Likely Will Be Exhausted In 2012, Two Years Before End of Program, Study Finds

WASHINGTON—A $5 billion temporary reinsurance program designed to help employers maintain health benefits for early retirees likely will be exhausted within two years—well before the 2014 termination date for the program, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI).

The program is part of the Patient Protection and Affordable Care Act of 2010 (PPACA), which Congress approved and President Obama signed into law earlier this year. One goal of the program is to provide an incentive for employers to maintain retiree health benefits and assist retirees with their costs for health coverage.

Under the reinsurance program, sponsors of early retiree health programs must be able to show that the subsidies were not used to reduce their level of support for the plan. Subsidies can be used to reduce retiree costs, and sponsors must also show that the subsidies were used to generate savings or had the potential to generate savings.

Congress appropriated $5 billion for the program, which became effective June 1. The program provides an 80 percent subsidy for retirees who are over age 55 and not yet eligible for Medicare. Claims from dependents are also eligible. It applies to claims of between $15,000 and $90,000.

Using data to calculate how many early retirees there are and how much they tend to spend on health care services, Paul Fronstin, director of the EBRI Health Research and Education Program and author of the study, concludes available funds will be exhausted well before the program is set to expire. The study appears in the July 2010 *EBRI Notes*, available at www.ebri.org, and released in advance today.

The subsidy will be available through the earlier of Jan. 1, 2014, or the date when the funds are exhausted. Fronstin writes that if the subsidy were drawn down for all eligible early retirees and their dependents, $2.5 billion of the available $5 billion would be exhausted in the first year of the program. The $5 billion would last no more than two years and would not be available in 2012 or 2013, the study finds. This assumes that all employers eligible to apply do so and is contingent on other assumptions outlined in the study.

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