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New Research from EBRI:

Legislation in Congress Would Have Mixed Impact On Health Benefits For Retirees, Study Finds

WASHINGTON—Health insurance reform legislation pending in Congress would have a mixed impact on retiree health benefits, according to a study published today by the nonpartisan Employee Benefit Research Institute (EBRI). In the short term, some provisions of the legislation would help bolster early retiree coverage, while in the longer term other provisions could create significant incentives for employers to drop retiree coverage.

The study, in the January 2010 *EBRI Issue Brief*, assesses the impact on retiree health benefits of two major health reform bills—"The Affordable Health Care for America Act" (H.R. 3962), which has passed the House, and "The Patient Protection and Affordable Care Act" (H.R. 3590), which is currently being debated in the Senate. Both bills are subject to change before Congress completes action. The study is available at www.ebri.org

As the study notes, private-sector retiree health benefits have been eroding since the mid-1990s. This has been driven by accounting rule changes that affected employers' financial statements for offering the benefit and ever-growing health care costs, the study says. Fewer private-sector employers offer the benefits, both private- and public-sector employers have been increasing retiree premiums and cost sharing, and workers are finding it harder to qualify for a subsidized retiree health benefit. The Medicare Modernization Act has provided a subsidy to employers since 2003 to maintain drug benefits for Medicare-eligible retirees, which appears to have contributed to slowing the trend in the private sector.

Assessing the impact of current health care legislation on retiree coverage, the study draws distinctions between the short term and longer term:

Short term: Reinsurance provisions in the bills would help shore up early retiree coverage and Medicare Part D prescription drug coverage would become more valuable to retirees.

Longer term: Insurance reform in Congress—specifically new subsidies for individuals enrolling for coverage through insurance exchanges, the maintenance-of-effort provision affecting early retiree benefits, increases in the cost of providing drug benefits to retirees, and enhanced Medicare Part D coverage—would create significant incentives for employers to drop coverage for early retirees and drug coverage for Medicare-eligible retirees.

Here are details of some specific points in the study:

Reinsurance Program for Early Retirees

Proposed legislation includes a provision to create a temporary reinsurance program for employers providing health benefits to retirees over age 55 and not yet eligible for Medicare. Given the temporary nature of the program, it is intended to provide employers an incentive to maintain benefits until the health insurance exchange is fully operational. At that point, employers will have less incentive to provide health benefits to early retirees, and retirees will have less need for former employers to maintain a program.

Medicare Drug Benefits

The House-passed bill would initially reduce the coverage gap (the so-called "doughnut hole") for individuals in the Medicare Part D program by $500 and eliminate it altogether by 2019. The bill currently before the Senate would also reduce the coverage gap by $500, but does not call for eliminating, though recent reports suggest that the Senate intends to eliminate it in the House-Senate conference. Both would also provide a 50 percent discount to brand-name drug coverage in the coverage gap. These provisions increase the value of the Medicare Part D drug program to Medicare-eligible beneficiaries relative to drug benefits provided by employers.

Tax Treatment of Employer Subsidies

The Medicare Modernization Act provides subsidies to employers that continue to offer prescription drug coverage through a retiree health benefits program. This subsidy is currently not counted as taxable income to the employer receiving it. Both the House and Senate bills would effectively repeal this tax exclusion.
This would have two effects: the real cost of providing retiree health benefits to Medicare-eligible retirees would increase, and an employer's accounting liability would increase immediately. The increase in the cost of retiree drug benefits will cause employers to re-evaluate the subsidy, compared with other available options. Moving retirees to Medicare Part D may become even more attractive to employers if the coverage gap is reduced and/or eliminated.

Postretirement Benefit Changes

With some exceptions, the House-passed legislation would prohibit employers from changing the benefits offered to retirees and their beneficiaries once a person has retired. This provision could have a number of different effects: More employers may move toward capping their contributions; employers that want to maintain retiree health benefits may react by cutting the health benefits of active workers; employers may eliminate retiree health benefits altogether to avoid being locked into providing a permanent benefit; or they may drop benefits if they think there is no need to provide them.

In the conclusion to the study, Paul Fronstin, director of the EBRI Health Research and Education Program and author of the study, writes:

"Current legislative proposals will increase the cost to employers of offering retiree health benefits. If these proposals pass… private-sector employment-based retiree health benefits are practically certain to decline: They will be less valuable to retirees in the future, and employers will find they are not as necessary to offer in the future, dramatically reducing the number of retirees enrolled in employment-based plans."

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