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EBRI News

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For Immediate Release: March 22, 2005
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New Research From EBRI:

Current Workers Cannot Count on Retiree Health Benefits

WASHINGTON—Continuing cutbacks mean that most American workers will never become eligible for retiree health insurance from a private employer, according to a new study by the nonpartisan Employee Benefit Research Institute (EBRI).

Both early retirees and those over age 65 experienced a substantial drop in employer-based retiree coverage from 1997 to 2002, the last year for which numbers are available, the EBRI study shows. During that five-year period, EBRI reported:

- The percentage of private employers that offered health benefits to early retirees (those under 65) fell to 13 percent from 22 percent. The overall percentage of early retirees who had retiree health benefits fell to 29 percent from 39 percent over the period.
- The percentage of private employers that offered retiree health benefits to Medicare-eligible retirees (65 and older) dropped to 13 percent from 20 percent. The overall percentage of older retirees who had retiree health benefits dipped to 25 percent from 28 percent during the five-year period.

"If current trends continue, baby boomers may find themselves unpleasantly surprised by what awaits them in retirement," said the study's author, Paul Fronstin of EBRI. "Unfortunately, the reason is simple: Some workers may have to delay retirement because they will not be able to afford health insurance premiums or out-of-pocket medical costs."

The study, "The Impact of the Erosion of Retiree Health Benefits on Workers and Retirees," is published in the March *EBRI Issue Brief,* and is available on the Internet at www.ebri.org.

The EBRI study notes that signs of a shift in worker expectations are apparent already. In 1997, just over 50 percent of wage and salary workers ages 45–64 expected to receive health benefits in retirement; by 2002, that had declined to 47 percent.

But the greatest impact is likely to be felt by those who are still working. "The changes that employers have made may not have a noticeable effect on trends in insurance coverage until a few years after the baby boom generation starts to retire, and significant numbers of retirees discover the limits on or the costs of whatever retiree coverage they might receive," said Dallas Salisbury, EBRI president.

A key reason for the decline in retiree health coverage, the study reported, is a Federal Accounting Standards Board (FASB) ruling in 1990 that requires companies to record retiree health benefit liabilities on their financial statements in accordance with generally accepted accounting principles. The requirement became effective Dec. 15, 1992, and many companies started to recognize the full long-term financial costs of offering health benefits, a process that is continuing even today, the study reports.

The FASB decision, along with rising health care costs, caused many private employers to begin "to overhaul their retiree health benefit programs in ways that controlled, reduced or eliminated their costs," the study says. While the standards board decision did not have an immediate impact on retirees, the EBRI report notes that "many current retirees are finally beginning to feel the cutbacks in retiree health benefits they are receiving [and] that current workers are becoming increasingly pessimistic about ever receiving retiree health coverage." Some groups have been hit harder than others: women, less educated individuals, younger retirees, lower-income retirees and retirees, from large firms have experienced a greater decline in coverage than others.

EBRI reports that public-sector employers are coming under the same pressures regarding retiree health costs as are private-sector employers, but so far the response has not been entirely the same: The percentage of local governments offering retiree health benefits has declined, while the percentage of state governments offering it has increased.

Public policymakers face a difficult task in trying to provide solutions to the retiree problem because the U.S. health care system is largely voluntary, the study said. Although the new Medicare prescription drug program that takes effect in January provides federal subsidies to employers that continue to provide retiree drug benefits, the study notes that employers are under no obligation to provide retiree benefits. "It is likely that employers will continue to make changes to retiree health benefits—especially for future retirees—in response to predicted future medical costs" and other factors, the EBRI report says.

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