Financing Health Care in Retirement

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MATHEMATICA
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Overview

- How is health care financed in retirement?
- Employer-sponsored retiree benefits
- Medigap
- What’s the bottom line?
Sources of Payment for Medicare Beneficiaries’ Health Care - 1999

- Direct out of pocket: 19%
- Private insurance: 12%
- Medicaid: 12%
- Medicare: 52%
- Other sources: 5%

Total per beneficiary: $9,573 / year

Sources of Payment by Type of Service, Medicare Beneficiaries - 1999

- Inpatient hospital: 87%
- Outpatient hospital: 60%
- Medical providers: 67%
- Prescription drugs: 38%
- Home health care: 90%
- Long term care: 41%

Legend:
- Medicare
- Out of pocket
- Medicaid
- Pvt. Insurance and other
Percent of Firms > 200 Employees That Offer Retiree Health Insurance 1988-2002

## Percent of Employers Offering Retiree Health Benefits, 2002

<table>
<thead>
<tr>
<th></th>
<th>Small firms (&lt; 200 employees)</th>
<th>Large firms (≥ 200 employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5%</td>
<td>34%</td>
</tr>
<tr>
<td>Northeast</td>
<td>2%</td>
<td>35%</td>
</tr>
<tr>
<td>Midwest</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>South</td>
<td>7</td>
<td>34</td>
</tr>
<tr>
<td>West</td>
<td>5</td>
<td>41</td>
</tr>
<tr>
<td>State/local government</td>
<td>28%</td>
<td>69%</td>
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<tr>
<td>Transp/comm/pub utilities</td>
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<td>69</td>
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<tr>
<td>Manufacturing</td>
<td>2</td>
<td>24</td>
</tr>
<tr>
<td>Retail</td>
<td>2</td>
<td>9</td>
</tr>
</tbody>
</table>

What is the Alternative?
Medigap Coverage

- 10 standard benefit designs since 1992 (A – J)
- All insurers must sell the basic plan – A
- B through G offer additional benefits, but no drug coverage
- H through J offer limited drug coverage
  - $250 deductible and 50% coinsurance for drugs
  - Drug benefit capped at $1,250 (H-I) or $3,000 (J)
How does the Medigap Market Work?

- 1/3 of policyholders are in prestandard plans
- Since 1992, just 6 percent have bought and retained drug coverage (H – J)
- Unless required by state law:
  - Underwritten after age 65 and may be denied
  - No price protections
  - Some plan types unavailable; many closed blocks
Average Medigap Quotes for a Woman at Age 65, 2002

Source: Weiss Ratings.
What’s the Bottom Line?

- Medicare is an essential program
- Long-term care financing is a growing crisis
- Employer-sponsored retiree benefits are rare, especially for retirees > 65
- Medigap is inadequate
- Major reform in a high-stakes game