

# Financing Health Care in Retirement

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**MATHEMATICA**  
Policy Research, Inc.

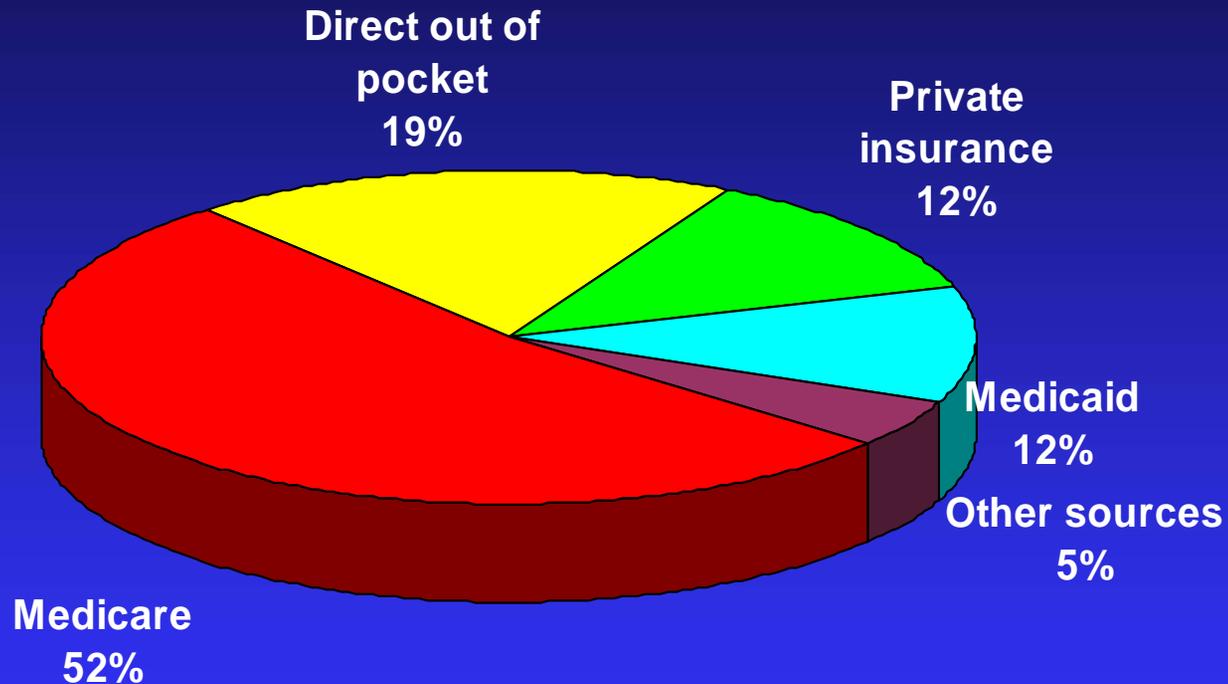
# Overview

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- **How is health care financed in retirement?**
- **Employer-sponsored retiree benefits**
- **Medigap**
- **What's the bottom line?**

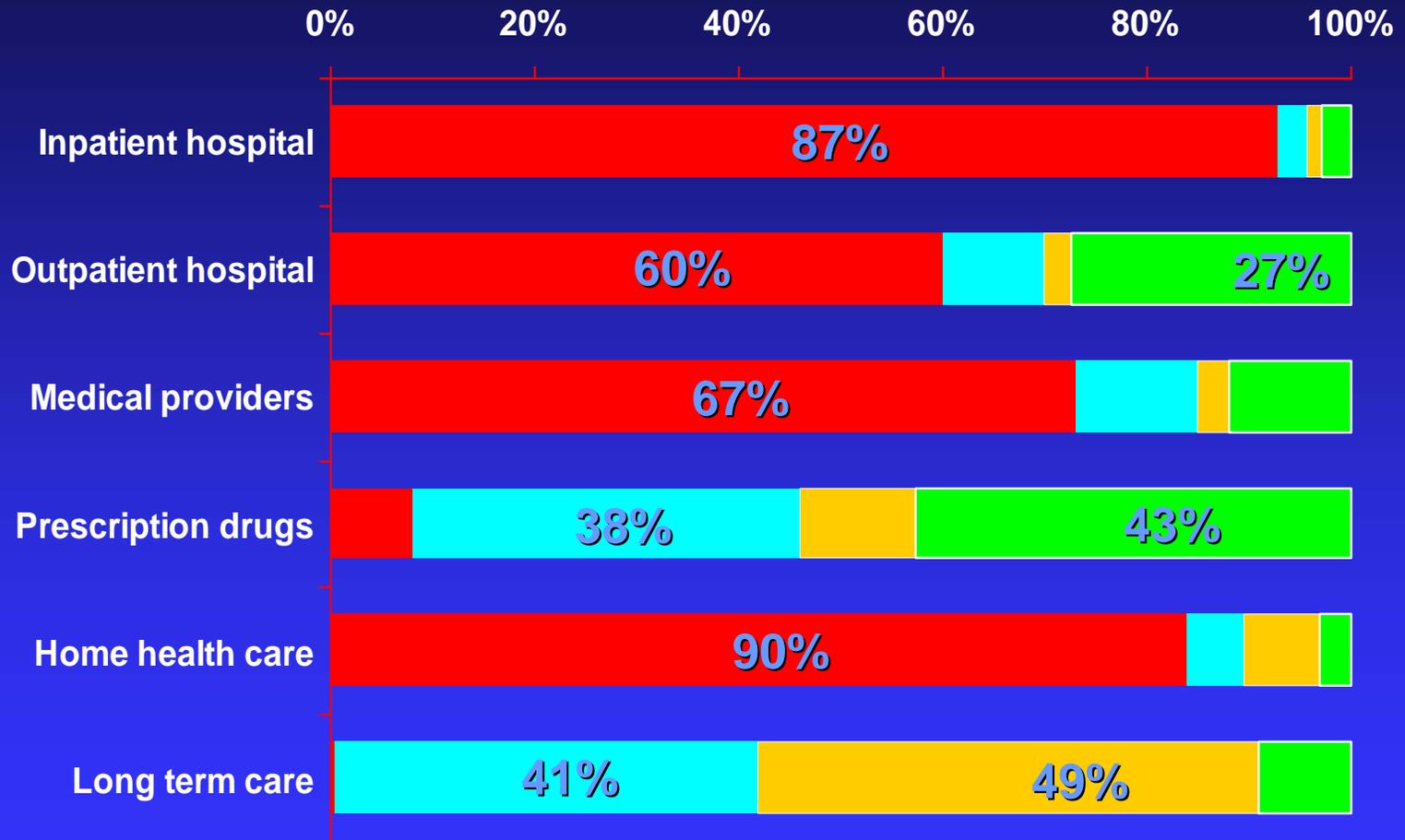
# Sources of Payment for Medicare Beneficiaries' Health Care - 1999

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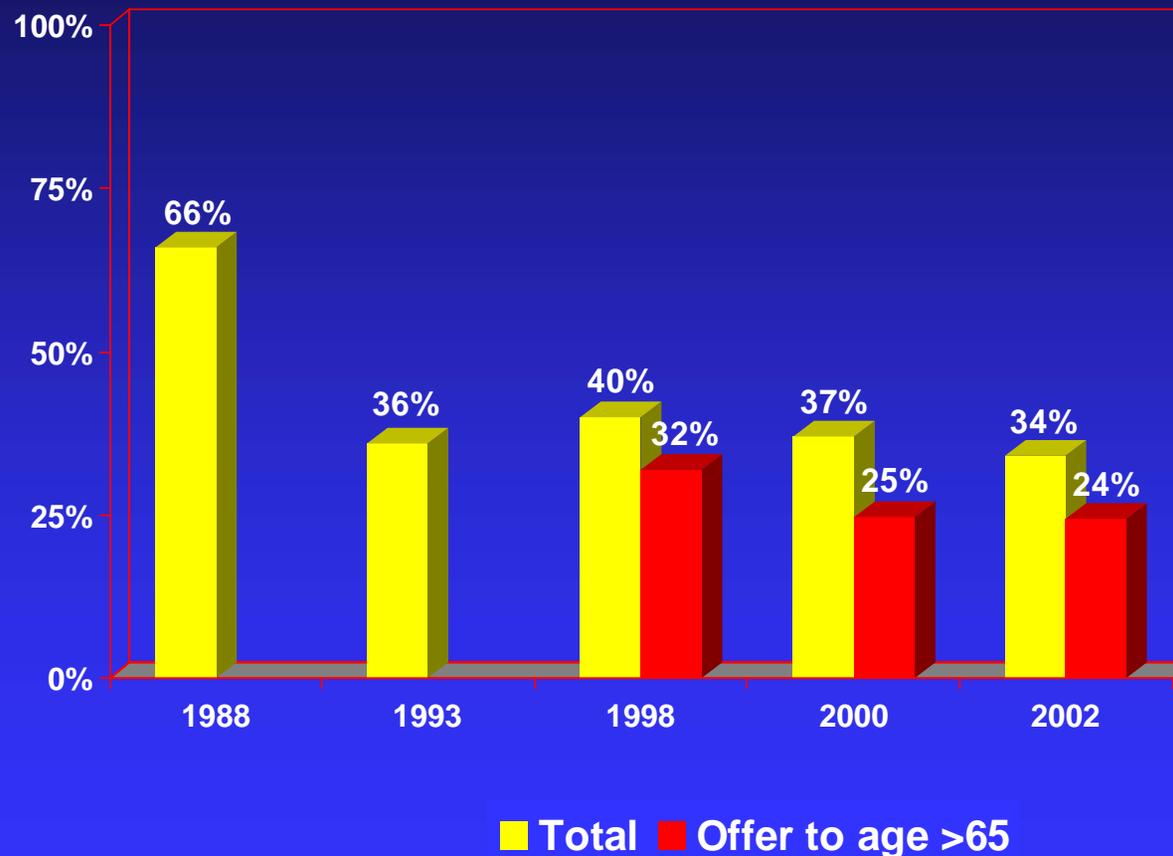
**Total per beneficiary: \$9,573 / year**

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



■ Medicare 
 ■ Out of pocket 
 ■ Medicaid 
 ■ Pvt. Insurance and other

# Percent of Firms > 200 Employees That Offer Retiree Health Insurance 1988-2002



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits (1999-2002);  
KPMG Survey of Employer-Sponsored Health Benefits (1988-1998),.

# Percent of Employers Offering Retiree Health Benefits, 2002

	Small firms ( $< 200$ employees)	Large firms ( $\geq 200$ employees)
<b>Total</b>	<b>5%</b>	<b>34%</b>
<b>Northeast</b>	<b>2%</b>	<b>35%</b>
<b>Midwest</b>	<b>3</b>	<b>26</b>
<b>South</b>	<b>7</b>	<b>34</b>
<b>West</b>	<b>5</b>	<b>41</b>
<b>State/local government</b>	<b>28%</b>	<b>69%</b>
<b>Transp/comm/pub utilities</b>	<b>14</b>	<b>69</b>
<b>Manufacturing</b>	<b>2</b>	<b>24</b>
<b>Retail</b>	<b>2</b>	<b>9</b>

Source: Kaiser/HRET Survey of Employer-Sponsored Benefits, 2002.

# What is the Alternative? Medigap Coverage

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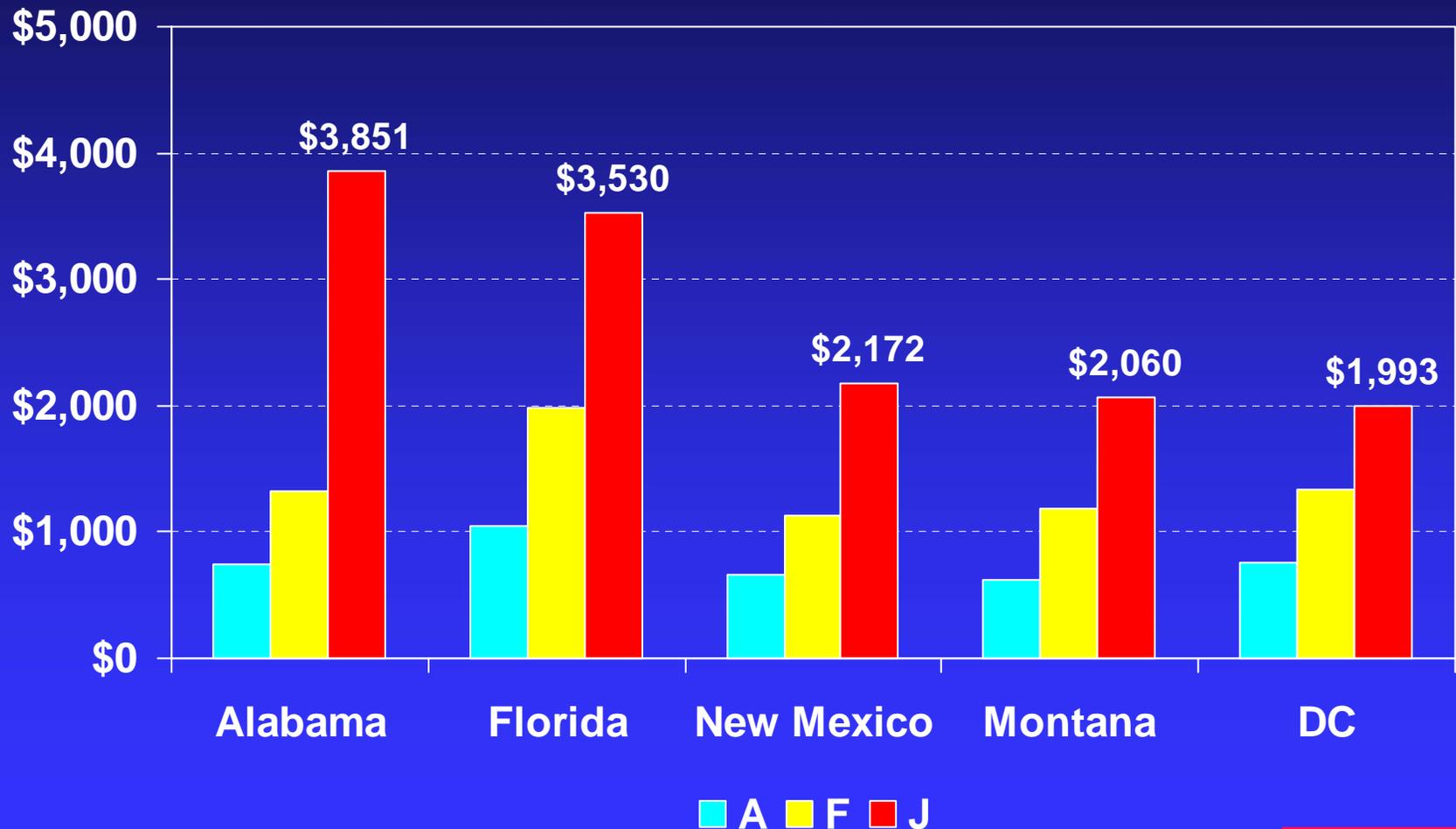
- 10 standard benefit designs since 1992 (A – J)
- All insurers must sell the basic plan – A
- B through G offer additional benefits, but no drug coverage
- H through J offer limited drug coverage
  - \$250 deductible and 50% coinsurance for drugs
  - Drug benefit capped at \$1,250 (H-I) or \$3,000 (J)

# How does the Medigap Market Work?

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- 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?

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- 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