Implications of the Retirement Income Shortfall for Supplemental Health Insurance

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Sources of Drug Coverage for Retirees

- No drug coverage: 38%
- Other public: 2%
- Medigap: 7%
- Employment-based: 28%
- Medicare HMO: 15%
- Medicaid: 10%

Provision of Retiree Health Benefits for Current and All Future Retirees, Employers with 500+ Employees, 1993-2001

Source: Mercer Human Resources Consulting.
Current Trends in Employment-Based Retiree Health Benefits

- Fewer employers offering benefits.
- When offered, retirees paying more.
  - Benefits.
  - Health care services.
- Higher age and service requirements.
- Defined contribution approaches.
  - Employer spending caps.
  - Retiree medical accounts.
- Access-only plans.
- New hires often not eligible.
Employer’s Likelihood of Making Selected Changes to Retiree Health Benefits Within the Next Three Years

- Increase retiree contribution to premiums: Very Likely 64%, Somewhat Likely 18%
- Increase cost-sharing: Very Likely 54%, Somewhat Likely 22%
- Shift to a DC approach: Very Likely 4%, Somewhat Likely 21%
- Provide access only: Very Likely 10%, Somewhat Likely 15%
- Terminate all subsidies for future retirees: Very Likely 6%, Somewhat Likely 16%
- Add or improve coverage or benefits for retirees: Very Likely 5%, Somewhat Likely 7%
- Terminate all subsidies for current retirees: Very Likely 4%, Somewhat Likely 1%
- Eliminate prescription drug coverage: Very Likely 1%, Somewhat Likely 3%

Percentage of Early Retirees (Ages 55-64) with Employment-Based Health Benefits, 1994-2002

Source: EBRI estimates from the March CPS.
Percentage of Medicare-Eligible Retirees with Employment-Based Health Benefits, 1994-2002

Source: EBRI estimates from the March CPS.
EBRI-ERF Model & Health Expenses

- Fronstin and Salisbury (2003): retirees age 65 in 2003 will need anywhere from $37,000 to $750,000 to cover premiums and out-of-pocket payments if they have access to an employment-based retiree health benefits.
- Retirees will need $47,000 to $1.5 million if they buy the most generous Medigap plan.
Summary of Previous Findings

<table>
<thead>
<tr>
<th>Access to Employment-Based Coverage</th>
<th>14% Cost Increases Male</th>
<th>14% Cost Increases Female</th>
<th>14% Cost Increases Grading to 5% Male</th>
<th>14% Cost Increases Grading to 5% Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>$192k</td>
<td>$305k</td>
<td>$121k</td>
<td>$152k</td>
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<tr>
<td>Female</td>
<td>$335k</td>
<td>$558k</td>
<td>$189k</td>
<td>$243k</td>
</tr>
</tbody>
</table>
Health Savings Accounts (HSAs)

- Allows for tax-free accumulation of savings.
- Tax free distributions
  - Health care services.
  - COBRA and LTCI premiums.
  - Retiree health premiums for Medicare-eligible retirees.
- Qualified health plan for self-only.
  - Minimum $1,000 deductible.
  - $5,000 OOP max.
- Contributions limited to the lesser of:
  - Deductible or maximum of ($2,250 or $2,600).
- Persons 55-64 can make pre-tax “catch-up” contributions of $1,000 (phased-in by 2009).
# Savings in HSA

## Various Scenarios

<table>
<thead>
<tr>
<th>Years Contributing To HSA</th>
<th>Annual Contribution &amp; Amount Rolled Over (Assumes 5% Rate of Return)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5,000 / Full Rollover</td>
</tr>
<tr>
<td>20 Years</td>
<td>$165,000</td>
</tr>
<tr>
<td>40 Years</td>
<td>$633,000</td>
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</tbody>
</table>
Implications for Retiree Health Benefits

- Erosion will continue.
  - Future retirees hit hardest.
  - Impact of future labor shortage.
  - Impact of expected income shortage.
- New opportunities to integrate current benefits with Medicare drug benefits.
Employer Subsidy

- $88 billion subsidy includes:
  - $70 billion in subsidies.
  - $18 billion in tax breaks.
- 28% employer subsidy:
  - $1,330 for each retiree with drug spending of $5,000 or more.
  - $490 for each retiree with drug spending of $2,000.
- 100% subsidy if benefits completely dropped, yet employers have not dropped current retirees.
- Some see $88 billion as a giveaway.
  - Depends on assumptions about employer response.
    - CBO: 17% of retirees would lose coverage.
    - EBRI: 2%-9% might lose coverage.
- Impact on retiree expense is not positive.