

# Implications of the Retirement Income Shortfall for Supplemental Health Insurance

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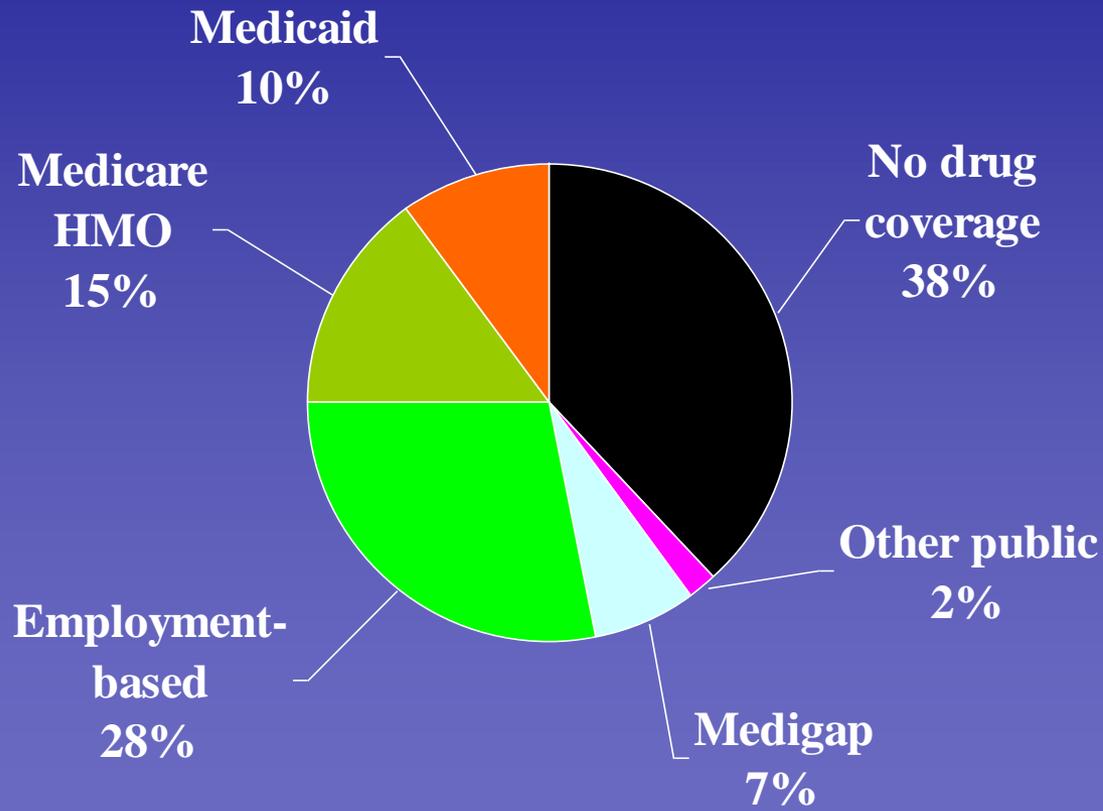
Employee Benefit Research Institute

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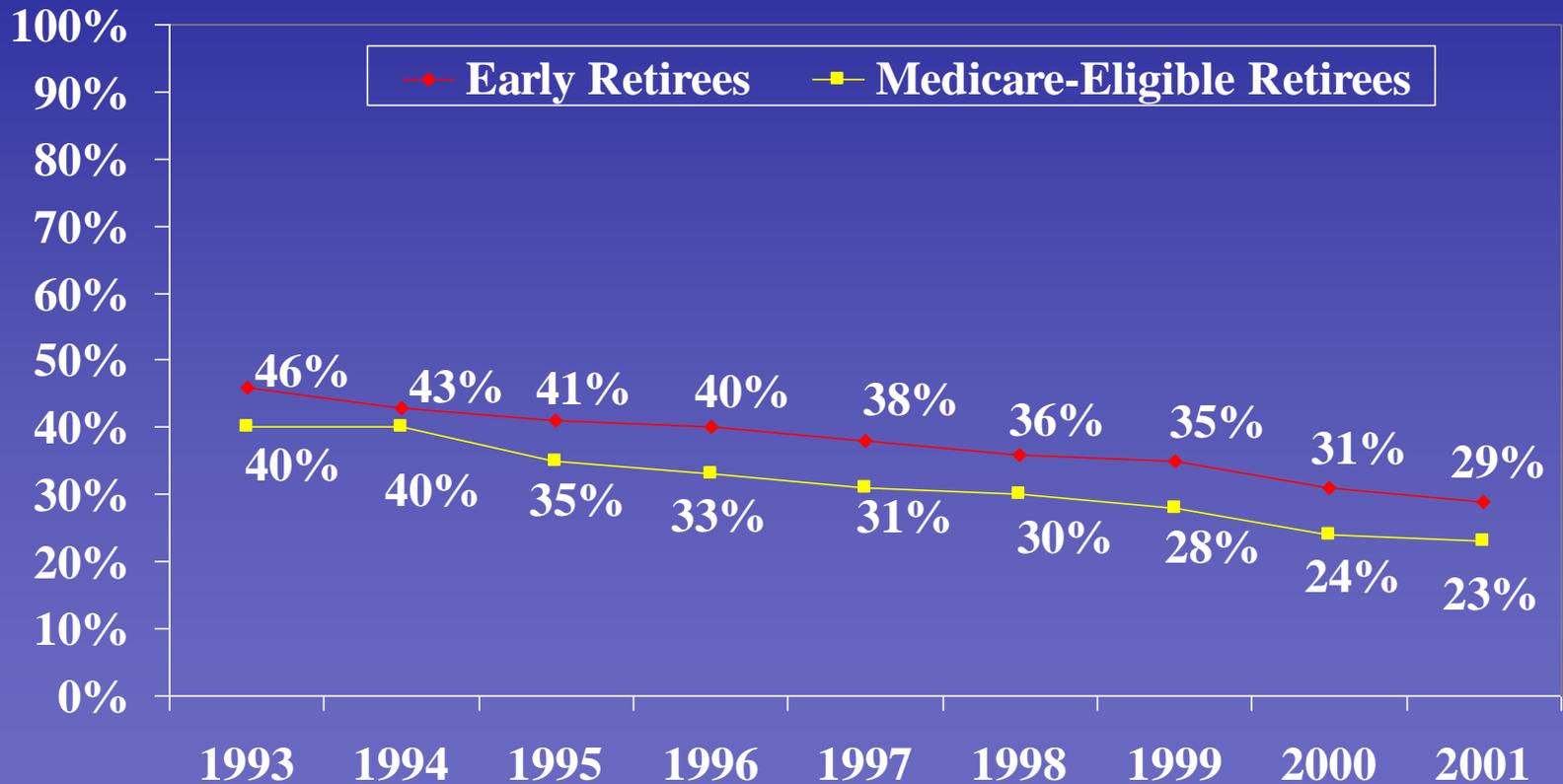
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# Sources of Drug Coverage for Retirees



SOURCE: Laschober, et al., *Health Affairs*, February 2002.

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

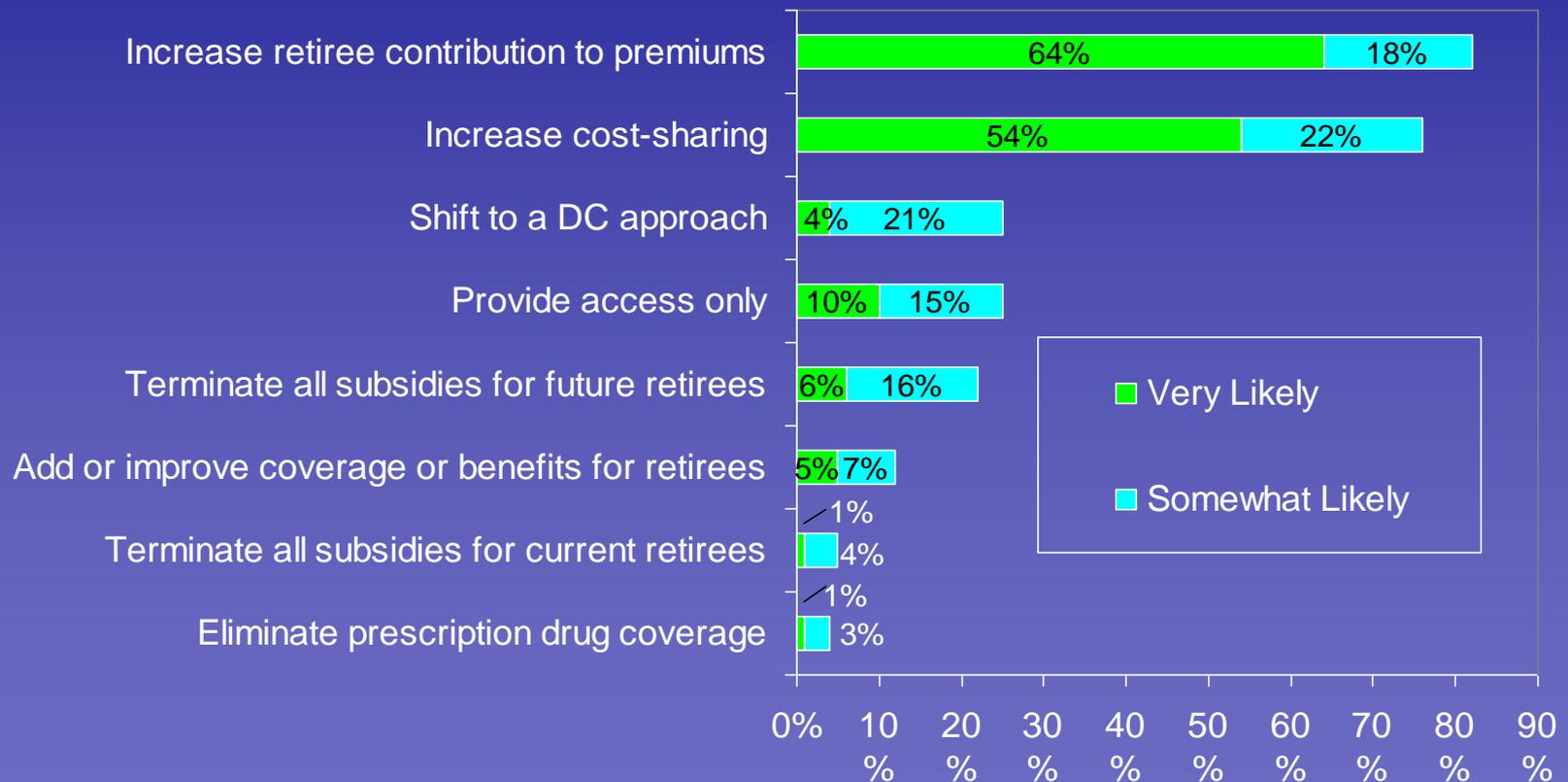


Source: Mercer Human Resources Consulting.

# Current Trends in Employment-Based Retiree Health Benefits

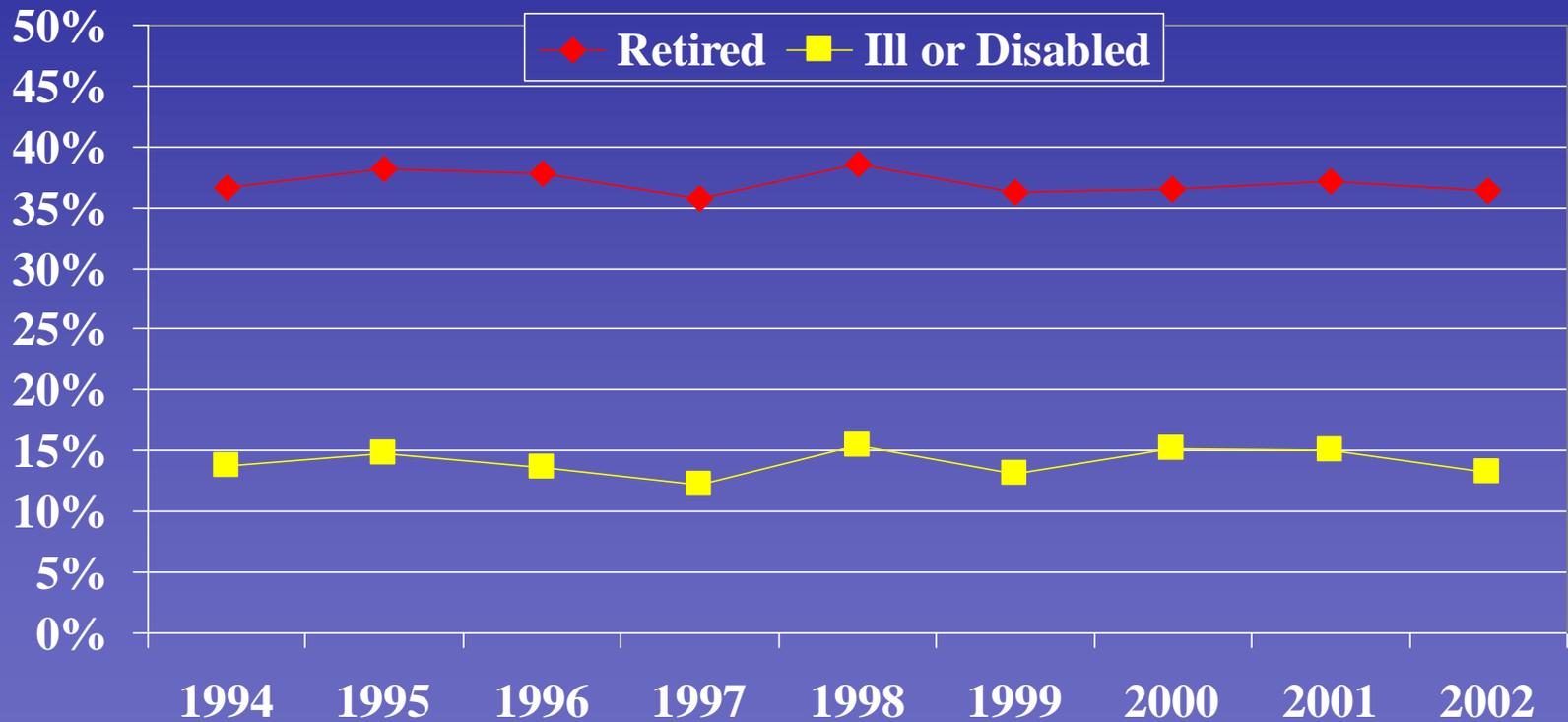
- Fewer employers offering benefits.
- When offered, retirees paying more.
  - ◆ Benefits.
  - ◆ Health care services.
- Higher age and service requirements.
- Defined contribution approaches.
  - ◆ Employer spending caps.
  - ◆ Retiree medical accounts.
- Access-only plans.
- New hires often not eligible.

# Employer's Likelihood of Making Selected Changes to Retiree Health Benefits Within the Next Three Years



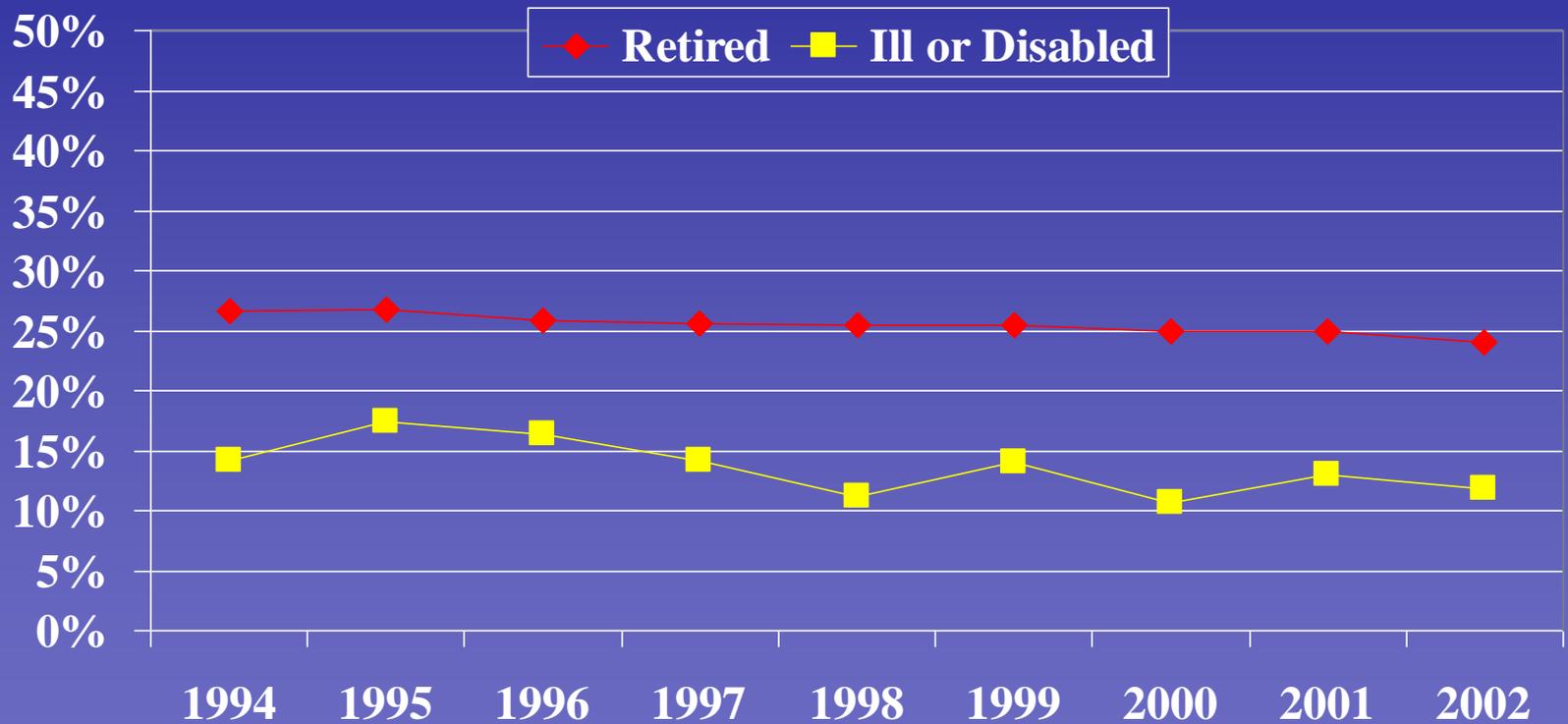
Source: McArdle, et al., 2002.

# 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

- \$28 billion shortfall in 2003.
- 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

## Fronstin & Salisbury (2003)

	14% Cost Increases		14% Cost Increases Grading to 5%	
	Male	Female	Male	Female
Access to Employment-Based Coverage	\$192k	\$305k	\$121k	\$152k
Medigap	\$335k	\$558k	\$189k	\$243k

# 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

	Annual Contribution & Amount Rolled Over (Assumes 5% Rate of Return)			
Years Contributing To HSA	\$5,000 / Full Rollover	\$5,000 / 50% Rollover	\$1,000 / Full Rollover	\$1,000 / 50% Rollover
20 Years	\$165,000	\$89,000	\$33,000	\$18,000
40 Years	\$633,000	\$319,000	\$121,000	\$64,000

# 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

- o \$88 billion subsidy includes:
  - ◆ \$70 billion in subsidies.
  - ◆ \$18 billion in tax breaks.
- o 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.
- o 100% subsidy if benefits completely dropped, yet employers have not dropped current retirees.
- o 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.
- o Impact on retiree expense is not positive.