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Notes

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EXECUTIVE SUMMARY

The Early Retiree Reinsurance Program: $5 Billion Will Last About Two Years

PPACA'S EARLY RETIREE REINSURANCE PROGRAM: The Patient Protection and Affordable Care Act (PPACA) of 2010 created a temporary reinsurance program for sponsors of employment-based health plans that provide retiree health benefits to retirees who are over age 55 and not yet eligible for the Medicare program. The program provides an 80 percent subsidy for retiree claims of between $15,000 and $90,000. Congress appropriated $5 billion for the program, which is effective June 1, 2010, and the subsidy will be available through the earlier of Jan. 1, 2014, or the date when the funds are exhausted.

EMPLOYER INCENTIVE: One goal of the program is to provide an incentive for employers to maintain retiree health benefits and assist retirees with their costs for health coverage. Under the early retiree reinsurance program, plan sponsors must be able to show that the subsidies were not used to reduce their level of support for the plan. Subsidies can be used to reduce retiree costs, and sponsors must also show that the subsidies were used to generate savings or had the potential to generate savings.

EXHAUSTION LIKELY WITHIN TWO YEARS: An important question is whether the $5 billion will be exhausted before 2014. This article finds that if the subsidy were drawn down for all early retirees and their dependents, $2.5 billion of the $5 billion available would be exhausted in the first year of the program. The $5 billion would last no more than two years and would not be available in 2012 or 2013.

The Early Retiree Reinsurance Program: $5 Billion Will Last About Two Years

by Paul Fronstin, Employee Benefit Research Institute

Introduction

The Patient Protection and Affordable Care Act (PPACA) of 2010 created a temporary reinsurance program for sponsors[1] of employment-based health plans that provide retiree health benefits to retirees who are over age 55 and not yet eligible for the Medicare program. The program can also be used to cover costs associated with a retiree's spouse, surviving spouse, and dependents, even if they are under 55 and/or eligible for Medicare. The program provides an 80 percent subsidy for retiree claims of between $15,000 and $90,000.[2] Congress appropriated $5 billion for the program, which is effective June 1, 2010. The subsidy will be available through the earlier of Jan. 1, 2014, or the date when the funds are exhausted.

One goal of the program is to provide an incentive for employers to maintain retiree health benefits and assist retirees with their costs for health coverage. Between 1993 and 2001, the percentage of employers with 500 or more employees offering health benefits to early retirees fell from 46 percent to 29 percent (Figure 1). Since 2001, the percentage offering coverage has remained stable, although cost sharing for workers has been increasing in these plans. In the absence of the PPACA program, cost sharing could be expected to continue to increase in order to reduce or keep constant sponsor costs for retiree health coverage. Under the early retiree reinsurance program, sponsors must be able to show that the subsidies were *not* used to reduce their level of support for the plan. Subsidies can be used to reduce retiree costs, and sponsors must also show that the subsidies were used to generate savings or had the potential to generate savings.

An important question is whether the $5 billion will be exhausted before 2014. This article tries to answer that question. It starts by examining the work status of the population ages 55–64. It analyzes the sources of this population's health coverage. Employer spending for health care services is then examined.

It was found that if the subsidy were drawn down for all early retirees and their dependents, $2.5 billion of the $5 billion available would be exhausted in the first year of the program. The $5 billion would last no more than two years and would not be available in 2012 or 2013.

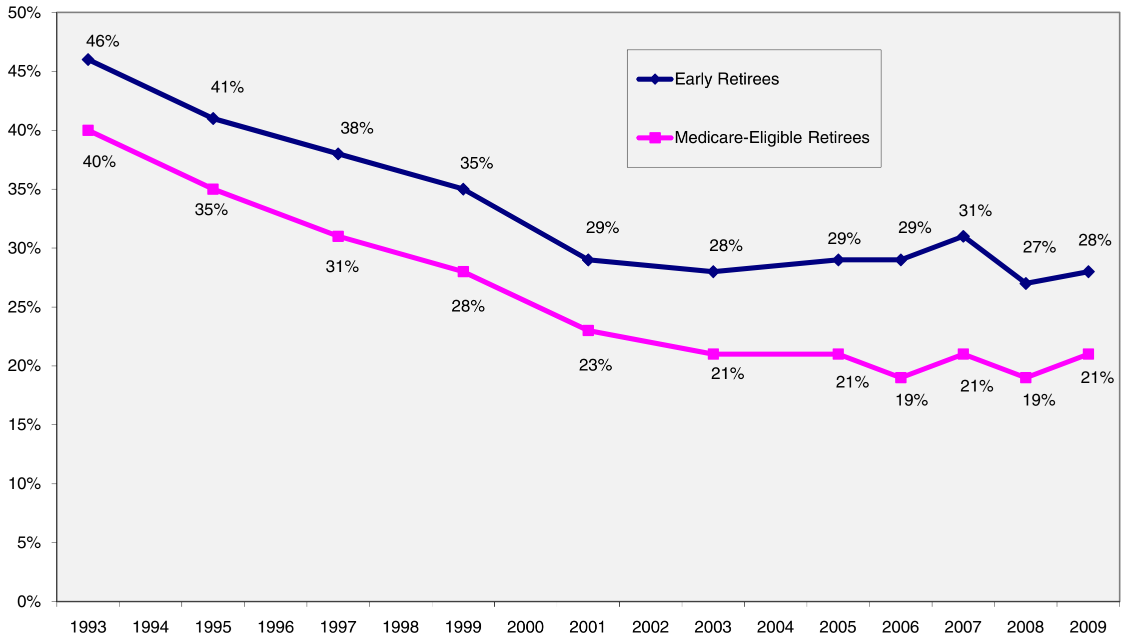
Estimating Retiree Health Care Costs

In order to determine aggregate subsidy amounts that sponsors will qualify for, a number of variables must be examined. They include:

- The number of eligible individuals with retiree health benefits. These were expected to be nonworking retirees, but there may be some retirees in the group who went back to work and continue to receive health benefits through their former employer.
- The number of eligible spouses and dependents.
- The distribution of health spending for all eligible individuals.

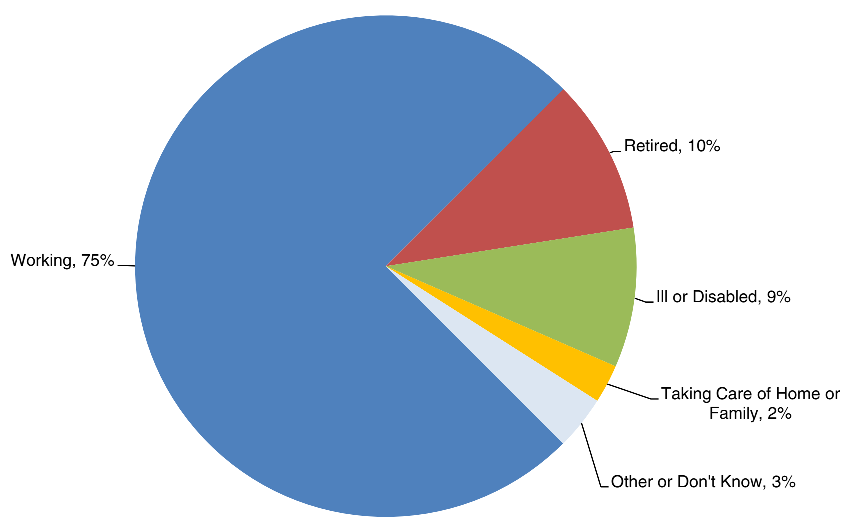
The data for this study come from two sources: the 2007 Medical Expenditure Panel Survey (MEPS) and the 2004 panel of the Survey of Income and Program Participation (SIPP). MEPS is conducted by the Agency for Health Care Research and Quality, part of the Department of Health and Human Services. It is a nationally representative survey of the U.S. civilian noninstitutionalized population that provides estimates for the number of nonworkers with health coverage through a former employer, the portion of those nonworkers who are also covered by Medicare, annual health care expenditures, and the portion of expenditures paid out of pocket and by source of insurance coverage. Annual health

Figure 1
Percentage of Employers With 500 or More Employees Offering Health Insurance to Retirees, 1993–2009



Source: Mercer National Survey of Employer-Sponsored Health Plans.

Figure 2
Work Status, Individuals Ages 55–64, 2007



Source: Employee Benefit Research Institute estimates from the 2007 Medical Expenditure Panel Survey.

care expenditures and the portion paid out of pocket and by source of insurance coverage are also provided for their dependents when covered by the same health plan.

SIPP is conducted by the U.S. Census Bureau and is used to provide data on the portion of nonworkers with coverage through a former employer who are covered by COBRA (the Consolidated Omnibus Budget Reconciliation Act of 1985). It is also used to determine the portion of workers ages 55–64 who have coverage through a former employer.

Because data on health care expenses come from MEPS and data on COBRA coverage and workers with retiree health benefits come from SIPP, a number of simplifying assumptions are made:

1. The distribution of health care expenses for individuals and their dependents through a former employer is the same for those with retiree health benefits and those with COBRA.

2. The distribution of health care expenses for individuals with retiree health benefits is the same for workers and nonworkers.

Furthermore, because the MEPS data are from 2007, health care expenses were inflated based on premium increases in 2008 and 2009, and expected premium increases for 2010 as reported by Mercer.[3]

According to EBRI estimates from MEPS, there were 34.5 million people ages 55–64 in the United States in 2007. Three-quarters of this population were working, 10 percent were not working because they considered themselves retired, 9 percent were not working because of their health status, and 2 percent were taking care of their home or family (Figure 2). MEPS was unable to determine the work status and reasons not working for about 3 percent of the population. The 10 percent who were retired represent 3.5 million individuals, and the 9 percent who were not working because of their health status represent 3.1 million individuals. Prior research has shown that the number of nonworkers ages 55–64 with coverage through a former employer has remained relatively stable, so it can be assumed that these numbers are valid in 2010.[4]

Among the population ages 55–64, 47 percent had health coverage through their own employer or through a former employer, 25 percent were covered through an employer as a dependent, 3 percent purchased coverage on their own, 7 percent had Medicare, 4 percent had Medicaid, and 12 percent were uninsured (Figure 3).

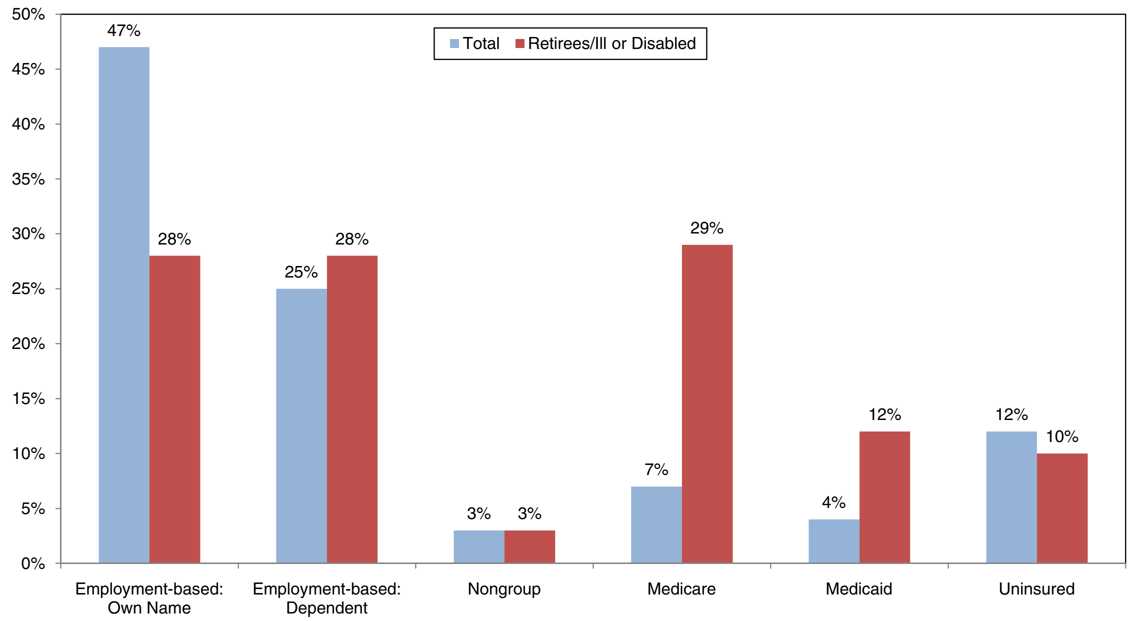
The distribution of health coverage for the 6.6 million individuals who were either retired or did not work because of their health status was different from the rest of the 55–64 population. Fewer have employment-based coverage and a greater percentage was covered either by Medicare or Medicaid.

Individuals can have more than one source of coverage in MEPS. About 6 percent of retirees and persons not working because of their health status were covered both through their former employer and by Medicare. Reinsurance is not available for these individuals, even if an employer is paying part of the cost of their health care, because they are covered by the Medicare program. Overall, of the 6.6 million individuals who are either retired or do not work because of their health status and who had coverage through a prior employer, 1.3 million had coverage through a former employer and were not also covered by Medicare.

One issue with using the 1.3 million estimate is that some retirees with coverage through a former employer may be covered by COBRA and not their former employer's retiree health benefits. EBRI estimates from SIPP indicate that 47 percent of individuals ages 55–64 with coverage through a former employer were covered by COBRA, and 53 percent had retiree health benefits. Thus, employers covered about 670,000 early retirees through retiree health programs (Figure 4). An additional 290,000 dependents were covered as well.

According to SIPP, 1 percent of workers ages 55–64 have retiree health benefits through a former employer, which accounts for about 260,000 individuals. Assuming these workers have policies that cover the same number of dependents proportionately as do nonworkers with retiree health benefits, another 110,000 dependents of workers have coverage through a retiree health benefits program.

Figure 3
Sources of Health Insurance, Individuals Ages 55–64, 2007



Source: Employee Benefit Research Institute estimates from the 2007 Medical Expenditure Panel Survey.

Figure 4
Predicted Number of Individuals With Retiree Health Benefits, Average Spending, Distribution of Spending, and Estimated Subsidies, 2010

	Population With Retiree Health Benefits Eligible for Subsidy	Average Employer Spending	Aggregate Employer Costs	Aggregate Employer Costs Below $15,000	Aggregate Employer Costs $15,000 or More	Aggregate Annual Subsidy
	(millions)		(millions)	(millions)	(millions)	(millions)
Total	1.3	$7,213	$9,653	$3,959	$5,695	$2,544
Retirees (ages 55–64) with retiree health benefits	0.7	7,600	5,107	2,011	3,097	1,388
Dependents of retirees	0.3	6,300	1,860	846	1,013	443
Workers (ages 55–64) with retiree health benefits	0.3	7,600	1,969	775	1,194	537
Dependents of Workers	0.1	6,300	718	327	391	176

Source: Employee Benefit Research Institute estimates based on data from the 2007 Medical Expenditure Panel Survey and the 2004 panel of the Survey of Income and Program Participation.

Thus, overall, early retiree health benefit programs cover 1.3 million people, either as retirees (ages 55−64) or their spouses and dependents (any age), and some of the retirees have jobs. Figure 4 provides a breakdown of the 1.3 million individuals covered by retiree health benefits, by work status and dependent status.[5]

Medical Expenses—The 2007 MEPS contains annual spending on health care for each nonworker with coverage through a former employer. Spending for dependents also covered by the retiree health plan is also available. Only employer-paid expenses are examined. Retiree out-of-pocket spending is excluded from this analysis because in order for an employer to receive credit for the cost-sharing amounts paid by the early retiree (or their spouse, surviving spouse, or dependent), the sponsor must provide evidence that the cost-sharing amount was actually paid. If evidence is not provided by the sponsor, it may not receive subsidies based on out-of-pocket spending.

Figure 4 provides a summary of predicted average employer spending, aggregate employer spending, the distribution of aggregate employer spending, and potential subsidies from the early retiree reinsurance program. The table provides separate estimates for individuals not working with retiree health benefits and their covered dependents. It also provides separate estimates for retirees who are working and have coverage through a former employer and their covered dependents.

Overall, employers paid an average of $7,600 per retiree and $6,300 per dependent. About 87 percent of nonworking retirees did not incur claims (not including cost sharing) above $15,000, and those claims accounted for 39 percent of total employer costs. The 13 percent of retirees incurring claims of $15,000 or more accounted for 61 percent of all claims. In aggregate, employer costs for these claims were $5.1 billion, of which $2 billion went to claims below $15,000 and $3.1 billion went to claims of $15,000 or more. Subsidizing 80 percent of the cost of claims between $15,000 and $90,000 would yield $1.4 billion in subsidies in the first year of the program for early retirees.

In addition to the 700,000 retirees with coverage through a former employer's retiree health benefits program, about 300,000 of their dependents were covered. Nearly all of the dependents were spouses, as only 3 percent of the dependents were under age 18. The age of spouses ranged from 41 to 77, with about one-quarter of the dependents age 65 or older. Ninety percent incurred expenses below $15,000, but these expenses accounted for 46 percent of employer spending for dependents. The 10 percent with costs of $15,000 or above accounted for 54 percent of expenses. Subsidizing 80 percent of the cost of claims between $15,000 and $90,000 would yield an additional $443 million in subsidies in the first year of the program.

Workers with retiree health benefits would yield about $537 million in subsidies, while their dependents would yield $176 million.

Overall, the early retiree reinsurance program will provide about $2.5 billion in subsidies to employers during the first year of the program. Because the reinsurance program provides a maximum of $5 billion in subsidies, the program will likely run out of money in 2011, leaving no money for subsidies in 2012 and 2013. This assumes that all employers eligible to apply do so, and is also contingent on the assumptions mentioned above. The analysis also does not take into account the timing of expenses in the first year, which may lower the subsidy received in that year.[6]

Conclusion

Given the temporary nature of the reinsurance program, it is intended to provide employers an incentive to maintain benefits until the health insurance exchange is fully operational. Once the health insurance exchange is fully operational, employers will have less incentive to provide health benefits to early retirees, and retirees would have less need for former employers to maintain a program. Under the health insurance exchange, retirees could not be denied coverage because of pre-existing conditions and they could not be charged a higher premium because of their health status. Limited age rating would be allowed. Furthermore, subsidies would be available to individuals in families with income below 400 percent of the federal poverty level who purchase health insurance through the exchange.

In the short term, the reinsurance provisions would help shore up early retiree coverage, but in the longer term, the underwriting reform combined with new subsidies for individuals enrolling for coverage through the exchange would create significant incentives for employers to drop coverage for early retirees.

Endnotes

[1] Sponsors include group plans maintained by private employers, state or local governments, employee organizations, voluntary employees' beneficiary associations, a committee or board of individuals appointed to administer such a plan, or a multiemployer plan as defined by ERISA. Both fully insured and self-funded plans are eligible.

[2] These amounts are indexed for plan years starting on or after Oct. 1, 2011.

[3] See Figure 1 in www.mercer.com/summary.htm?idContent=1364345

[4] See Paul Fronstin, "Health Insurance Coverage of Individuals Ages 55−64, 1994−2007," *EBRI Notes,* no. 8 (Employee Benefit Research Institute, August 2009): 2−10.

[5] Surviving spouses could not be identified, so to some degree this study underestimates the number of individuals covered by plans eligible for the subsidy.

[6] The portion of expenses exceeding $15,000 incurred before June 1, 2010, cannot be used to claim the subsidy during 2010. However, expenses incurred below $15,000 before June 1, 2010 can be counted toward the first $15,000 in annual claims for purposes of determining whether the $15,000 threshold has been met.

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