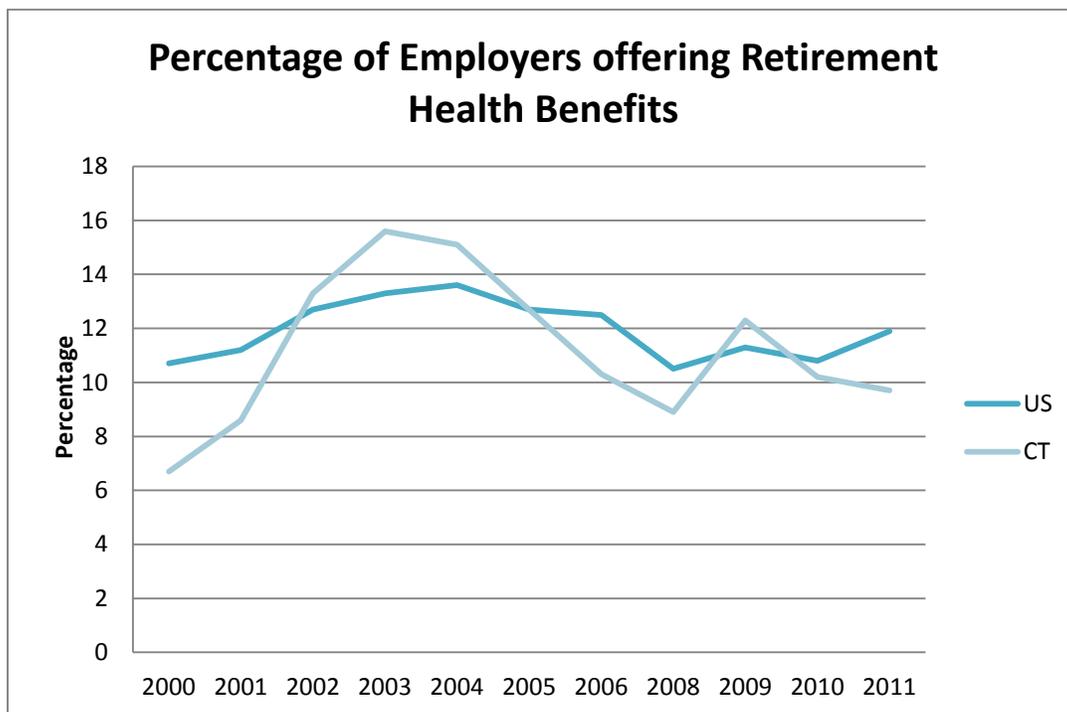


Retiree Health Benefits

What are Retiree Health Benefits?

Retirement health benefits are offered through an employer or a public benefit plan. Retiree health care benefits vary by establishment size, industry, full-time versus part-time status, unionization, and other employment-related variables. Workers who are full-time, unionized and employed at larger companies are more likely to receive retiree health care benefits from their employers.

Connecticut employers are about as likely to offer health benefits to retirees as the national average. In 2011, 8.9% of private establishments in Connecticut offered health insurance to retirees over age 65, not significantly different than the national average of 10.5%.



Source: MEPS, US Agency for Health Care Research and Quality, Center for Financing, Access and Cost Trends

Consolidated Omnibus Budget Reconciliation Act (COBRA)

Two federal laws, COBRA and HIPAA, while not specifically targeted at retiree coverage, place obligations on employers when employees covered by health care plans leave their job.

COBRA establishes continuation of coverage benefits for employees who leave a job with health care benefits. Individuals may continue coverage under their former employer's plan for

up to 18 months following separation. COBRA coverage includes the same benefit package and plan as current workers receive. Traditionally, COBRA has not been an option for many workers and retirees as workers are required to pay the full costs of coverage -- both the employer and employee share -- which can be very expensive. In addition, employers are allowed to add 2% to those costs for administrative expenses. Early retirees (prior to age 65) may use COBRA coverage at the employer's group rates as a substitute for retiree health care benefits. While federal law exempts small employers from COBRA, Connecticut state law applies the federal law to employers of any size.

Employers may also consider their obligation under COBRA as a substitute for retiree health care benefits. COBRA rights end when individuals become eligible for Medicare- typically at age 65.

HIPAA guarantees formerly covered employees and dependents access to an individually purchased health insurance plan without regard to health status.

Individuals who do not qualify for, or cannot afford, COBRA and are not yet eligible for Medicare must find and pay for their own health insurance coverage. Individual insurance can be very costly or completely unavailable at any price, especially for people close to age 65 or those in poor health.

Medicare Coverage:

Medicare is a federal program that provides health insurance for people aged 65 and older and people under age 65 with disabilities¹. Medicare is financed by a portion of the payroll taxes paid by workers and their employers. It also is financed in part by monthly premiums deducted from Social Security checks².

Medicare has four parts:

- A. **Hospital Insurance** - helps pay for inpatient care in a hospital or skilled nursing facility (following a hospital stay), some home health care and hospice care.
 - Hospital Deductible (2012): \$1,156 per spell of illness
 - Co-insurance Days 0-60: \$0
 - Co-insurance Days 61-90: \$289 / day
 - Co-insurance Days 91-150: \$578 / day³

¹ <http://www.cms.gov/Medicare/Medicare.html>

² <http://www.ssa.gov/pgm/medicare.htm>

³ <http://www.medicareadvocacy.org/2011/10/27/2012-medicare-premiums-deductibles-and-co-pays/>

- B. **Medical Insurance** - helps pay for doctors' services and many other medical services and supplies that are not covered by hospital insurance.
- C. **Medicare Advantage** - plans are available in many areas.
- D. **Prescription Drug Coverage** - helps pay for medications doctors prescribe for treatment

Trends: Movement away from employee sponsored health benefits

- Over the past 20 years, the percentage of large companies offering retiree health benefits has shrunk from 66% to 26%.³
- Among firms offering health coverage to workers, a small minority offer benefits to retirees. In 2011, 30% of large firms (200 or more workers) in the Northeast that offered active employees health coverage also covered retirees. Among small firms (3 to 199 workers), the rate dropped to only 7%. Ironically, employers in the health care industry were among the least likely (behind only retail) to offer benefits to retirees.⁴
- Most early retirees will never be eligible for health insurance in retirement through a former employer. Only 13 percent of private-sector establishments offered health benefits to early retirees in 2005, down from 22 percent in 1997.⁵
- Decreasing enrollment during the period 1987-2000 could be attributable to substantial increases in the cost to employees.⁶ Analysis of enrollment trends in the period 1987-96 suggested that decreasing enrollments have resulted from a variety of factors, including increasing costs of insurance, rising employee share of health insurance premium cost, expansions in Medicaid, declining real incomes, and increased price-consciousness among workers.⁷
- Many employers have recently changed health benefits, often to control costs. The share of employers offering health benefits has declined from 2001 to 2006, due mostly to an 8-percentage point drop in the share of small employers offering benefits. The trends in retirement benefits that have emerged over the last several decades are continuing. Active participation in defined benefit plans fell from 29 million in 1985 to 21 million in 2003 as employers terminated existing plans or froze benefits for active employees.⁸
- Even if a private-sector employer currently offers retiree health benefits, there is no guarantee that this obligation will be honored in the future. Federal law does not prevent employers from cutting or eliminating retiree health benefits-unless they have made a specific promise/contract to maintain these benefits.⁹

- Companies are free to increase retiree contributions by raising the cost of premiums, increasing cost-sharing requirements, drug copayments and out-of-pocket limits. At the same time they may reduce the number of employees eligible for benefits upon retirement or eliminate coverage for future retirees.¹⁰
- Even if an employer is bound by a contract, unless the company is exceptionally strong, retiree health benefits may be terminated through bankruptcy court. Federal law protects pensions, but not retiree health benefits, against corporate bankruptcy.¹¹

Conclusion: Despite options, individuals have always struggled with health coverage during retirement

Medicare benefits are not comprehensive and only covers 51 percent of expenses associated with health care services. Individuals are in large part responsible for covering the other 49 percent.¹²

Health care expenses should be considered a key component of any retirement savings plan. These often-neglected expenses are likely to be higher than most individuals anticipate and could add 20 percent or more to the amount of pre-retirement income that workers will need to replace in retirement.¹³

It is estimated that 65-year-old couples who retire without employer-sponsored health insurance will require \$216,000 to fund their health needs if they live to age 80, \$444,000 if they live to age 90 and \$778,000 if they live to age 100.¹⁴

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