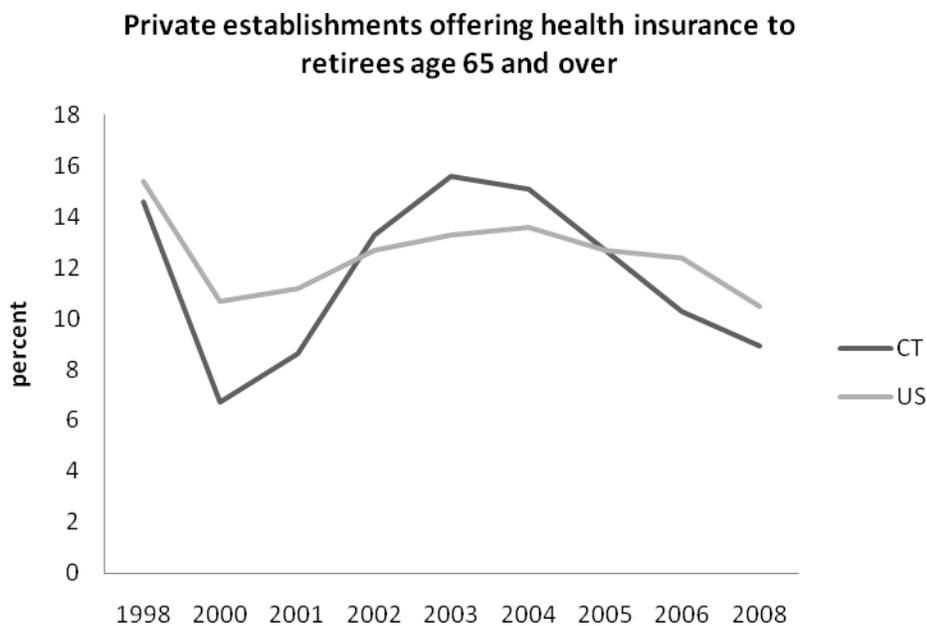


## Retiree Health Benefits

### What are retiree Health benefits?

There are variations in the availability of health care benefits offered by employers to retirees 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.<sup>1</sup>

Connecticut employers are about as likely to offer health benefits to retirees as the national average. In 2008, 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

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, the employer and employee share, which can be very expensive. Employers are allowed to add 2% to those costs for administration. 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, 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. Last year's federal stimulus bill included a 65% subsidy for workers involuntarily terminated (laid off) between Sept. 1, 2008 and May 31<sup>st</sup> of this year. Covered beneficiaries are only responsible for 35% of the costs of their premiums (higher than the 20 to 23% average employee share of premium in CT when they were employed). However that subsidy lasts only 15 months.<sup>2</sup>

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.

### **Trends: Movement away from employee sponsored health benefits**

-In the US over the past 20 years the percentage of big companies offering retiree health benefits has shrunk from 66% to about 35%.<sup>3</sup>

-Among firms offering health coverage to workers, a small minority offer benefits to retirees. Last year in the Northeast 27% of large firms (200 or more workers) that offered active employees health coverage also covered retirees. Among small firms (3 to 199 workers) that 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.<sup>4</sup>

-Most active workers 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.<sup>5</sup>

-Decreasing enrollment during the period 1987-2000 could be attributable to substantial increases in the cost to employees.<sup>6</sup> 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.<sup>7</sup>

-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.<sup>8</sup>

-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.<sup>9</sup>

- 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.<sup>10</sup>

-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.<sup>11</sup>

**Conclusion: Despite options individuals have always struggled with retirement income security**

- Medicare covers only 51 percent of expenses associated with health care services. Individuals are in large part responsible for covering the other 49 percent.<sup>12</sup>

- 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 preretirement income that workers will need to replace in retirement.<sup>13</sup>

- 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.<sup>14</sup>

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