MANAGING THE RISING COSTS OF RETIREE HEALTH CARE

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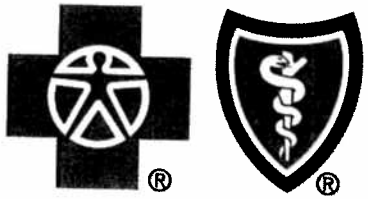
October 25, 2007



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How to Analyze Costs

1. Non-Medicare Retirees
   - Non-Medicare retirees are eligible for retiree medical benefits, but are not yet eligible for Medicare coverage.
   - Those retirees cost between 2 ½ and 3 times the cost of an active employee.
2. Medicare Retirees
   - Most retiree health plans require retirees to apply for Part A (inpatient hospitalization) and Part B (outpatient and physician services) as soon as they are eligible. Members can be eligible by age (usually 65) or by disability.
   - Some employers have enrolled their retirees in Medicare Part D or Medicare Advantage to reduce their liability as an employer.
   - Medicare pays almost 80% of the Part A and Part B costs.
   - Prescription Drugs for this population costs is nearly three times the cost of an active employee.

How Are Changes Implemented?

Retiree costs can be impacted through changes to the following groups:

- Current retirees
- Active employees currently eligible to retire
- Active employees not yet eligible to retire
- Future hires

What Changes Are Most Common?

1. Benefit Plan Changes
   - Increased deductibles and co-pays
   - Increased annual out-of-pocket maximum
   - More tightly manage the benefit plan
   - Medicare Part D and Medicare Advantage
2. Employee Premium Sharing
   - Employee costs varies by length of service, single vs. family coverage
   - Other less expensive plans (HSA)
   - Incent better behaviors (non-smoking, HRA)
3. Employee Eligibility
   - Working longer to become eligible
   - New Hires paying more or all of retiree costs

Observations

1. There is no universally accepted solution to the problem of retiree health care costs.
2. Changes impact employees and retirees in different ways.
   - Reducing coverage of a benefit plan will more seriously impact those who are sick.
   - Changes in premium sharing spreads the impact over a large base
   - Better plan management may reduce choice, but is viewed by many as the preferred alternative.
3. Be aware of unintended consequences
   - Requiring longer service to be eligible for retiree medical may extend career of higher cost employees
   - Eliminating retiree coverage may cause employee turnover

QUESTIONS