

ISSUE BRIEF

Retiree Health Coverage

The share of employers offering retiree coverage has dropped substantially over the past decade. Those that continue to offer coverage have begun shifting more of the cost onto retirees. Without this coverage, retirees who do not yet qualify for Medicare have very limited options for obtaining affordable coverage. For Medicare beneficiaries, employer-sponsored retiree coverage is the most significant source of prescription drug coverage. Unless Congress acts to address the growing cost burden on employers, more retirees will lose coverage at a time in their lives when they are increasingly likely to need care and prescription drugs for chronic health conditions.

Retiree coverage is declining dramatically. Drug costs constitute 40 percent to 60 percent of employers' retiree health care costs as reported in the *New York Times*, May 10, 2002, and steep price increases are prompting employers to eliminate drug benefits, cap their contributions or drop retiree coverage altogether. According to the Kaiser Family Foundation (KFF) and Health Research and Educational Trust (HRET) 2002 Annual Survey, 66 percent of all large firms (200 or more workers) offered retiree coverage in 1988, compared with just 34 percent in 2002. A KFF and Hewitt Associates survey of employers released in December 2002 found nearly a quarter of employers are likely to eliminate health coverage for future retirees within the next three years. Thirteen percent said they already had terminated benefits for future retirees in the past two years.

Rising health care costs are exacerbating the crisis in retiree coverage. In response to rising health care costs, employers that continue to provide coverage will ask retirees to pay more for their benefits. The KFF/Hewitt survey found 82 percent of surveyed employers said they plan to increase retiree premiums over the next three years. An equally high number of employers plan to increase prescription drug co-payments.

Retiree benefits are an acute problem for the manufacturing sector. This growing problem is an even greater threat to employers in the manufacturing sector, where there are a growing number of retirees whose costs are shared with a shrinking active workforce. For example, one automaker has two and a half retirees for every active worker, and a steel company struggling to stay in business has eight retirees per active worker. Compounding the problem, active workers in the manufacturing sector tend to be older than workers in other sectors, with the average age in the late 40s to early 50s. An older workforce and more retirees mean a greater likelihood of chronic illness and therefore greater use of medical care and prescription drugs.

Retiree costs put U.S. businesses at a competitive disadvantage. Between \$650 and \$830 of each car produced by the Big Three automakers goes toward health care costs as reported by the *Pittsburg Post-Gazette* on Nov. 15, 2002. This health care burden puts U.S. manufacturers at a competitive disadvantage with foreign manufacturers that do not have the same financial burden to bear—an increasingly critical difference in a global economy.

Without employer-provided coverage, retirees have few options. The KFF/HRET 2002 survey found the share of retirees aged 55 to 64 with retiree health coverage has been steadily—and sharply—declining over the past decade. But early retirees have very few affordable options for health care coverage if they do not have retiree benefits and do not yet qualify for Medicare. Because retirees are more likely to have health conditions that require regular care and treatment, insurers are less

likely to offer them insurance. And for retirees who do qualify for coverage, age-based premiums are often unaffordable.

Congress should act to shore up employer-provided retiree benefits. In the past, Congress has considered various proposals regarding retiree benefits. One way to help employers continue to provide retiree health benefits would be to provide a tax deduction for advanced funding of retiree health benefits. Another proposal would allow early retirees to buy into Medicare prior to turning 65.

But the immediate relief Congress can provide would be to enact a Medicare prescription drug benefit that recognizes the contribution of employer-provided drug coverage —the single greatest source of prescription drug coverage for seniors. Employers that have been offering benefits to retirees should be given the option to receive reimbursement for providing drug benefits that would otherwise be covered by Medicare, or allow retirees to enroll in the Medicare drug benefit with the employer providing additional coverage or assistance with enrollee cost sharing. S. 2625 of the 107th Congress would have provided this vital subsidy.