Hewitt

Survey Highlights

Employers' Initial Reaction to Health Care Reform: Retiree Strategy Survey

2010

About This Survey

The health care reform legislation enacted in March 2010 represents the largest transformation to the national health care system since the introduction of Medicare and Medicaid in 1965. Certain provisions in the new law will affect employers' retiree health care programs, and many plan sponsors have already begun accounting for the cost impact of these changes. Health care reform may also provide employers an opportunity to reexamine their long-term retiree health benefits strategy, and potentially reduce current and future costs.

In May, Hewitt Associates conducted a survey of 245 U.S. companies that offer medical benefits to 1.3 million retirees and their families to determine whether they planned to make changes to their retiree benefits strategy in light of health care reform.

Overall Findings

In response to the new law, about six out of ten employers intend to evaluate their long-term retiree medical benefits strategy in the near future, and nearly half of these companies have already begun the evaluation process. Only 15% of companies have no plans to evaluate their retiree health care program in response to health care reform.

Our survey results show that a growing number of companies realize that now is the time to take a closer look at their retiree medical strategies, so they can act swiftly to leverage key cost management opportunities the new law brings to employers offering these programs. Employers are also motivated to adapt their programs in response to long-term cost implications of the new law on their existing strategies.

Key Findings: Across All Plans

- 61% of respondents are evaluating changes to their long-term retiree medical benefits strategy in the next 1–2 years in response to health care reform.
- 28% of respondents are currently implementing or in the process of evaluating changes.
- Only 15% of companies have no plans to evaluate their retiree benefits strategy in response to health care reform.

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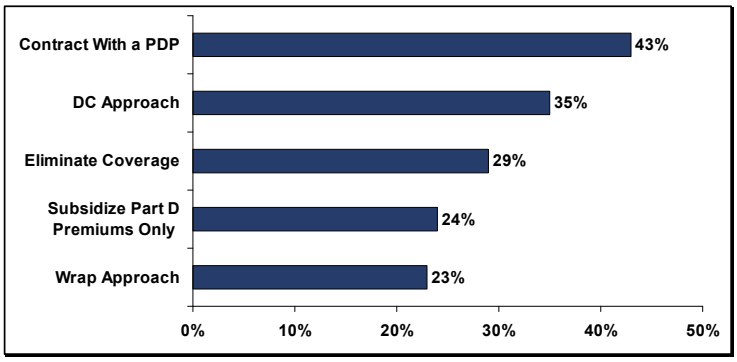
Medicare-Eligible Retiree Benefits

For Medicare-eligible retirees, health care reform introduces key changes impacting employer strategies related to prescription drug coverage. The new law eliminates tax advantages associated with the Retiree Drug Subsidy (RDS) many employers have been receiving directly from the federal government since 2006, but also enhances federal subsidies to Medicare Part D plans gradually over the next ten years as the current coverage gap is effectively phased-out. Of the 154 companies in the survey that pay some portion of health coverage for their retirees age 65 or older, nearly three-quarters currently collect the RDS. Among those, 73% said they anticipate altering their retiree drug benefits strategy in light of these provisions under the new law. Nearly all such employers (94%) expect to implement changes by 2013, when the RDS tax advantages are eliminated, but 65% anticipate announcing changes as soon as 2011, in order to begin recognizing accounting savings more quickly.

Key Findings: Medicare-Eligible Retiree Benefits

- 73% of respondents anticipate altering their retiree drug benefits strategy in response to this legislation.
- 65% of respondents plan to announce the changes in 2011.
- 94% of respondents expect to implement changes by 2013, when the RDS tax advantages are eliminated.

Part D Strategy Alternatives Most-Favored by Employers



Alternatives most favored by employers making or contemplating changes are those that utilize the enhanced federal subsidies to Medicare Part D plans. Forty-three percent are considering contracting with a Part D Prescription Drug Plan (PDP) and 35% favor moving to a pure defined contribution (DC) approach, where post-65 retirees can purchase benefits through the individual Medicare retiree plan market. Twenty-nine percent of companies are considering eliminating post-65 retiree drug coverage altogether, in light of the provisions in the new law.

Pre-Medicare Retiree Benefits

Similarly, employers are looking to utilize new cost management opportunities with respect to pre-Medicare retiree benefits. Of the 242 employers that provide coverage to their pre-65 retirees, 77% plan to apply for the temporary federal reinsurance program intended to help employers offset a portion of the cost of health claims for retirees age 55 to 64 and their families. However, nearly two-thirds of such companies are unsure as to how they will use these proceeds to reduce employer and retiree costs, and are awaiting guidance before reaching a decision.

About half of respondents plan to make changes to their benefits strategy to leverage the health insurance exchanges that states are required to create in 2014. One-quarter of respondents favor moving to a pure defined contribution approach, where retirees could use an account established by the employer to purchase coverage through the exchanges. Eleven percent of employers intend to eliminate pre-65 coverage altogether in response to creation of the exchanges.

Key Findings: Pre-Medicare Retiree Benefits

- 77% of respondents plan to apply for the temporary federal early retiree reinsurance program.
- 54% of respondents plan to evaluate their benefits strategy to leverage the health insurance exchanges that states are required to create in 2014.
- 25% of respondents favor moving their pre-65 retiree benefits strategy to a pure defined contribution approach.
- 11% of employers intend to eliminate pre-65 retiree coverage altogether.

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When asked specifically about their strategies for addressing the 40% excise tax on high-cost health plans beginning in 2018, 43% of employers anticipate changing their plan's features, such as deductibles, copayments, and coinsurance, over time to manage plan costs and mitigate excise taxes. Twenty-three percent believe they will change their premium cost sharing so that retirees will assume some or all of future excise taxes.

Finally, under the new law, employer-sponsored welfare plans that cover both employees and retirees may be subject to group market reforms for grandfathered health plans. About half of employers surveyed have a single plan that covers both employees and retirees, and the majority of these companies (63%) anticipate amending their plan to create a standalone retiree plan, if federal guidance permits.

Conclusions

Employers are motivated by both the cost implications of doing nothing to their existing retiree health care programs, as well as the opportunities for employers and retirees to reduce costs through specific strategies made possible under health care reform. Though several key provisions in the new law take effect in the future, companies intend to evaluate and refine their programs very soon, enabling them to realize accounting savings more quickly, while giving retirees some time to digest and prepare for these changes.

About Hewitt Associates

Hewitt Associates (NYSE: HEW) provides leading organizations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges. Hewitt works with companies to design, implement, communicate, and administer a wide range of human resources, retirement, investment management, health care, compensation, and talent management strategies. With a history of exceptional client service since 1940, Hewitt has offices in more than 30 countries and employs approximately 23,000 associates who are helping make the world a better place to work. For more information, please visit **www.hewitt.com**.

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