

Rethinking Medicare's Cost Sharing and Supplemental Coverage: What are the Implications?

Employer-Sponsored Retiree Health Coverage

April 12, 2013

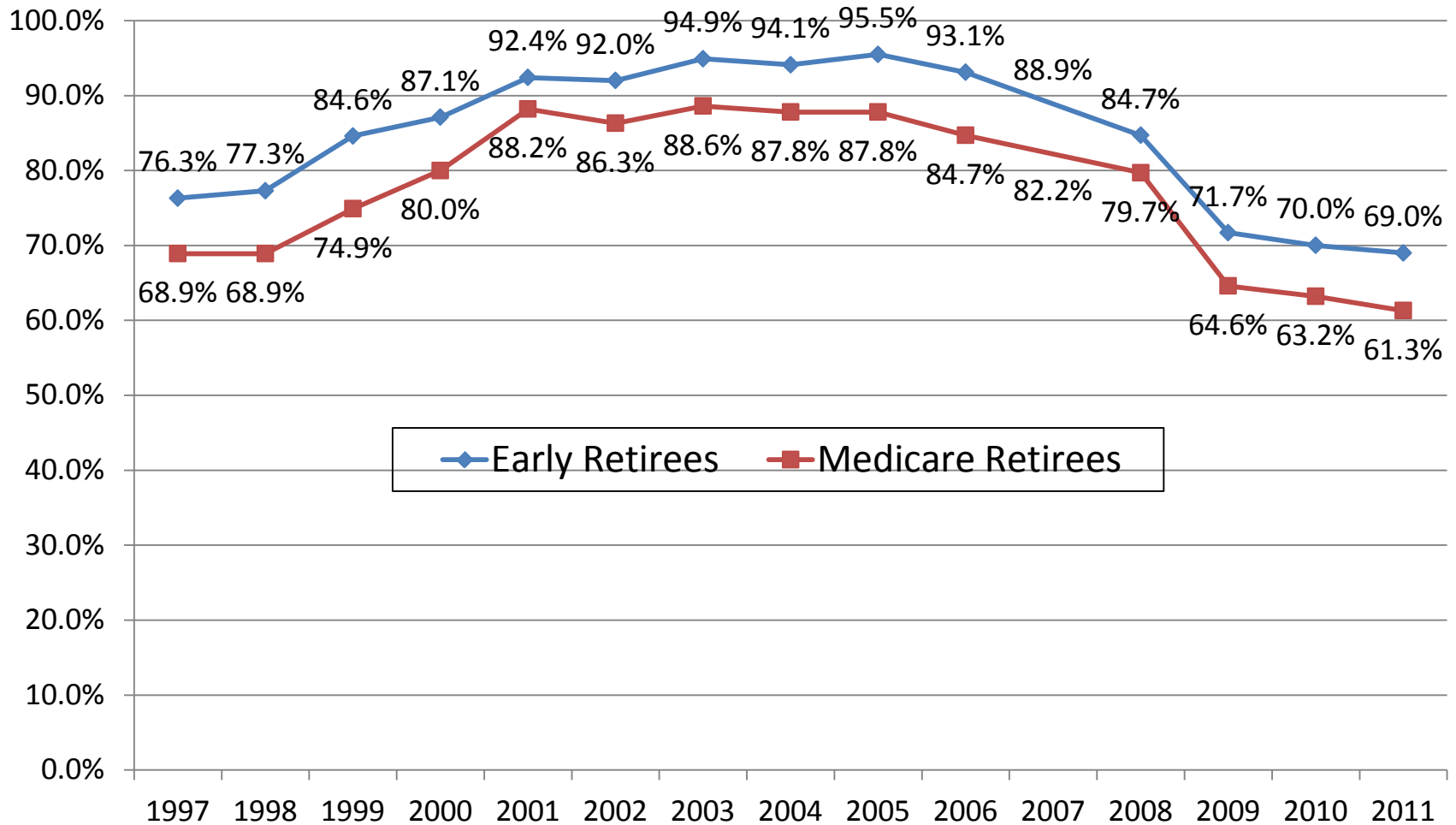
Dale H. Yamamoto, FCA, MAAA

Focus

- Prevalence of Retiree Health Coverage
- Trends in Coverage
- Typical Design
- Implications of Medicare Changes

Prevalence

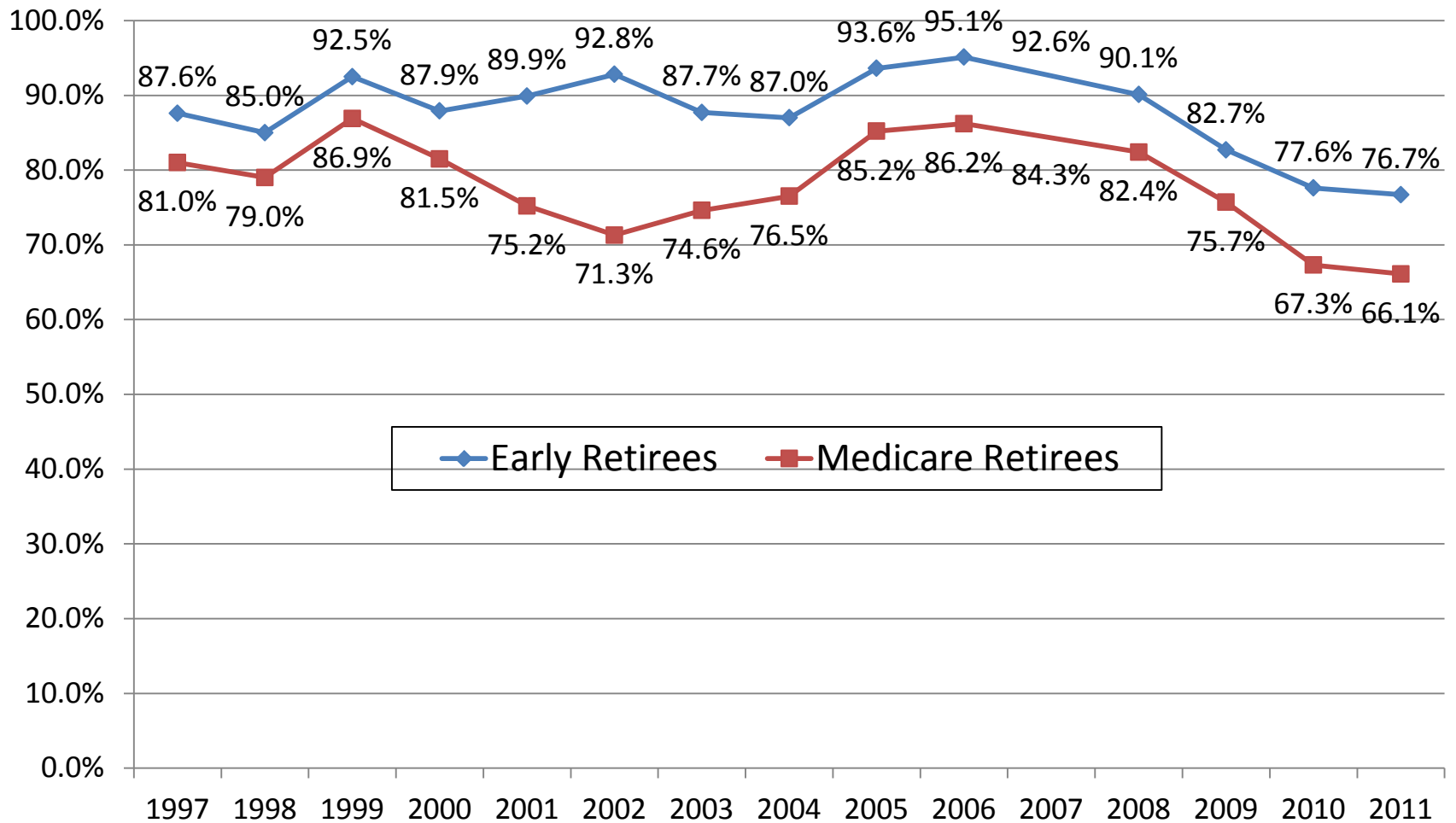
State Governments



Source: EBRI estimates from various tables at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables_search.jsp?component=2&subcomponent=1

Prevalence

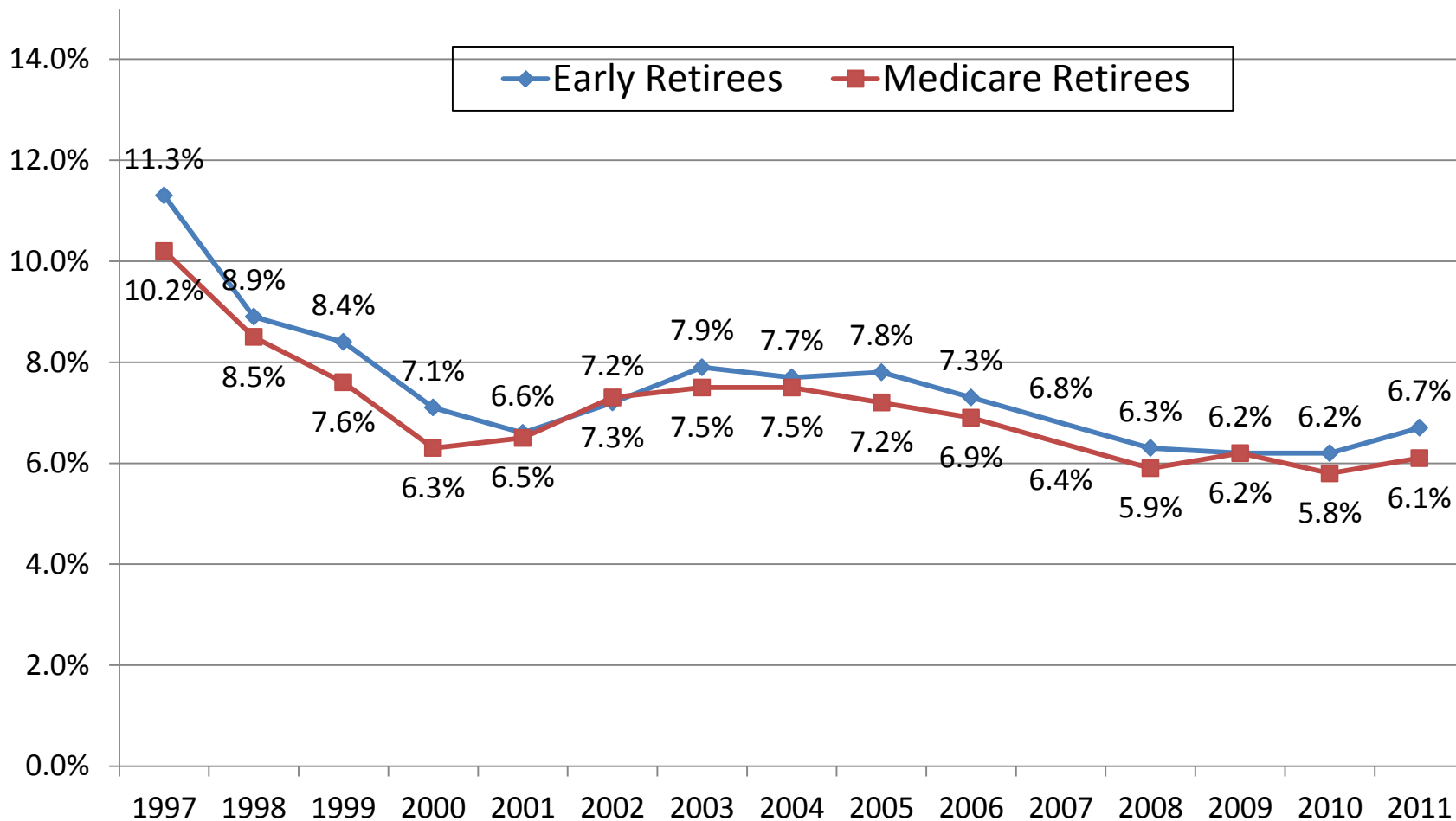
Local Governments with 10,000+ Workers



Source: EBRI estimates from various tables at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables_search.jsp?component=2&subcomponent=1

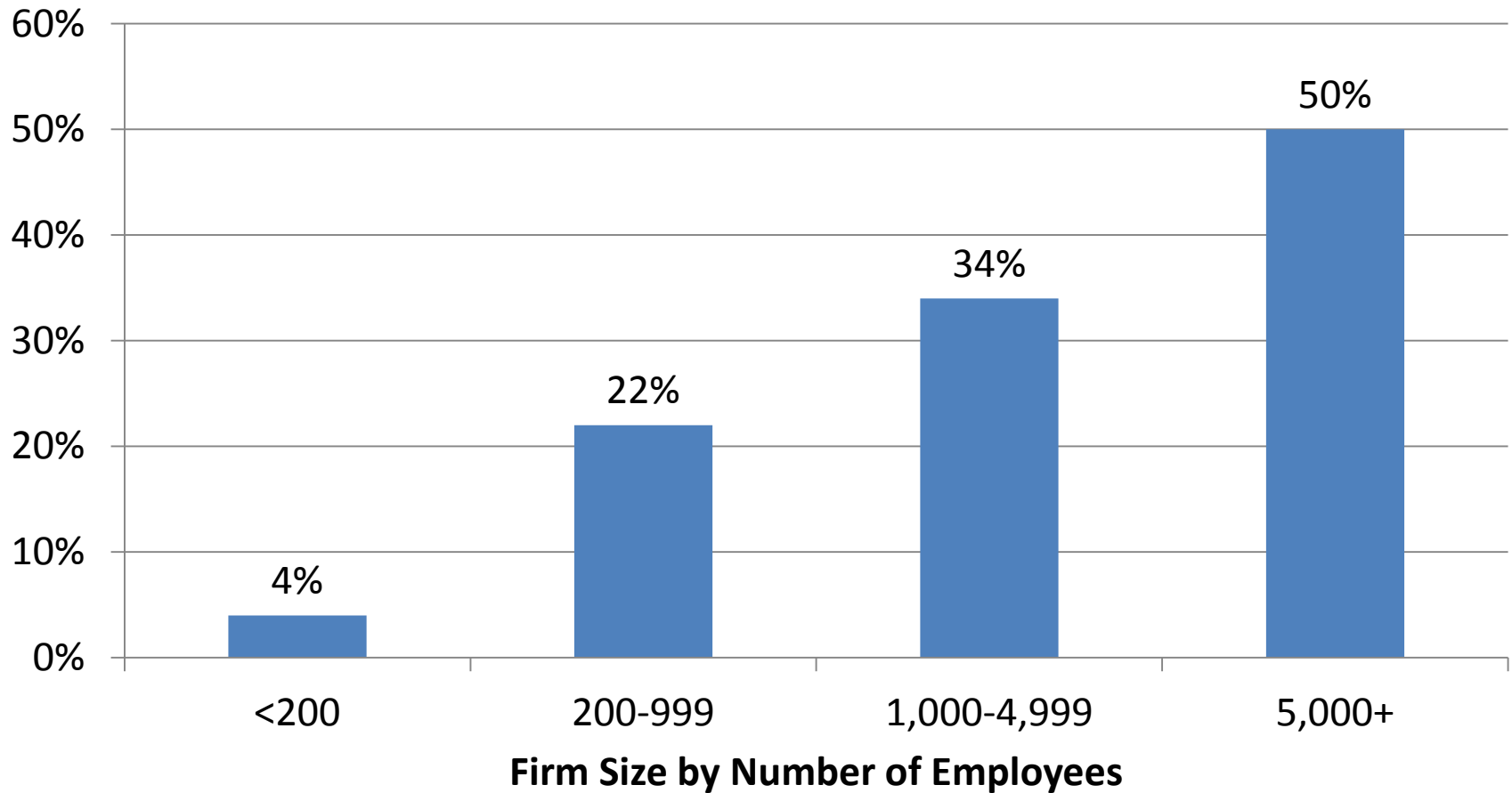
Prevalence

Private Sector



Source: EBRI estimates from various tables at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables_search.jsp?component=2&subcomponent=1

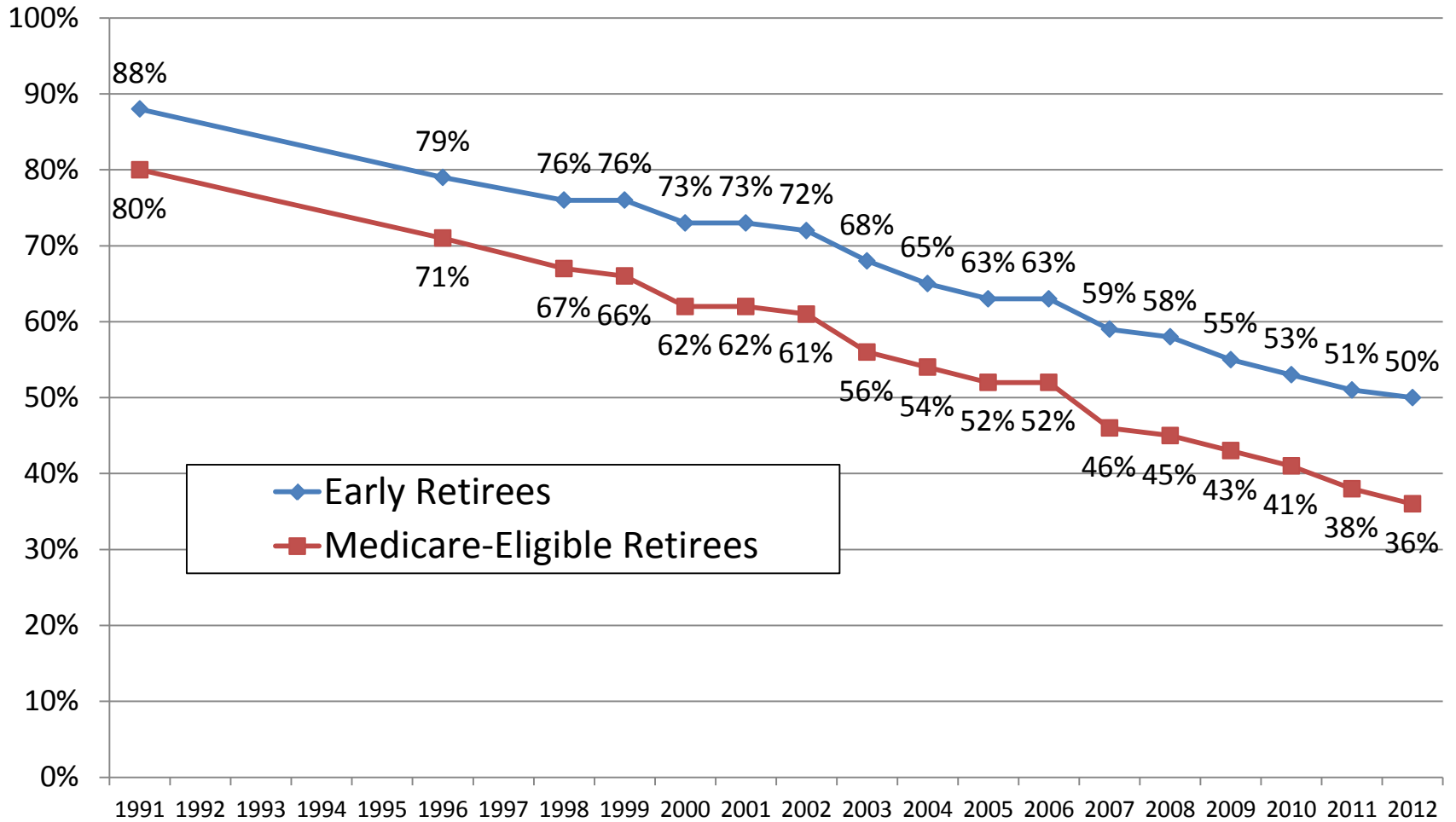
Prevalence By Firm Size



Source: Kaiser Family Foundation/Health Research & Educational Trust, Employer Health Benefits 2012 Annual Survey

Prevalence

Large Employers

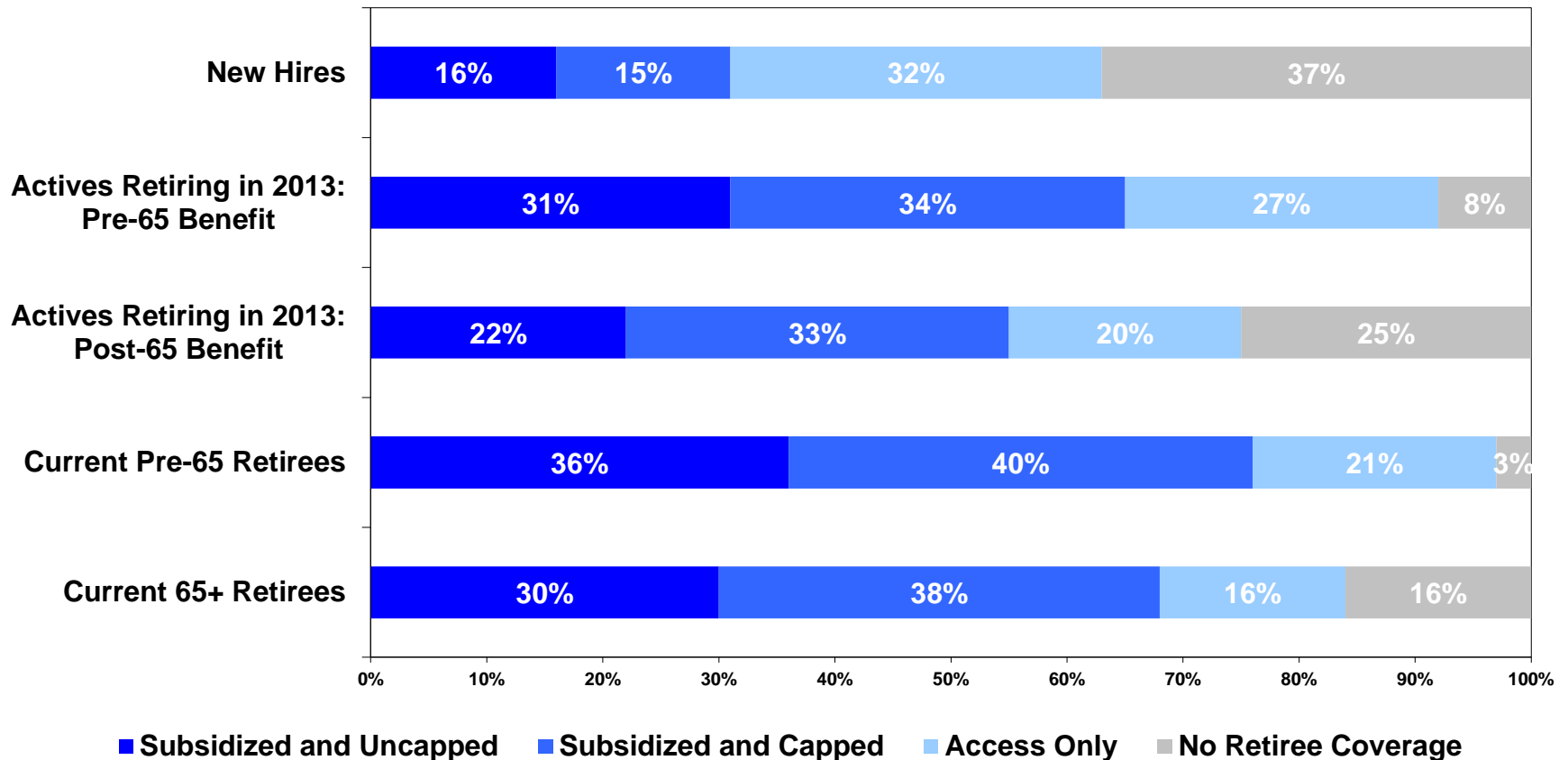


Source: Aon Hewitt, SpecSummary 1991-2012

Prevalence

Large Employers

1. What Type of Retiree Medical Coverage Does Your Firm Currently Provide?



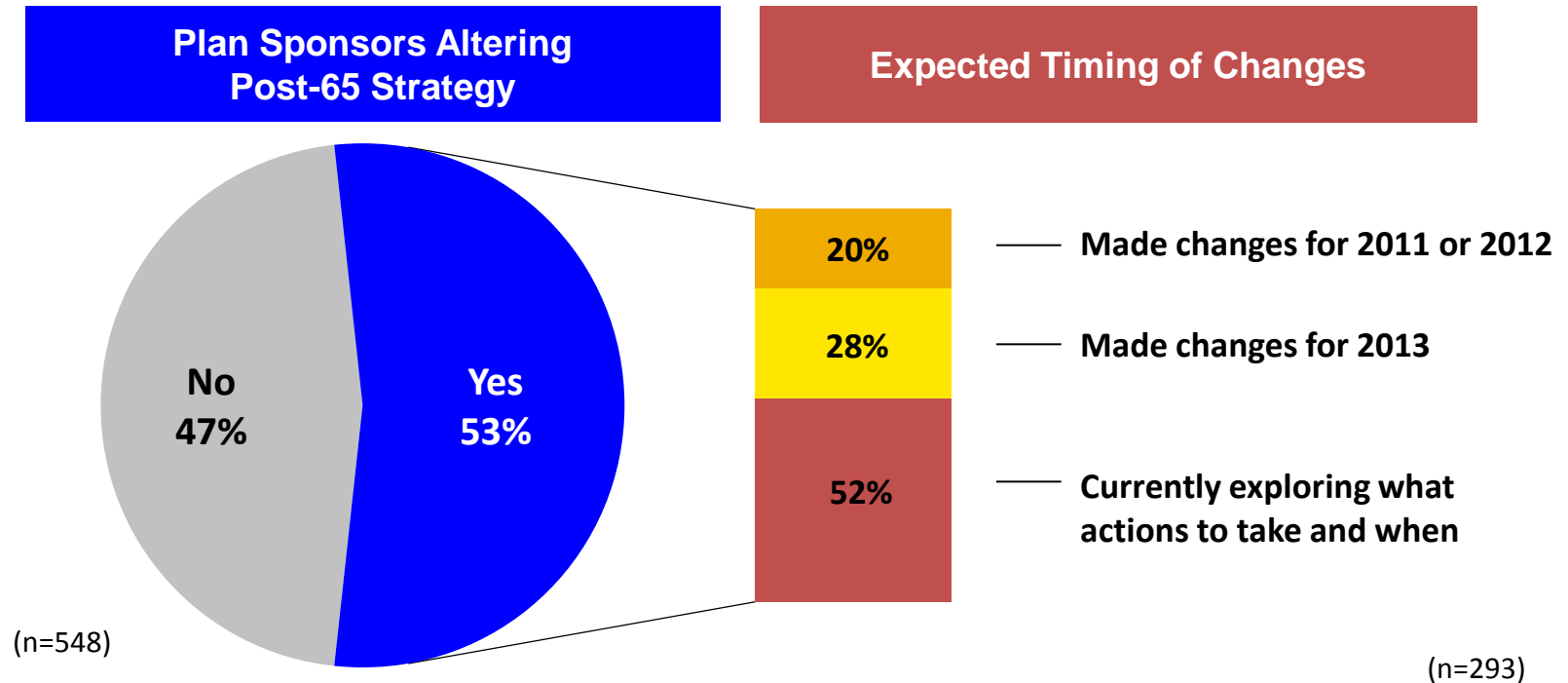
(n=548)

Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

Trends in Coverage

Large Employers

4. Federal health care reform eliminates tax advantages associated with the RDS beginning in 2013, but it also significantly enhances the Medicare Part D program through the introduction of pharmaceutical manufacturer discounts in 2011 and increased federal subsidies to Medicare Part D plans over time. Since 2010, have you altered, or do you anticipate altering, your Medicare Part D or broader Post-65 retiree benefit strategy?

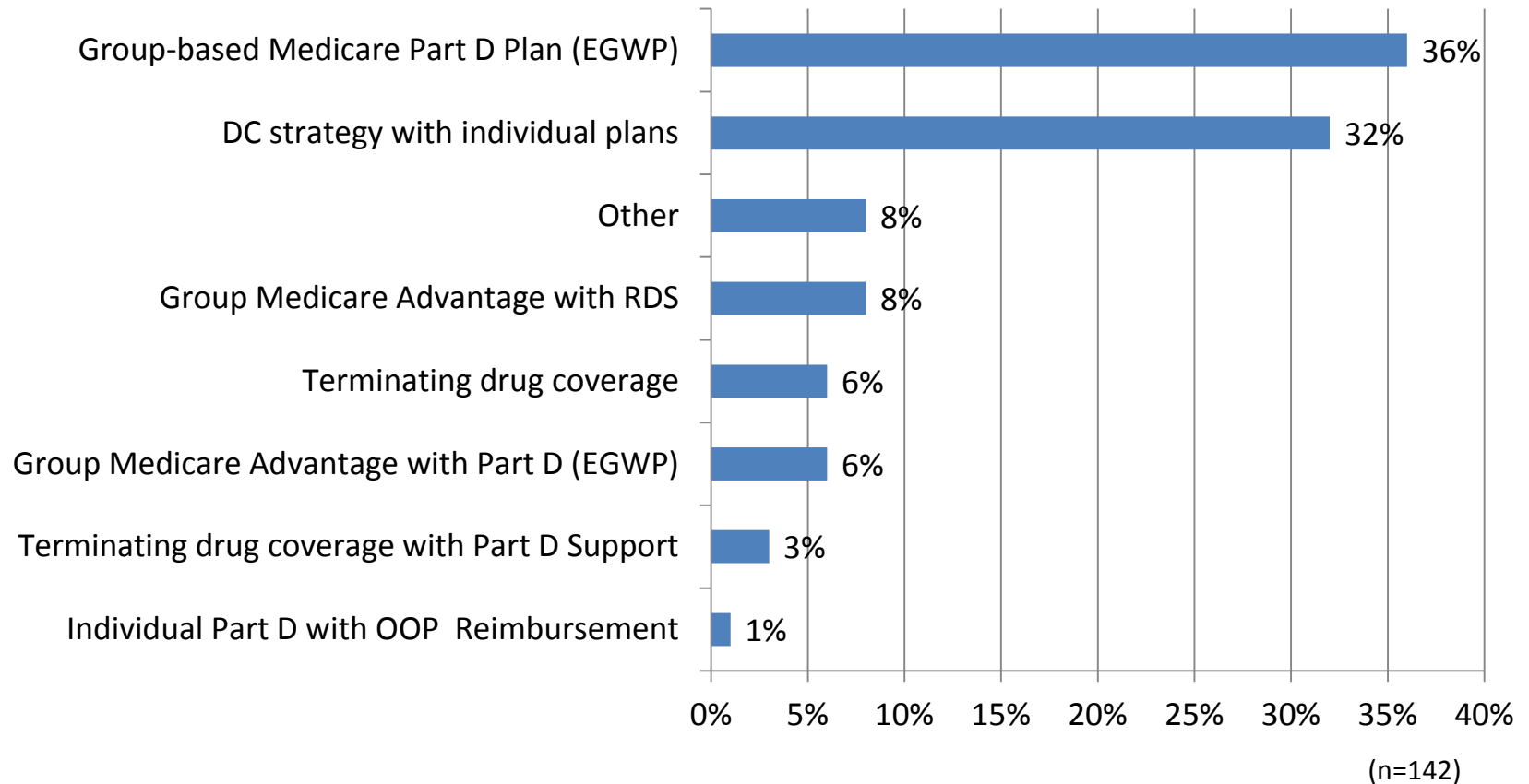


Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

Trends in Coverage

Large Employers

5. With respect to the prior question, what specific Post-65 retiree benefit strategy change are you making or did you make since 2010?

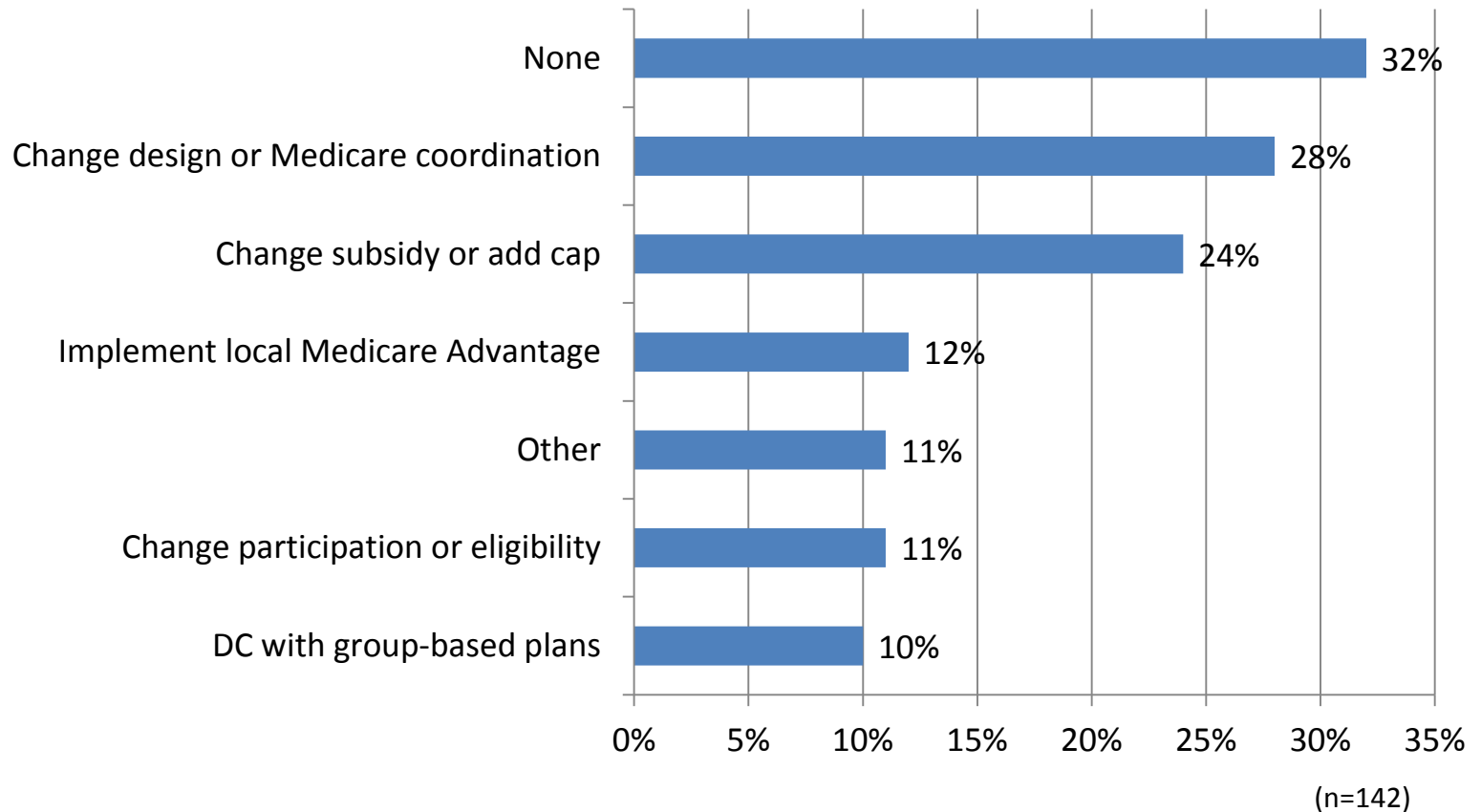


Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

Trends in Coverage

Large Employers

6. What, if any, other Post-65 retiree benefit strategy changes are you making/did you make since 2010?

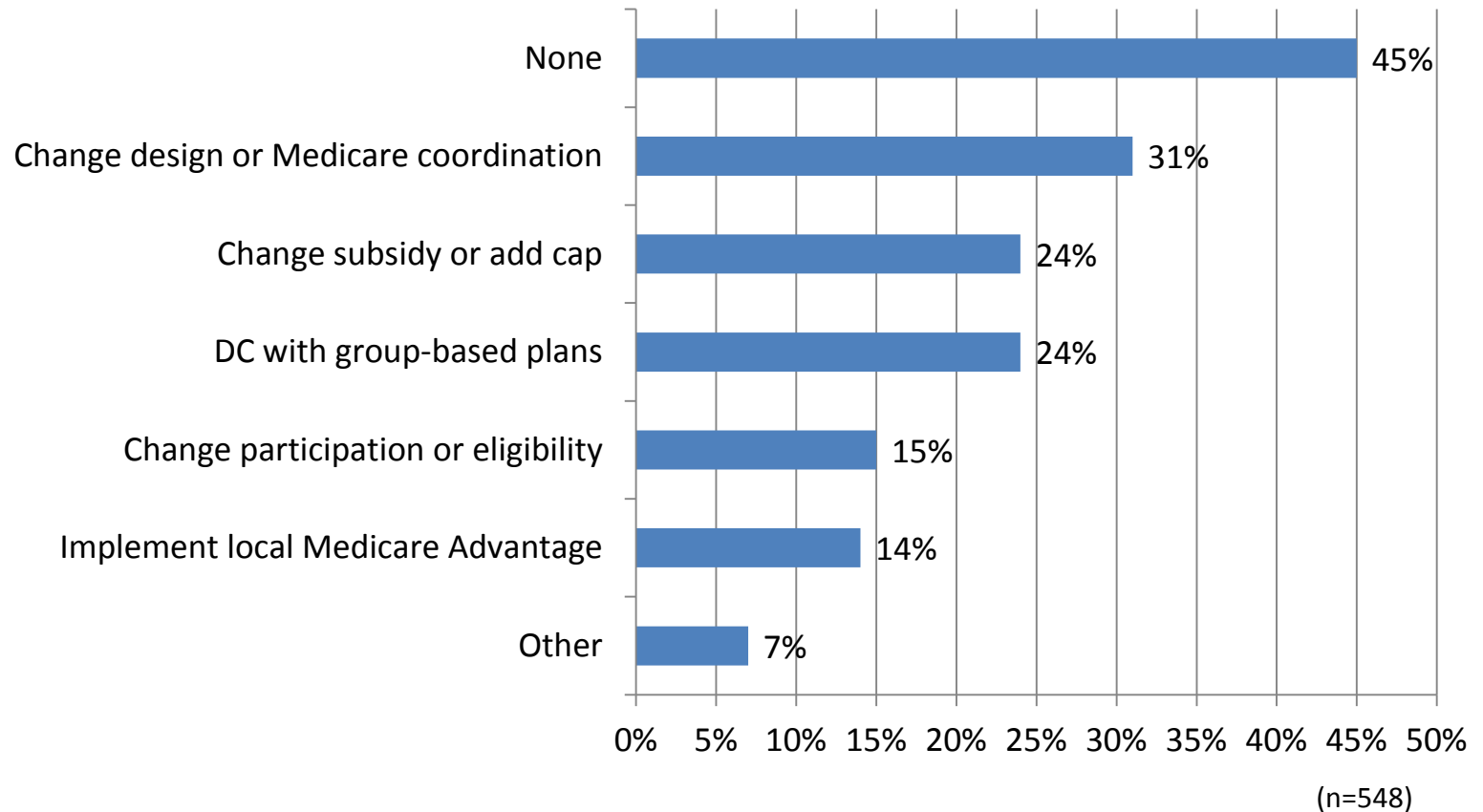


Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

Trends in Coverage

Large Employers

10. What, if any, other Post-65 retiree benefit strategy changes are you considering for the future?



Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

Typical Design

What Medicare Doesn't Pay

- Hospital
 - First 3 units of blood
 - \$1,184[†] deductible for first 60 days
 - \$296[†] per day for days 61-90
 - \$592[†] per day after 90 (up to 60 days over lifetime)
 - Total cost after lifetime reserve days used up
 - After 190 days for mental health care in a psychiatric hospital
- 20% coinsurance for durable medical equipment

[†] Amounts are for 2013 and are indexed

Typical Design

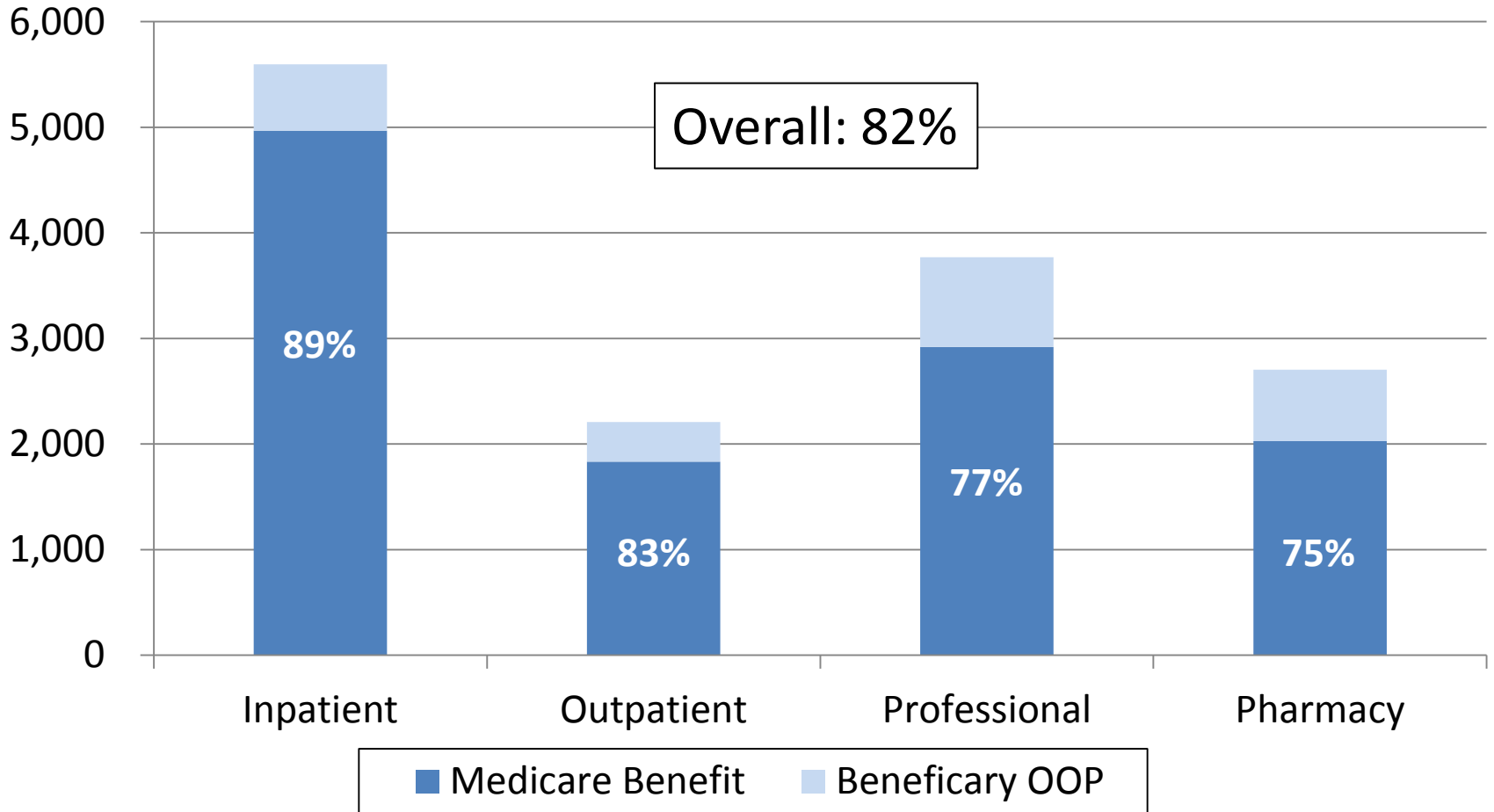
What Medicare Doesn't Pay

- \$147[†] deductible for outpatient and professional costs
- 20% coinsurance of Medicare approved amounts after deductible
- 100% of any physician balance billing

[†] Amount is for 2013 and is indexed

Typical Design

Average Medicare Costs by Service



Source: 2010 calendar year Medicare 5% fee-for-service sample; pharmacy is estimate of 2020 value

Typical Design

What Medicare Doesn't Cover

- Long term care
- Routine dental or vision care
- Hearing aids and exams for fitting them
- Cosmetic surgery
- Acupuncture
- Routine foot care

Typical Design

Employer-Sponsored Plan Design

- Eligibility based on:
 - Age
 - Service
 - “Points”
 - Most common: Age 55 and 10 years of service
- Medicare Coordination
 - Integrate with Medicare
 - Standard coordination of benefits
 - Exclusion
 - Carve-out
 - Medicare Supplement
 - Medicare Advantage

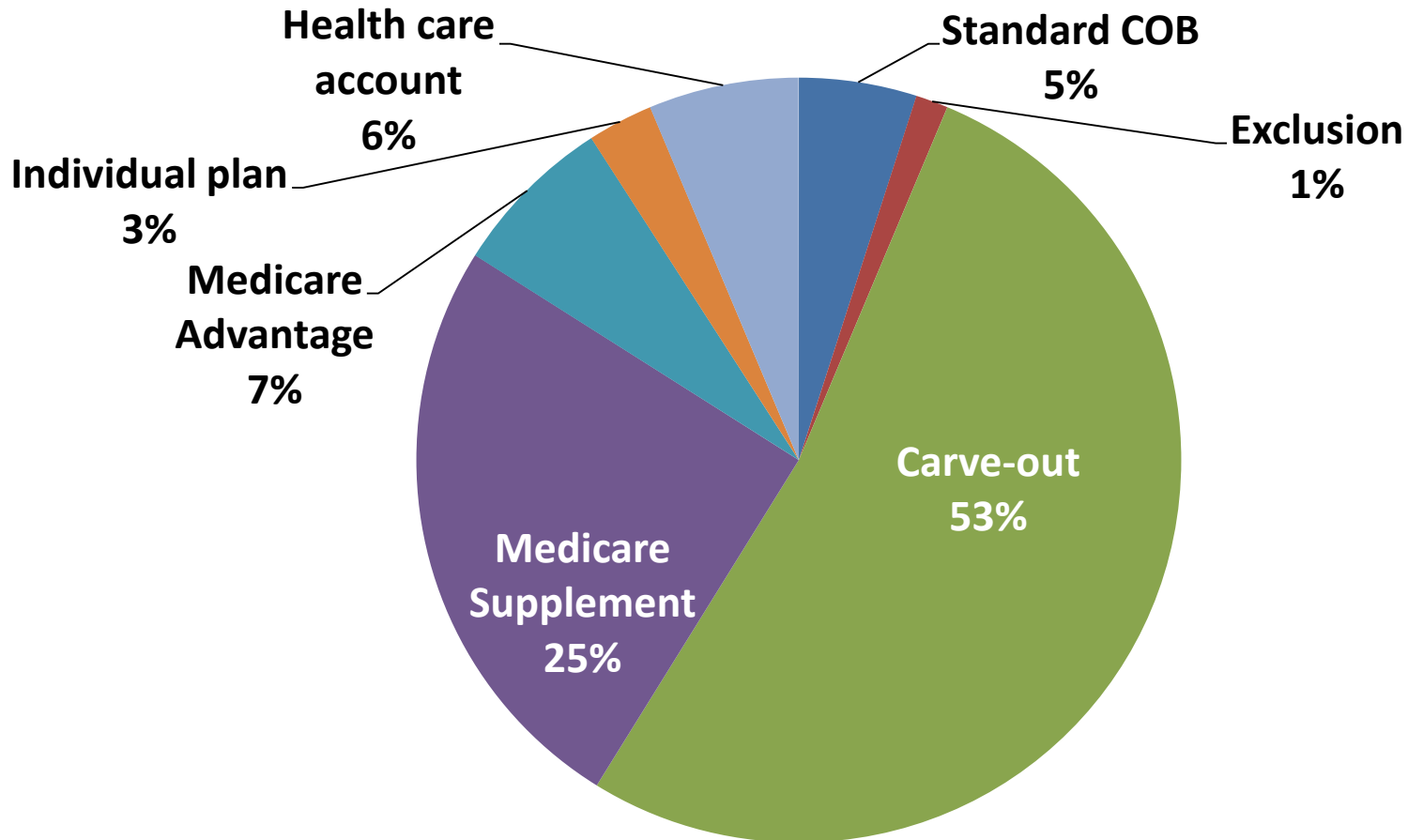
Typical Design

Employer-Sponsored Plan Design

- Integrated Designs
 - Often, same as actives
 - \$500 deductible
 - 80% or 90% coinsurance
 - \$2,500 out-of-pocket (including deductible)
 - 85% benefit value (minimum value calculator)
 - Move to fee-for-service
 - Medicare schedule lower than network fees
 - Carriers charge for network access

Typical Design

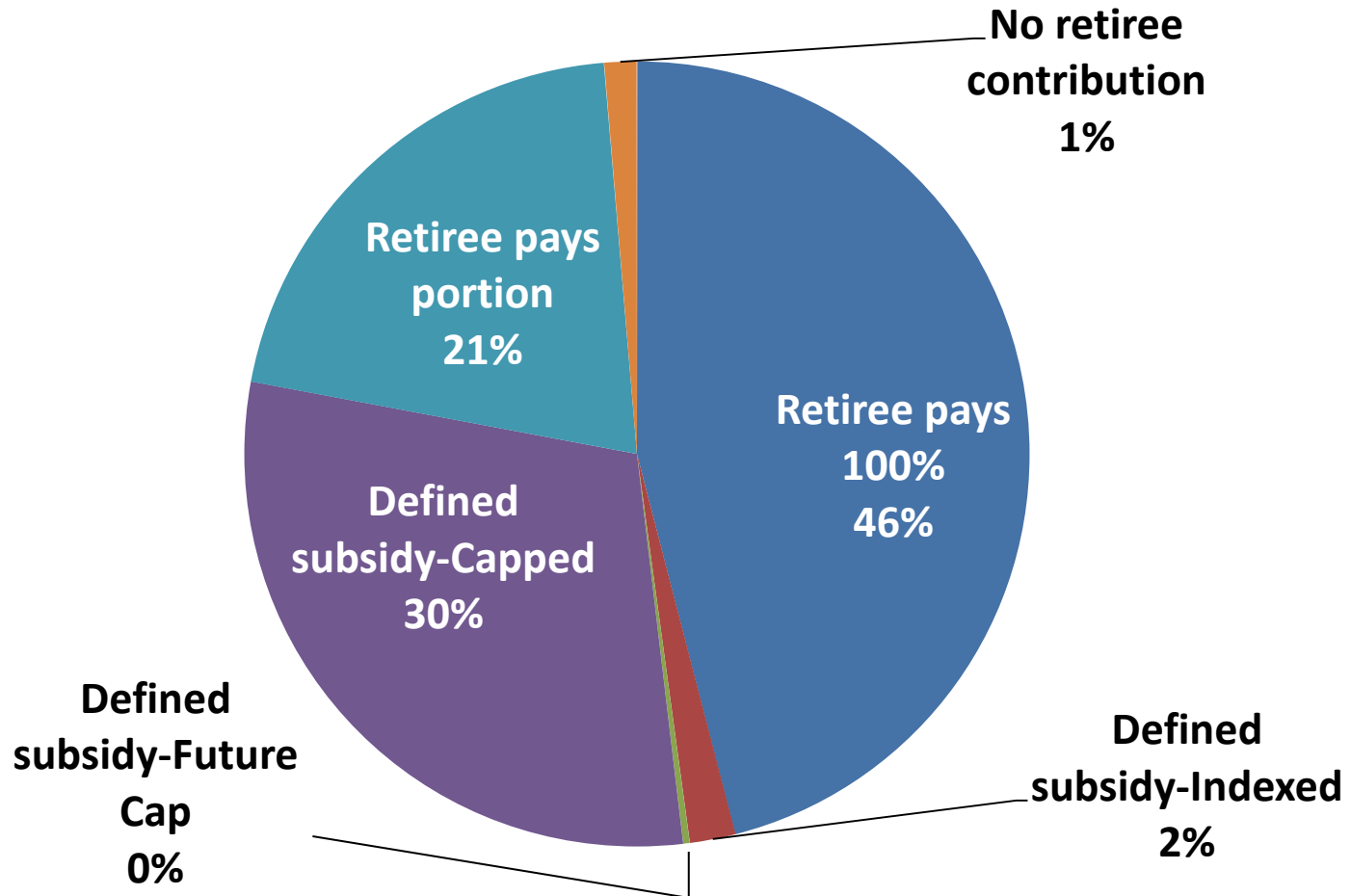
Employer-Sponsored Plan Design



Aon Hewitt Salaried SpecSummary, 2013

Typical Design

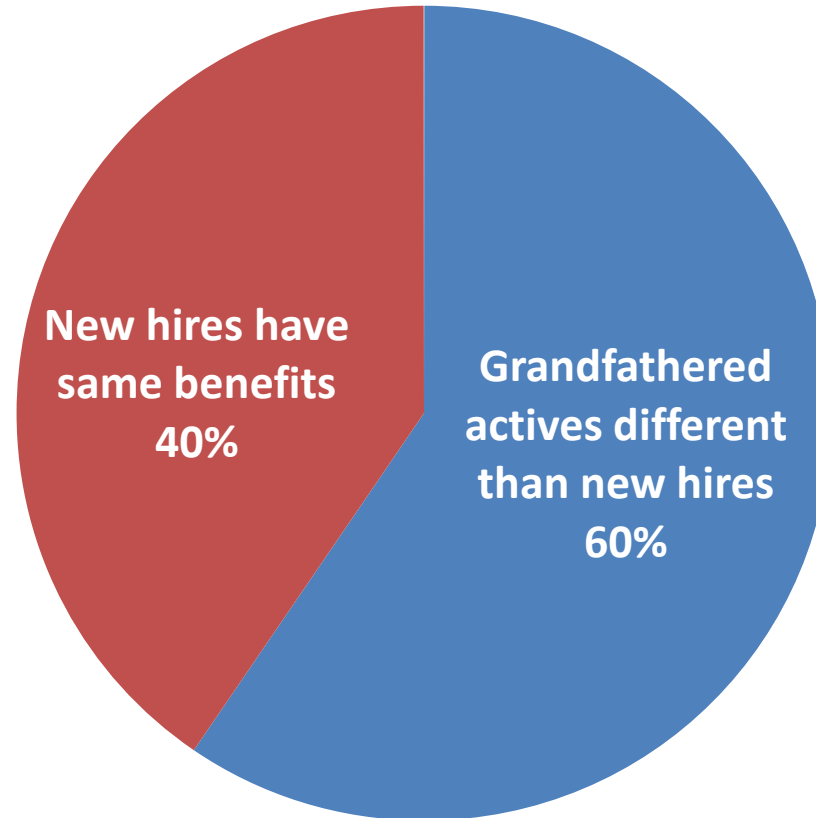
Employer Contributions



Aon Hewitt Salaried SpecSummary, 2013

Typical Design

Grandfathered Employees



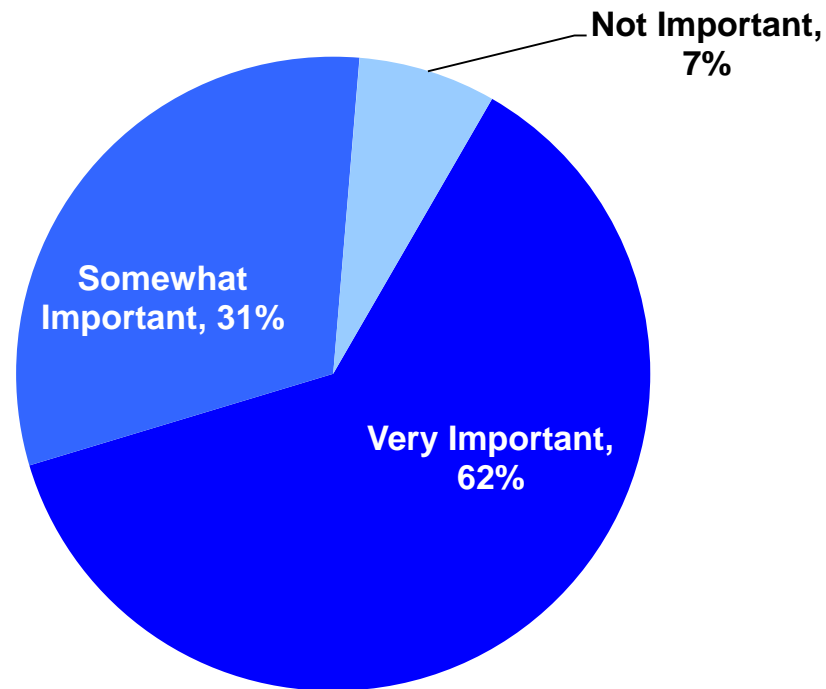
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Aon Hewitt Salaried SpecSummary, 2013

Implications of Medicare Changes

Large Employers

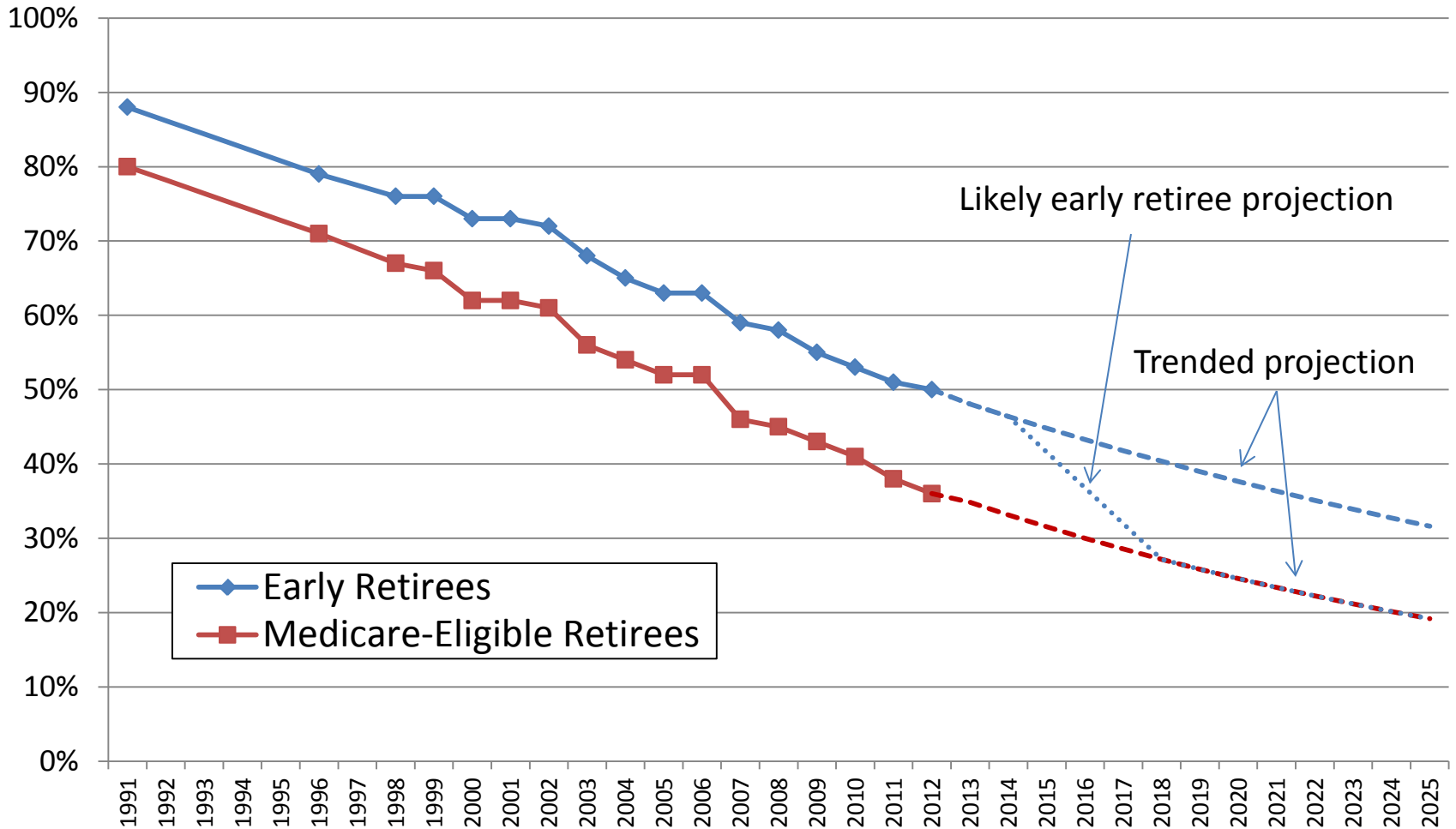
22. Driven by rising health care costs, funding deficits, and demographic changes, there have been a number of proposals recently considered at the federal level to address the Medicare program's long-term financial challenges. How important is it to understand the potential future changes in the Medicare program under consideration, as you determine your longer-term retiree health care strategy?



Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

Implications of Medicare Changes

Large Employers



Source: Aon Hewitt, SpecSummary 1991-2012 with extrapolation to 2025

Implications of Medicare Changes

Large Employers

- Key reasons for providing retiree medical
 - Financial security for retirees
 - Maybe, a “promised” benefit
 - Part of overall retirement program strategy
 - Social responsibility
 - No reasonable alternative (mostly pre-65)
 - Catastrophic coverage for Medicare retirees
 - Continuity of benefits from working years
 - Collective bargaining
- Many of above are going away

Implications of Medicare Changes

Large Employers

- Benefit values (from minimum value calculator)
 - 1990 benefit: \$50 deductible/80%/\$1,000 OOP
 - 92%
 - 2013 benefit: \$500 deductible/85%/2,500 OOP
 - 86%
- Medicare: 82%