

Benefit Fact Sheet

What is it?

Employer-sponsored post-retirement health insurance plans are designed to provide health coverage for employees after retirement. Eligibility for these plans is usually based on age, length of service, or combination of both (usually age 55-65 and 10-15 service years). Eligibility can be restricted to a specific classification of employees (i.e. executives). Many carriers will only underwrite retiree coverage if it is consolidated with coverage for active employees.

Retiree health care plans may provide coverage only until the retiree becomes eligible for Medicare (sometimes called early retiree plans) or the plan may provide coverage both before and after Medicare eligibility commences. Many retiree plans must meet post-retirement plan liability recognition requirements outlined by FAS 106.

Why offer it?

- Reward employees for previous service.
- Aid in recruiting and retention.
- Enable exit strategy for older employees.
- Bridge the medical insurance gap from early retirement to Medicare eligibility.
- Supplement Medicare coverage.

What types of employers offer it?

Government agencies, unions, professional organizations and certain larger employers.

What size employers offer it?

Typically employers with 300 or more employees.

What are the critical underwriting or participation requirements?

- Carriers may only underwrite if the retiree population is no more than a specified percentage of total population (typically 5%).
- Age and/or length of service eligibility requirements for retirees.
- Duration of retiree coverage.
- Dependent eligibility and survivor benefits.
- Location of employer and retirees.

What's new in this area?

The implementation of the new Medicare Part D drug benefit, combined with cutbacks in retiree coverage by several large national firms, has put a spotlight on retiree health benefits. The 2007 Kaiser/HRET Survey of Employer-Sponsored Health Benefits reported that 33% of large firms (200 or more workers) offered retiree health coverage, virtually the same percentage as the year prior, but down from 66% in 1988. The larger the organization, the more likely they are to offer retiree benefits. Groups with 5,000 or more lives are more likely to offer retiree benefits (52%), then groups with 1,000 to 4,999 lives (41%) or 200 to 999 lives (29%). Among large firms offering retiree benefits, the vast majority (92%) offer benefits to early retirees, while 71% offer benefits to Medicare-age retirees.

A 2008 regional survey in California by the Employers Group fund that only 10% of California companies (300 to 600 lives) offered retiree benefits.

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On December 26, 2007, the Equal Employment Opportunity Commission (EEOC) issued a regulation coordinating retiree health plans with Medicare. The ruling will allow employers to offer a reduced set of benefits for Medicare-eligible retirees over age 65 versus retirees under age 65. On March 24, 2008 the American Association of Retired Persons (AARP) lost their U.S. Supreme Court petition to review whether or not the EEOC has the authority to publish the age-bias exempt regulation under the Age Discrimination in Employment Act (ADEA) upholding the June 2007 unanimous decision of the Third Circuit Court of Appeals. The EEOC argued that employers will discontinue retiree health coverage altogether due to the increase in costs if this practice is prohibited.

Due to rising costs, employers are also considering pre-funding retiree health benefits, similar to the defined contribution approach taken with 401(k) plans. Pre-funded plans transfer risks to employees, cut human resource costs and allow companies to continue to offer an important benefit. While employers may enjoy certain financial advantages with this strategy, they must also evaluate accounting and other liability issues to determine if pre-funding is a viable strategy.

How much does it cost?

In 2006, annual per retiree cost for Medicare eligibles was \$6,624. (Kaiser/Hewitt 2006 Survey on Retiree Health Benefits). The 2008 Segal Health Plan Cost Trend Survey projects Medicare Advantage (with Rx) plan premiums to increase 9.8% in 2007 and 2008.

Informational link(s)

- [Five ways to help manage rising retiree medical costs](#) (benefitnews.com)
- [Information about Medicare in California](#) (calmedicare.org)
- [Employers cut retirement plans](#) (CFO.com)
- [Retiree Health Benefits Examined: Findings from the Kaiser/Hewitt 2006 Survey on Retiree Health Benefits](#) (Kaiser Family Foundation)
- [Are Companies Bound by Promises of Lifetime Benefits?](#) (law.com)
- [New wave retirement planning](#) (benefitnews.com)

Pros and cons

Pros

- Rewards loyal employees.
- Aids in retention.

Cons

- Cost and plan administration.
- FAS 106 (Employers' Accounting for Postretirement Benefits Other than Pensions) requires liability be shown on the accounting balance sheets because such plans are considered a form of deferred compensation.

Notes

- Plan documentation drives an employer's ability to make changes to, or terminate, retiree plans.

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.