

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?

The larger the organization, the more likely they are to offer retiree benefits.

The 2010 Kaiser/HRET Survey of Employer-Sponsored Health Benefits reported that 28% 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.

Groups with 5,000 or more lives are more likely to offer retiree benefits (48%), then groups with 1,000 to 4,999 lives (39%) or 200 to 999 lives (22%).

Among large firms offering retiree benefits, the vast majority (93%) offer benefits to early retirees, while 75% offer benefits to Medicare-age retirees.

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?

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.

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The passage of the Patient Protection and Affordable Care Act (PPACA) in early 2010 may begin to impact employer sponsored retiree health benefits as certain provisions of the law come into effect. For example, as health care exchanges come into existence in 2014, employers may terminate company-sponsored coverage if they find that retirees can obtain better and less expensive coverage through the open market than what they pay for the employer sponsored plan. In one case, 3M recently announced that beginning in 2013, its Medicare eligible retirees will receive a monthly stipend through a retiree health reimbursement arrangement to buy an individual insurance plan on the open market. In 2015, this same program would be extended to include 3Ms early retirees (those not yet eligible for Medicare.)

Other impacts of PPACA on retiree health benefits include the closing of the Medicare Part D “donut hole,” no pre-existing exclusions limitations in 2014 and the elimination of the retiree drug subsidy tax exemption. These are all changes that may encourage employers to review the way they handle retiree health benefits.

How much does it cost?

In 2010, the total annual cost for pre-65 retiree health coverage has increased 6%, to \$7,596 for a single retiree, compared to \$5,184 for a single active employee. For post-65 retirees, the cost of individual plans will increase an average of 4%, to \$3,840, while the cost of plans covering a retiree plus one dependent will increase to \$7,848. This relatively low increase masks the fact that a number of employers have eliminated prescription drug coverage or substantially reduced benefits to keep cost increases in check. (Towers Perrin's 2010 Retiree Health Care Cost Survey).

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.

Informational link(s)

- [Employer Health Benefits 2010 Annual Survey: Retiree Health Benefits \(Kaiser Family Foundation\)](#)
- [Towers Perrin's 2010 Retiree Health Care Cost Survey \(Towers Watson\)](#)
- [Information about Medicare in California \(calmedicare.org\)](http://calmedicare.org)
- [Can your retiree health benefits provided by your employer be cut? \(Department of Labor\)](#)

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