

Retiree Medical Benefits

Time to Evaluate Your Approach

Health care reform has given employers bold new solutions for providing retiree health benefits and the legislation is enabling retirees to obtain more cost-effective coverage. Many employers are already taking advantage of new options for current Medicare-eligible retirees and making plans for their pre-65 retirees that offer more value.

Challenges

- The new health care law makes most traditional retiree medical programs increasingly ineffective for employers to sustain over the long term. Reform provisions, such as the 2018 excise tax, have implications for today's plan liabilities. In addition, employers were immediately affected by the elimination of the Retiree Drug Subsidy (RDS) program's tax-favored status. However, there are available options that increase the value of employer financial support for retiree benefits such as the Employer Group Waiver Plan (EGWP), which allows employers to provide Medicare-eligible retirees with pharmacy benefits more cost-effectively.
- Workforce aging — and the rapidly increasing number of baby boomers nearing retirement — make retiree medical benefits an issue of increasing importance for employers. Decisions about the programs will have a significant impact on workforce demographics and on employers' benefit expenses and labor costs.
- Cost increases are pressuring retiree medical plan sponsors to consider all funding sources, including employees, retirees, the government and themselves. Most employers that subsidize retiree health care benefits have capped their financial support. Recent research found that nearly two-thirds of employers that have capped subsidies are incurring coverage costs that exceed the cap.*

Opportunities

Reform has dramatically changed prescription drug coverage for post-65 retirees. The changes have included the gradual closure of the coverage gap in Medicare Part D. By 2020, standard Part D coverage

is expected to have a total benefit value comparable to today's typical employer-sponsored plan. Employers are also weighing the option of offering an EGWP (which allows employers to contract with Medicare to provide plan benefits) or exiting post-65 sponsorship entirely to allow retirees to receive the full value of enhanced Part D benefits through individual coverage.

Employers are evaluating how to move away from traditional sponsorship while offering retirees greater value and choice. Employers are also utilizing transition services, such as those offered through Medicare coordinators, that educate retirees about their individual coverage options and help them enroll.

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For some pre-65 retirees, reform includes generous federal subsidies for individual coverage purchased through state Exchanges that are expected to be in place in 2014. This will give low-income retirees guaranteed-issue coverage with subsidies based on income.

Responding to Opportunities

In light of the new and emerging opportunities involving pre- and post-65 retirees, many employers are reviewing their retiree health strategies in order to compare new options for retirees with benefit costs, tax implications, and retiree value and welfare.

To begin evaluating today's options, employers may consider the following:

- What's the extent of our commitment to providing coverage for pre- and post-65 retirees?
- Are we taking advantage of all funding resources available through government subsidies and other programs?
- Will we continue to provide a financial subsidy toward the cost of retiree health care?
- How can we engage employees in preparing for their retirement?

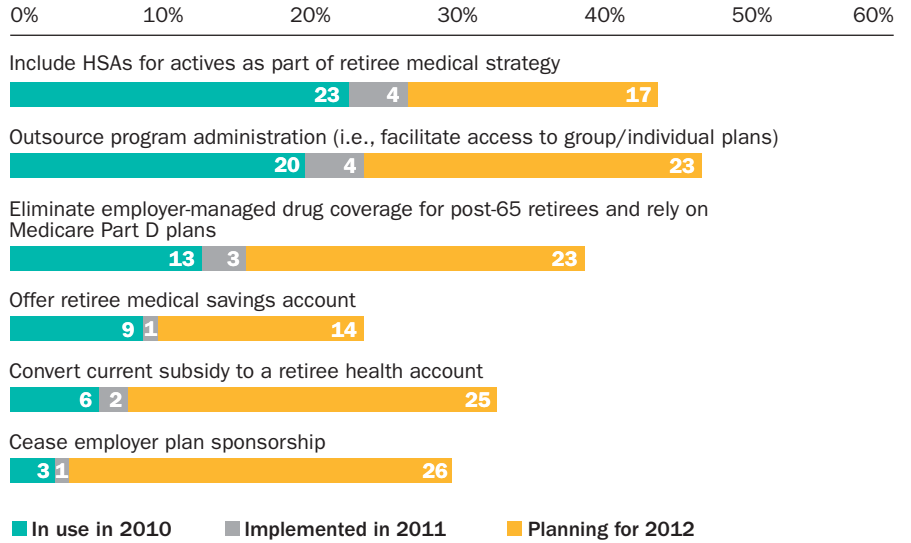
The next step is to consider specific options:

- **For Medicare retirees — EGWP or Exit.** Consider adopting a Part D EGWP instead of continuing the RDS subsidy. You're likely to find that your potential savings under an EGWP far outweigh the modest disruption of a plan change. If you decide to exit traditional sponsorship, recognize that your financial subsidy does not have to stop when your company plan goes away. Let retirees use some or all of the employer contribution in the individual market and consider providing transition services — such as those offered through Medicare coordinators — to ensure retirees have help electing high-value coverage that meets their needs.
- **For Pre-Medicare retirees — Education and Exchanges.** Educate employees about the costs they're likely to incur for health care in retirement, and encourage them to save for costs via health savings accounts or other vehicles. Review your plan design to see whether you can provide retirees with more choice among insurance products or with access to additional government subsidies. Continue to monitor state Exchange options, so that when guaranteed coverage and federal subsidies become available through Exchanges, you may consider new alternatives.

How Towers Watson Can Help

Towers Watson reviewed the retiree medical strategies of approximately 250 organizations with a total of more than 1.1 million retirees in the Sixth Annual Towers Watson/ISCEBS Survey on Retiree Health Strategies. We also included retiree health strategies in our 16th Annual Employer Survey on Purchasing Value in Health Care conducted with the National Business Group on Health. This study examines the

Employers are taking action



Source: 16th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, 2011

health care coverage strategies and costs of more than 588 organizations. Our research, practical experience and actuarial leadership will help you think through the ways health care reform affects all aspects of your business. Our customized benefit solutions for pre- and post-65 retirees include single- and multiple-carrier insurance exchanges available through our Retiree Medical Transition Solutions.

For more information, contact your Towers Watson consultant or visit towerswatson.com.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.