



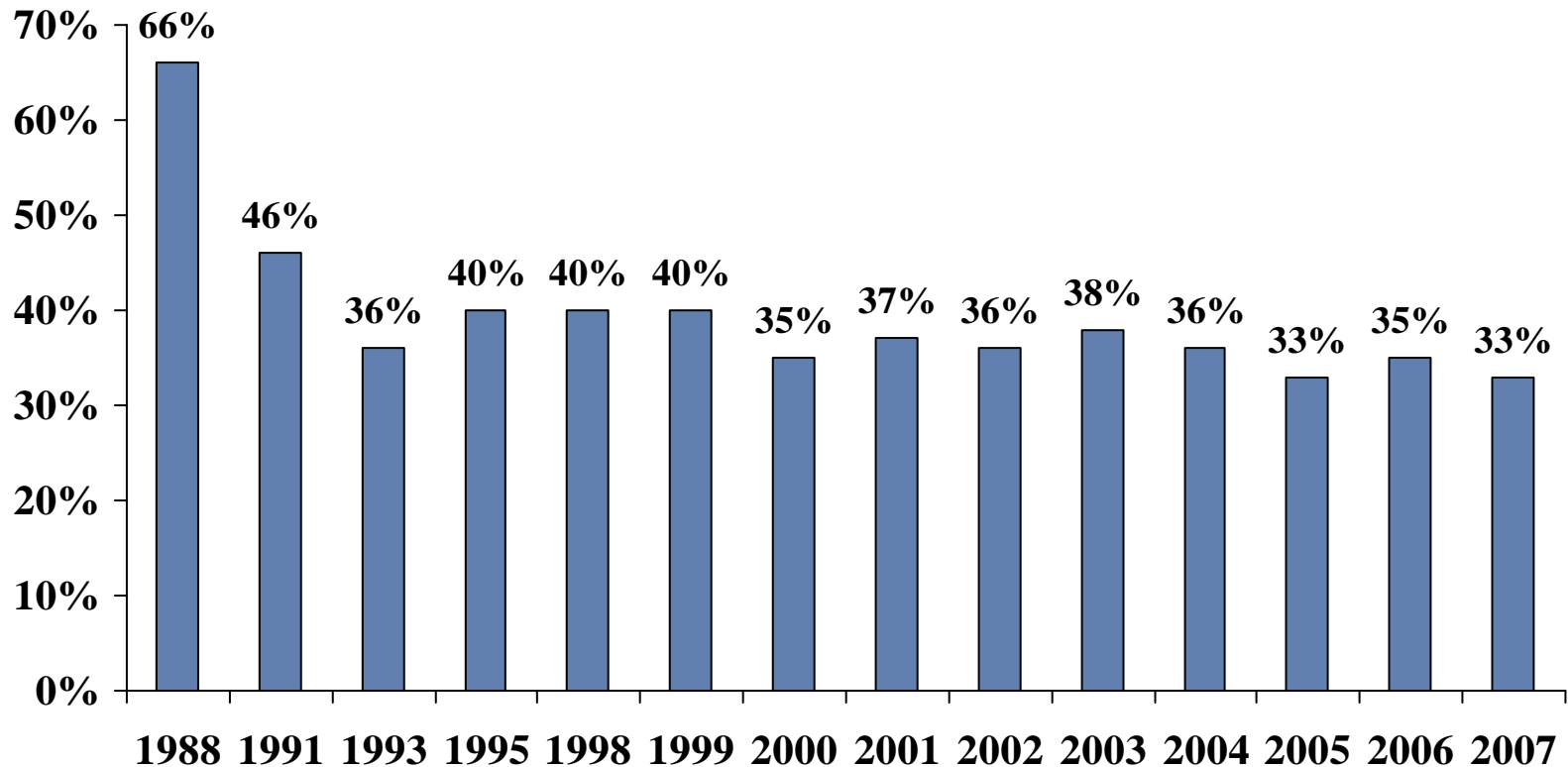
Impact of Healthcare Costs on Retirement Readiness: Policy and Reality

Retiree Health Benefit Trends

Frank B. McArdle, Ph.D.
February 28, 2008

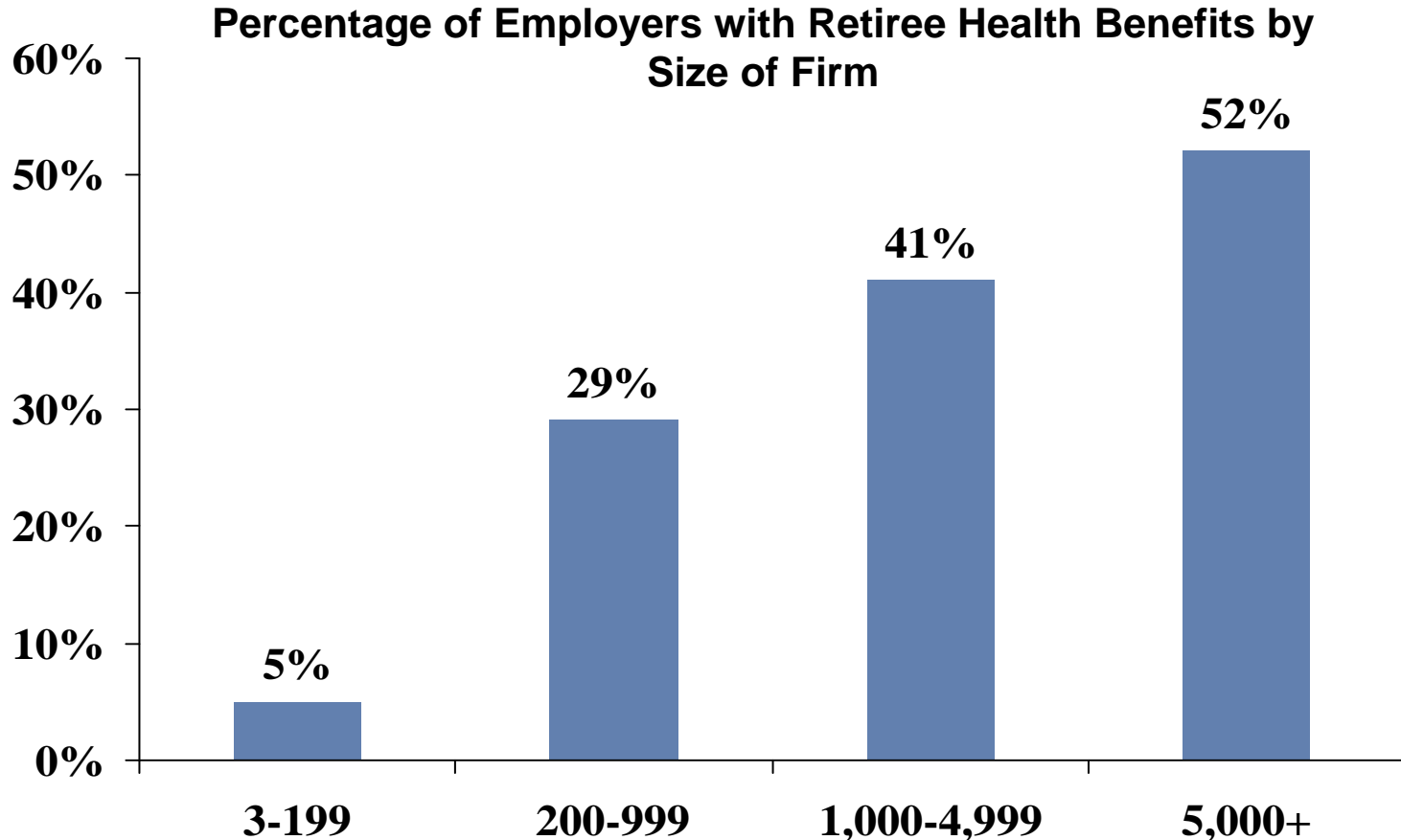
Relatively Fewer Workers Can Expect Help from Employers in Meeting Health Care Costs in Retirement

Percentage of All Large Firms (200 or More Workers) Offering Retiree Health Benefits, 1988-2007



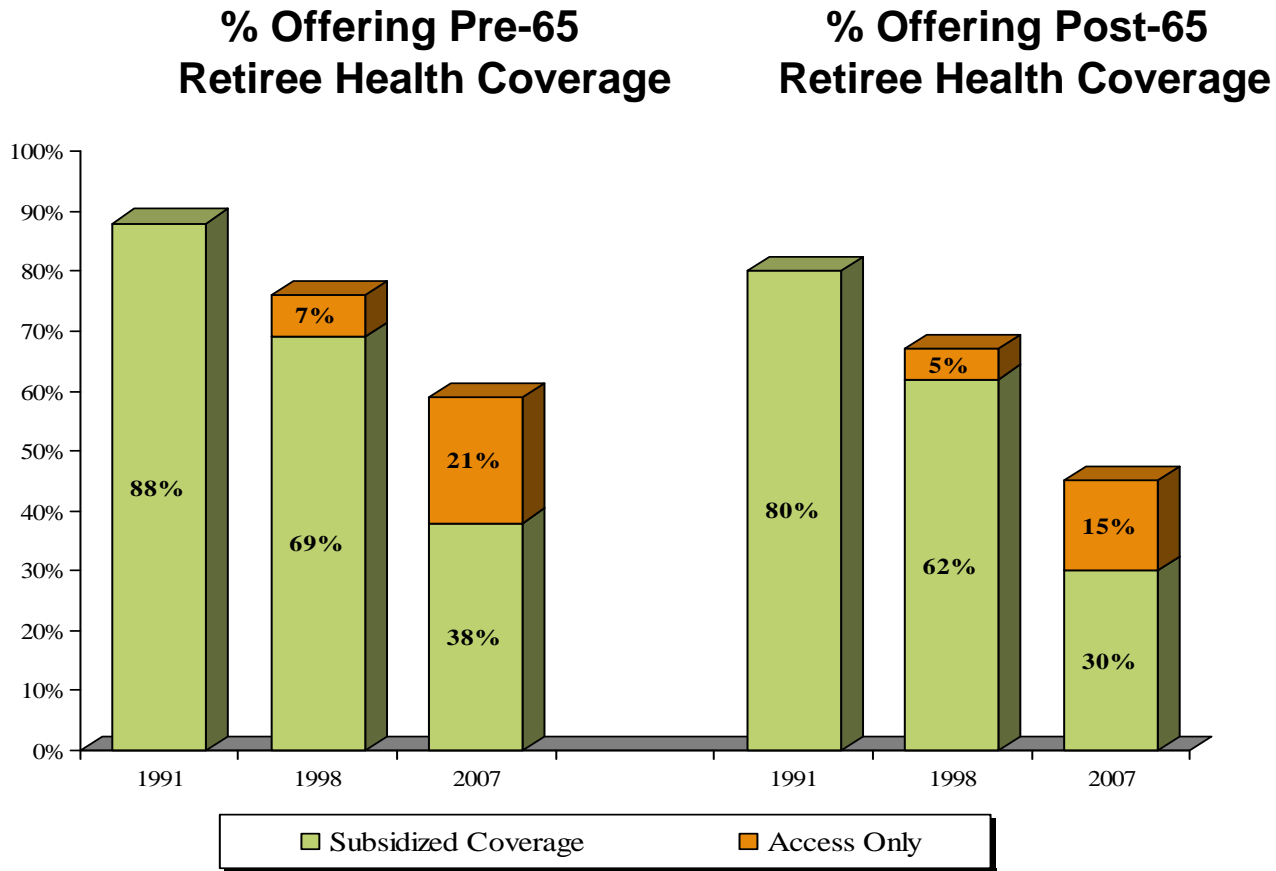
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007

And the Employees Who Can Expect Benefits Work for Large Firms



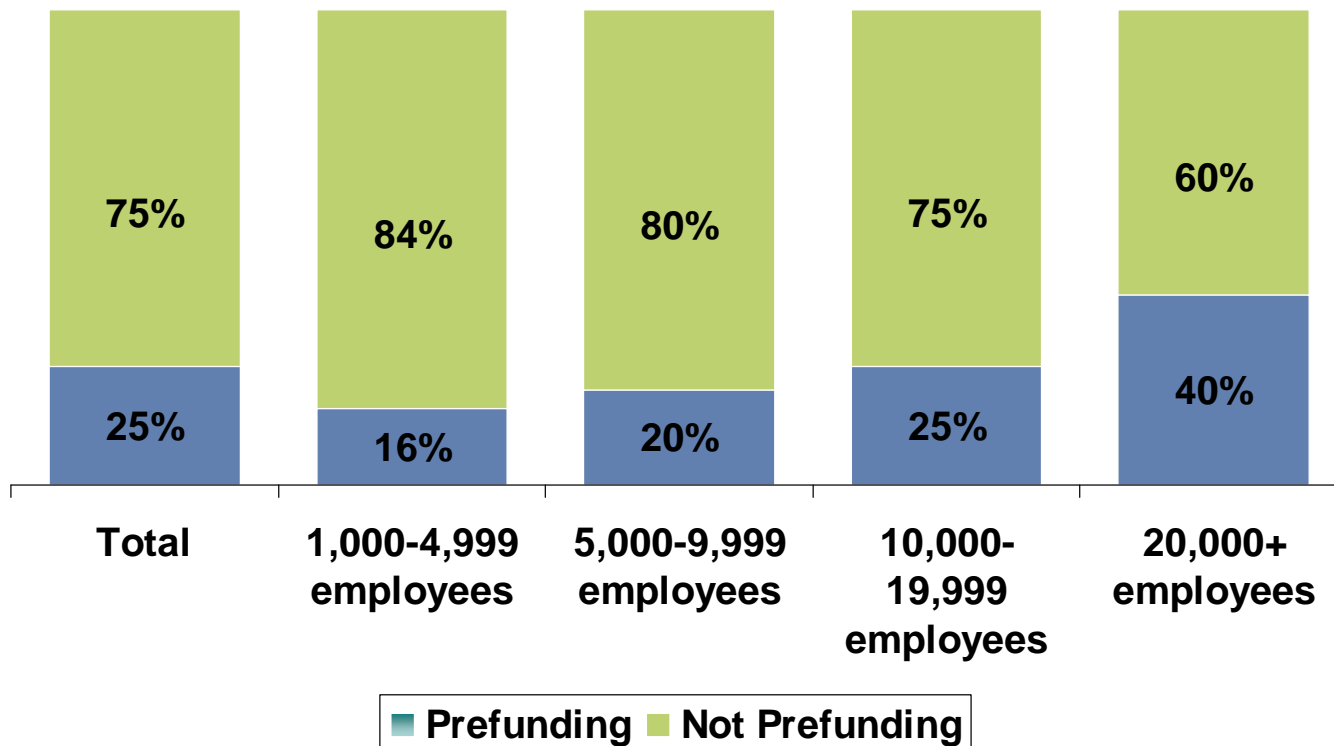
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007

But Even Large Private Employers Have Cut Back with Rising Costs and FASB Rule Changes in Early 1990s



Source: Hewitt Associates *SpecSummary*™.

Most Private Employers Don't Pre-Fund and Federal Tax Law Limits What They Can Pre-Fund; Except for Bargained Plans

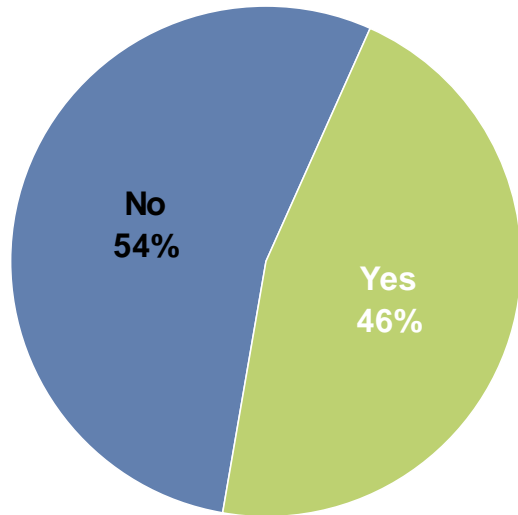


Note: Firms that report pre-funding have made contributions to the fund within the last three years.

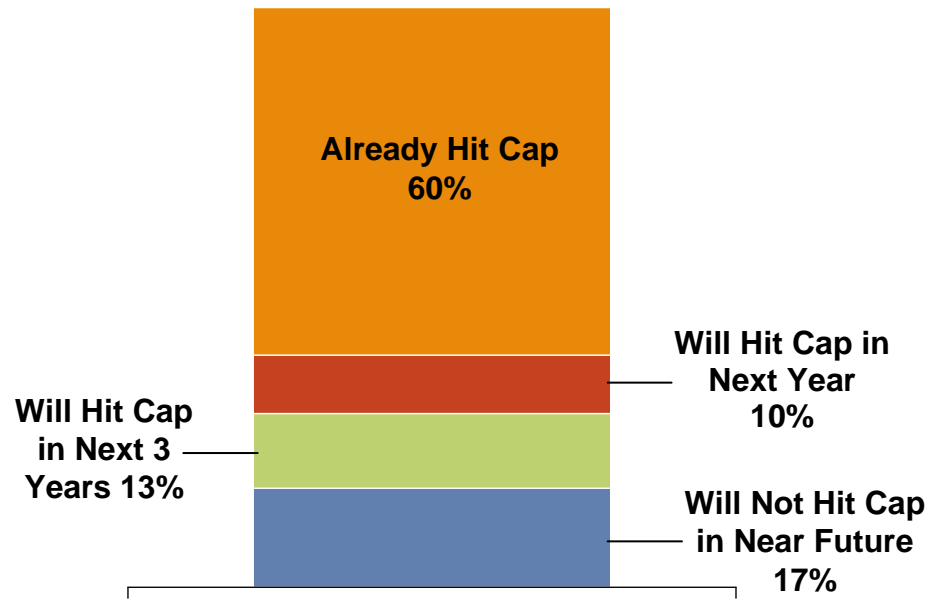
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Rising Costs Are Absorbed by Retirees as Large Private Employers Often Impose a Financial Cap on Their Obligation

Of large private-sector employers, percentage with a cap on their largest pre-65 plan:



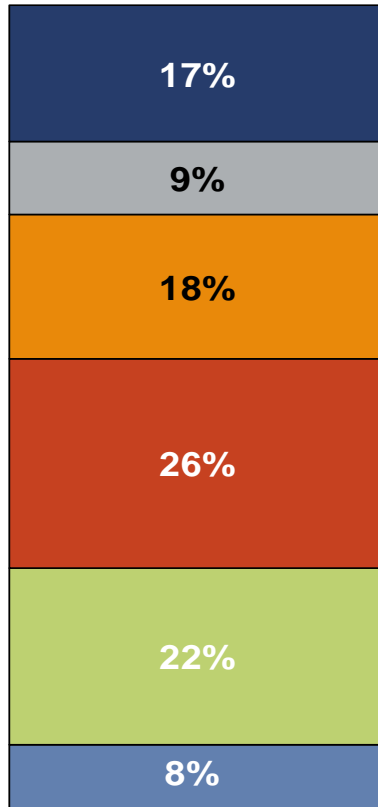
Of large private-sector employers with a cap on their largest pre-65 plan, percentage that anticipate hitting the cap:



SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

But Share of Premium Paid by Retirees Varies Widely

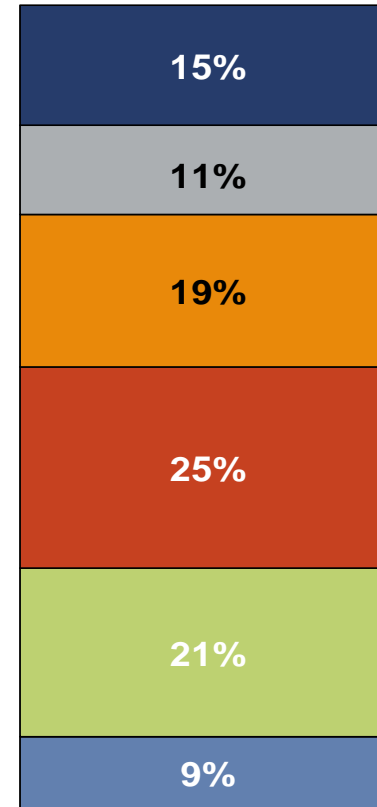
Distribution of Employers by Share of Premium Paid by New Pre-65 Retirees:



Distribution of Employers by Share of Premium Paid by New 65+ Retirees:

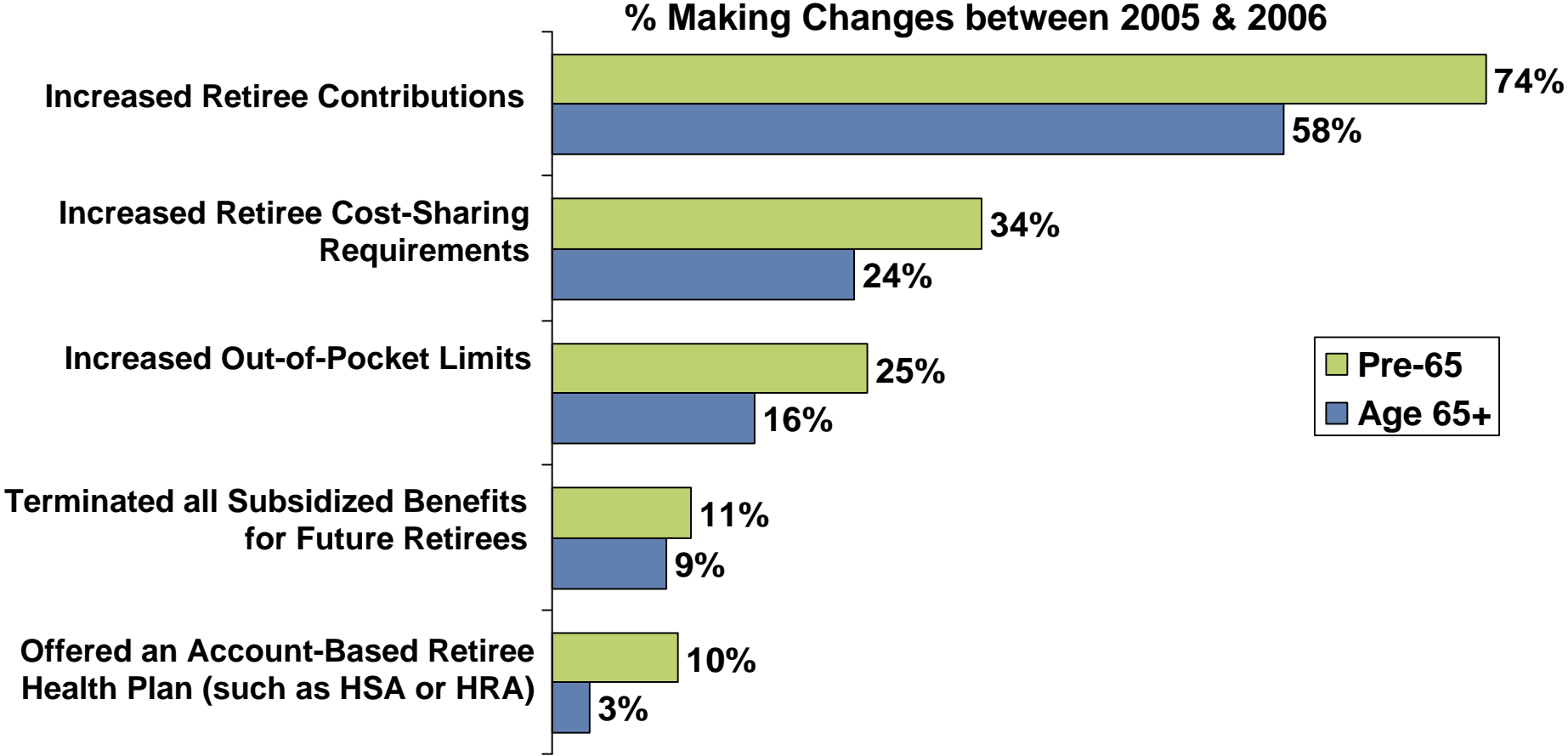
Retiree Pays:

100% of Premium
 61-99% of Premium
 41-60% of Premium
 21-40% of Premium
 1-20% of Premium
 0% of Premium



Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2006, in plans with the largest number of enrolled retirees. Based on responses from private-sector firms with 1,000 or more employees that offer retiree health benefits.
 SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

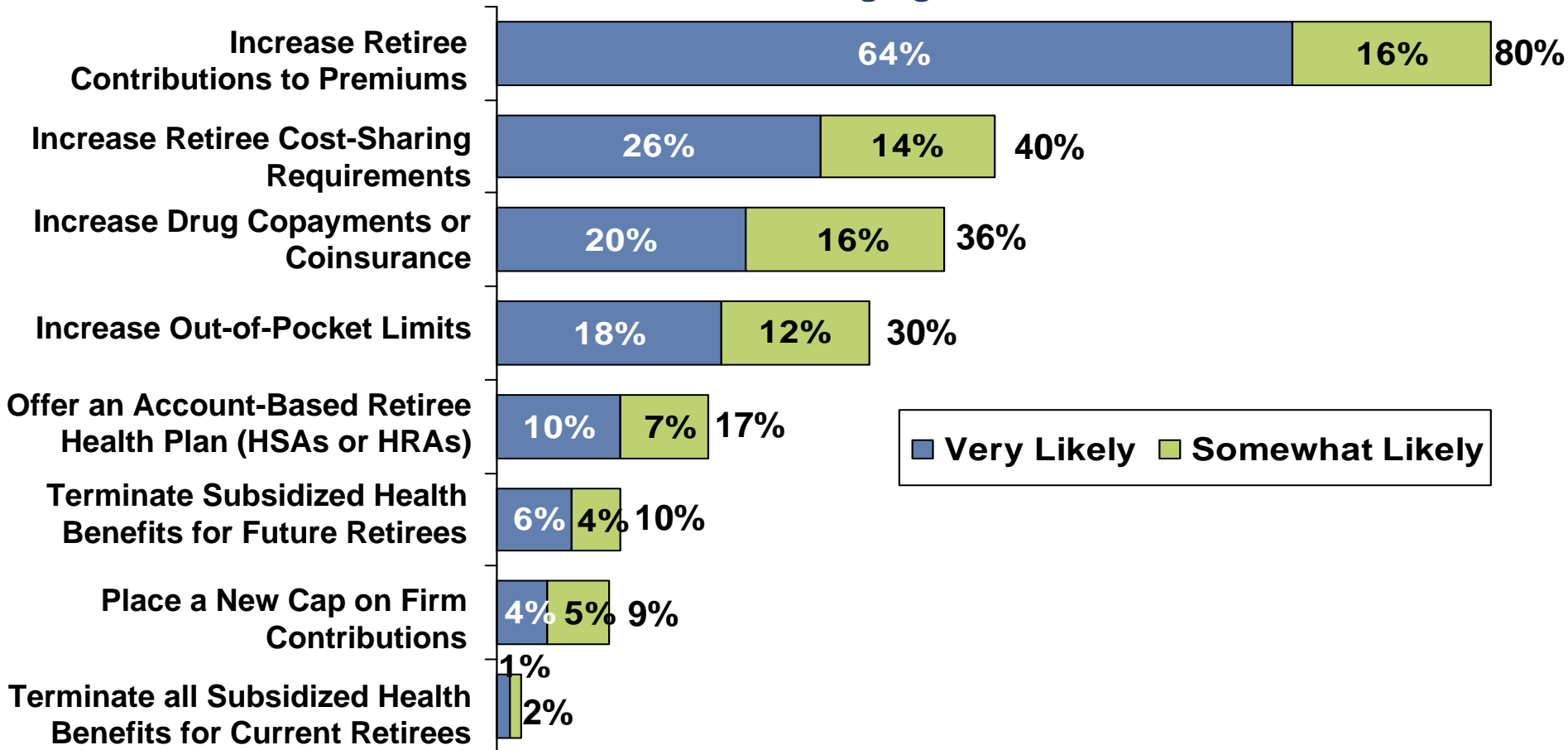
Large Private Employers Often Make Changes to Retiree Health Benefits



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

And Will Continue to Do So

Likelihood of Changing Retiree Health Benefits in 2007

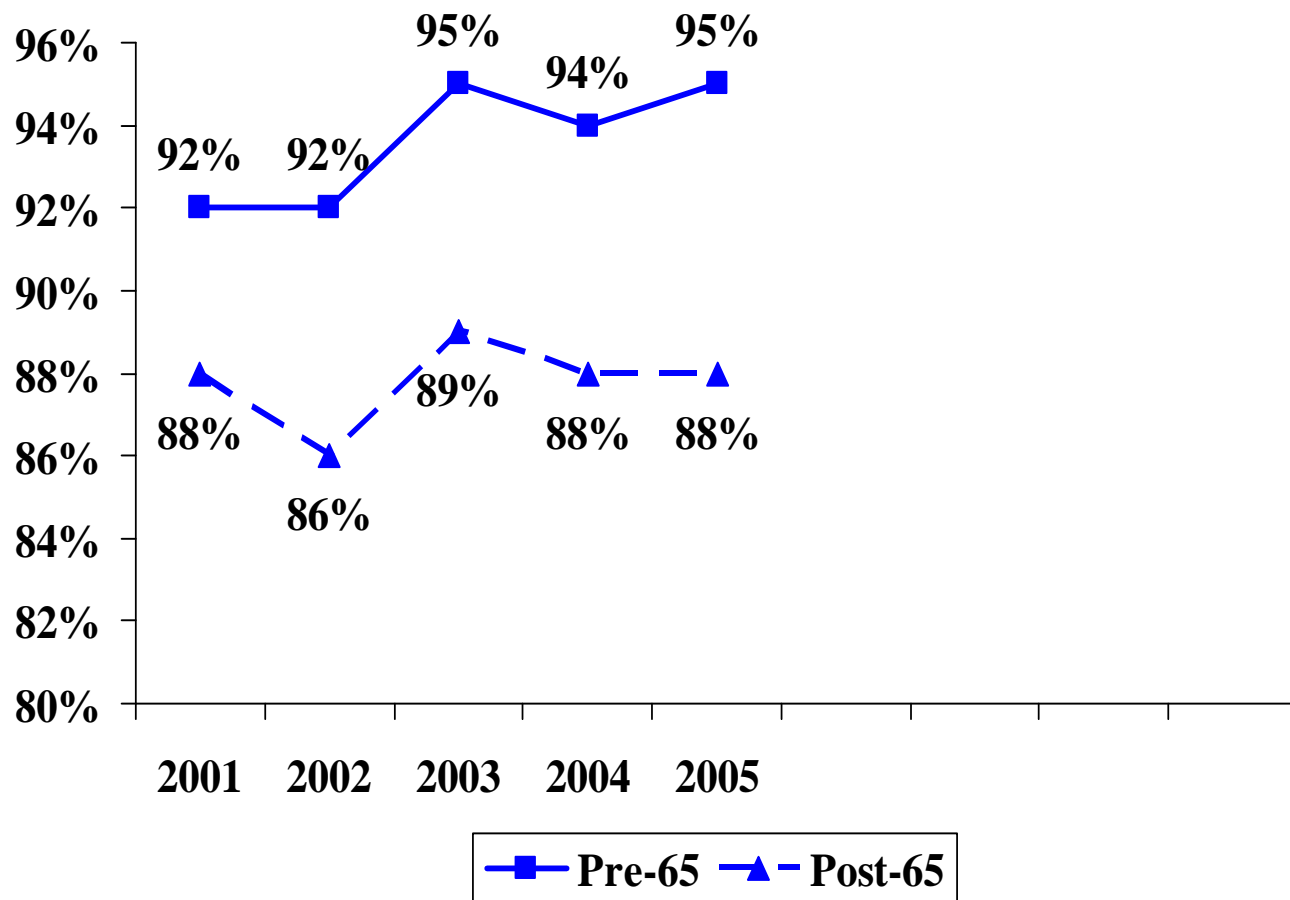


Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.

SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

Public Employees Have Higher Odds of Getting Benefits

% of State Governments with Retiree Health Benefits



Source: Medical Expenditure Panel Surveys

And Now Along Comes GASB ...

- Before GASB Statement No. 45, obligation for employer sponsored retiree health programs was not recognized as an employer liability
- GASB 45 created rules for accounting and financial reporting for post-employment benefits other than pensions (“other post-employment benefits” or OPEB)
- Various estimates put the total unfunded OPEB liability for all public plans at between \$1 trillion and \$2 trillion
 - \$381 billion for state employees alone excluding obligations for teachers & and other local government workers (Source: Pew Center)
 - > 97% of that 30-year obligation was unfunded at the end of FY 2006
- Shift away from pay-as-you-go financing is both painful and expensive for governmental employers
 - Shift may be an even greater challenge for employees

Implications of GASB Rules

Governmental employers will be forced to more aggressively explore new options that limit their accounting obligation, e.g.:

- Pre-funding
- Tightened eligibility
- Greater cost-sharing
- Caps on employer's annual per- retiree costs in traditional designs
- Defined contribution-style health account designs
- High-deductible designs
- Shift to other ways of coordinating with Medicare & managed care plans
- More retiree pay-all “access only” plans for future hires

Conclusions

Since the Medicare Rx program, most large private employers have continued retiree benefits, but many are shifting costs onto retirees

- Expect more premium and cost sharing increases in the future
- Rising employer interest in account-based plans (funded or non-funded)

Many large private employers have eliminated retiree coverage for new hires and for groups of current workers

- Current retirees and grandfathered workers are largely shielded from plan terminations
- Younger workers and many Baby Boomers are on their own
- “Buy-in” opportunities and new health savings options are badly needed

Employers will re-assess their current Medicare coordination strategies as they gain greater comfort with alternative options

- Public employers may have even more reason to do so

Will Future Retirees in Non-Federal Government Employment See Similar Trends?

Private sector trends are instructive but key differences also exist

- Pre-funding reduces governments' reported liability under GASB rules due to use of higher discount rate; pre-funding under FASB does not
- Government entities can pre-fund more of the obligation than can private employers and the earnings are not assessed Unrelated Business Income Tax as it can be assessed for corporate entities
 - But to show funding on financial statements, GASB requires that monies be segregated and protected from general creditors, and that funded amounts are irrevocable
- GASB does not reduce liability to reflect Medicare 28% drug subsidy but FASB does; other Medicare strategies under GASB do reduce liability
- Since cash compensation paid by private employers is often higher, retiree health benefits can help governments attract & retain employees
- Governments have longer-tenure employees and more long-term “business” stability than private employers facing global competition