PHC4 fyi

Health Care for Retirees

Increasing health care costs for retirees challenge all segments of our society. With more than 12 million residents, Pennsylvania has the second oldest population in the nation: 15.6% of our residents are 65 or older, and 9.5% are ages 55-64. According to the Census Bureau, almost 30% of the state's population is currently between the ages of 35-54, and will be retiring or nearing retirement age within the next 20 years. Pennsylvania will be hit hard by the health care needs of its aging population, and more health care costs seemingly will be shifted onto more retirees – and onto active workers.

The announcement by Bethlehem Steel Corporation that it is filing for Chapter 11 bankruptcy protection should remind all Pennsylvanians of the vulnerability of retiree health care benefits. The firm said it needs to "find a solution" to its "$3 billion retiree health obligation" during its reorganization, saying it faces "major financial burdens due to the cost of health care."

If any company becomes unable to pay for its retirees' health care benefits at a level to which they are accustomed, what becomes of the retirees? For retirees these are quality of life issues. For health care purchasers, these are difficult challenges.

Historically many retirees enjoyed reasonable health insurance benefits and have taken company or government-paid retiree health care for granted.

Today, everything is different. Health care cost increases are draining fixed incomes. It is estimated by the Henry J. Kaiser Family Foundation that average health insurance premiums will increase 11% for 2001. Prescription drug costs increased an estimated 17.5% last year. Some forecasts anticipate these costs increasing at even higher rates in subsequent years.

Business owners scrutinize employee benefits as a means to control costs. According to the Kaiser Foundation, 66% of all companies with 200 or more employees provided retiree health benefits in 1988, only 37% did so in 2000. According to State Department of Labor statistics, 55% of Pennsylvania employees work for employers who employ 250 or fewer persons. Smaller firms presumably offer fewer health care benefits to retirees. If an employer does offer retiree benefits, retirees are being asked to participate in cost sharing by paying additional premiums, co-pays, and/or higher deductibles.

What happens to a retiree when an employer ceases its operations or reduces health insurance benefits? Retirees may face one or more of the following scenarios:

Coverage through a spouse - A retiree's spouse may have his/her own health insurance, which provides for family coverage.

Purchase individual or family coverage, or supplemental benefits – Premiums typically are based on the applicant's age and health status. The Kaiser Foundation did a 2001 study of 2,734 companies and reported that annual premiums for individual coverage averaged $2,650 and family coverage was $7,053. In 2000 the same organization reported $2,426 for single and $6,351 for family coverage. The premiums increased 9%-11%. By comparison, average annual Social Security benefits increased 3.5% this year. Some individuals may find less expensive insurance plans available if the

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plan is “medically underwritten” – in other words, available only to those folks who don’t have serious or chronic health conditions.

Although a new adult health insurance program is being developed in Pennsylvania using funds from the national tobacco settlement agreement, retirees should not expect to be covered by this program. The Insurance Department says the program will provide health insurance only for low-income adults who have jobs but cannot access coverage, or are between jobs. (See http://www.insurance.state.pa.us/html/abcfaq.html)

Consolidated Omnibus Budget Reconciliation Act (COBRA) - This federal law offers certain former employees and their dependents the right to 18 months of additional health care coverage. Only firms with 20 or more employees who offer health insurance to active workers are required to provide COBRA continuation coverage. Qualified individuals who purchase coverage are typically required to pay the entire cost of coverage, 102% of *the employer’s* cost. For example, if your employer subsidized your costs so you paid only $40/month when the actual cost to the employer is $200/month, under COBRA you would pay $204 per month. Individuals are responsible for most or all deductibles. For more information, see: http://www.dol.gov/dol/pwba/public/pubs/COBRA/cobra99.pdf.

Health Insurance Portability and Accountability Act (HIPAA) – Enacted in 1996, this federal law allows workers with COBRA benefits to purchase private policies with no pre-existing condition exclusions after 18 months of COBRA coverage. But, after COBRA eligibility ends, there are no restraints on the cost of HIPAA coverage.

Veterans Benefits – Military veterans may apply for service-connected and non-service connected benefits through the Department of Veterans Affairs (www.va.gov/health/elig/eligibility.html). If non-service connected, the veteran may pay part of the costs.

Medicaid – A joint federal and state program, Medicaid provides medical assistance to persons with low incomes and limited assets. (http://www.dpw.state.pa.us/omap/dpwomap.asp)

Medicare - The Web site: www.medicare.gov is helpful (phone: 1-800-633-4227). Eligibility begins at age 65. If an individual retires pre-65, even if they are eligible for Social Security, they are ineligible for Medicare until they turn 65, or are totally disabled. Part A is hospital coverage. Part B is doctor coverage. At age 65, everyone who has worked for at least 10 years and who is eligible for Social Security receives Part A coverage free; and can purchase Part B coverage. Part B costs $50 per month, and that will cost $54 per month for 2002. At age 65, a person can decline part B coverage. If they decline at age 65, and later want Part B coverage, they will pay an extra 10 percent surcharge for every 12 months they wait to start Part B coverage. If they retire post-65, they can enroll in Part B within 8 months after they retire, without any surcharge. Social Security notifies each retiree over age 65 of their options. Upon the retiree’s entitlement to Medicare, the employer can cancel COBRA coverage. *No retiree can lose any Medicare Part A or B eligibility because his/her former employer goes out of business.*

Remain Uninsured - Some retirees may pay health care costs out of pocket. They typically pay the full hospital charge, which is more than the insured cost, and may put their retirement savings at risk. If they are unable to pay, retiree health care may go uncompensated.

In summary: There are options for retirees. But as medical costs escalate, retirees’ quality of life may be squeezed. Their ability to purchase other essentials of life may be diminished. Planning and saving for retirement is always the best option, and retirees’ spending presumably may decrease for other goods and services. This is a difficult challenge for retirees – and for us all.

PA Health Care Cost Containment Council (PHC4)

Marc P. Volavka, Executive Director

225 Market Street, Suite 400, Harrisburg, PA 17101 • Phone: 717-232-6787 • Fax: 717-232-3821 • Web site: www.phc4.org