Commonwealth Fund Survey of Older Adults Press Conference

June 28, 2005
10:00 a.m. ET

Operator: Good day ladies and gentlemen and welcome to The Commonwealth Fund Older American Survey Press Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. Should anyone require assistance during the conference, you may press star then zero on your touchtone telephone. As a reminder this conference is being recorded.

I would now like to introduce your host for today's conference, Ms. Mary Mahon, of The Commonwealth Fund. Ms. Mahon, you may begin.

Mary Mahon: Thank you. Thank you everyone for calling in this morning. The purpose of today's call is to release findings from The Commonwealth Fund Survey of Older Adults. The conference call is being recorded this morning and it will be posted later today on our website. An audio tape and transcript will be available on our Web site, www.cmwf.org. I'll just briefly go over the agenda. We'll have welcome and introductions from Karen Davis, president of The Commonwealth Fund, then Sara Collins, senior program officer of the Fund will present findings. Then we'll have reaction from Dallas Salisbury, president and CEO of the Employee Benefits Research Institute, and John Rother, policy director for AARP, and then we'll have wrap-up and we'll open it up for questions from listeners.

Karen, would you like to begin?

Karen Davis: Thanks very much for joining us today. We feel that the nation has been focused on the issue of Social Security and how as a nation we're going to finance retirement benefits. But we haven't been focused on healthcare and the Medicare programs. So we conducted this survey of older adults between the ages of 50 and 70 to find out how the baby boomers are faring now and how prepared baby boomers are for their healthcare needs in the future. On the survey we ask about practical ways that we could help baby boomers save from medical expenses that aren't covered by Medicare, and even more importantly, what they can do to keep healthy as they age to control their chronic conditions to ensure that they have active, healthy golden years, not lots of red ink.

So I'm delighted to turn to Sara Collins, who's the senior program officer of The Commonwealth Fund and the lead author on the report that we're releasing today. Sara.

Sara Collins: Thank you, Karen. Good morning. I'm just going to give a couple of notes on the survey. It was conducted by International Communications Research in the fall of 2004. It's a nationally representative sample of 2,000 adults, again ages 50 to 70, living in the continental United States. The response rate was 71 percent. Overall, the survey finds that older adults are becoming less protected from the rapidly rising costs of healthcare. According to the survey, 12 million older adults are currently uninsured or have had histories of unstable coverage since turning age 50.

One-quarter of Medicare beneficiaries reported that they were uninsured just before they entered Medicare, and among adults ages 50 to 64 who are eligible for Medicare because of a disability, more than two in five were uninsured just before going into the program.

Older adults in this age group are particularly vulnerable to high medical costs since so many of them have chronic health conditions. The survey reports that 70 percent of adults 50 to 70 had at least one of six chronic conditions. Those included high blood pressure, heart disease, arthritis, cancer, diabetes, or high cholesterol. This is why older adults too young to qualify for Medicare who are uninsured or have coverage on the individual market are at particular risk of spending large shares of their income on out-of-pocket costs delaying needed medical care or accumulating medical debt. Indeed, the survey found that nearly a quarter of older adults reported that they had failed to get healthcare services because of cost, including not filling a prescription, not seeing a doctor or specialist when it was needed, or skipping a medical test or follow-up treatment. Those who were uninsured or had coverage they had purchased on the individual market were especially at risk. More than half of older adults without health insurance and nearly a third of those with individual coverage reported at least one access problem.

A lack of coverage or poor coverage also leaves this age group financially vulnerable at a time when they want to set aside income for their retirement. The survey found that more than one-third of older adults either had a problem paying their medical bills in the last 12 months or paying off medical debt they had accrued in the last three years. Medical bill problems included having difficulty or not being able to pay their bills, being contacted by a collection agency concerning outstanding bills, or making significant life changes in order to pay bills. More than half of uninsured older adults and nearly two in five of those with individual coverage reported problems. Medicare beneficiaries also had high rates of bill and debt problems, more than one-third reported a problem. This likely stems from Medicare's cost-sharing requirements and lack of coverage for high-cost services such as long-term care, in addition to their overall lower incomes. The survey finds substantial evidence that insurance coverage purchased in the individual market is a particularly poor coverage option for older adults given its high premiums and inadequate benefits. The survey found that older adults who purchased coverage through the individual market have much higher premiums then their counterparts with employer coverage or Medicare, but they have far less comprehensive coverage.

More than half of older adults with individual coverage spent $3,600 or more annually on their health insurance premiums. In contrast, just 17 percent of older adults with employer coverage spent that much. Despite their high premiums, older adults with individual coverage face much higher deductibles than those with employer insurance, leaving them exposed to healthcare costs. More than two of five older adults with individual coverage have deductibles of $1,000 or more. Just 7 percent of older adults with employer-based coverage faced deductibles that high.

We investigated the degree to which older adults in this age group are underinsured, using a measure of underinsurance based on whether people have medical expenses or deductibles that are high relative to their incomes. We found that 32 percent of older adults with individual coverage were underinsured. This was a much higher rate than that of older adults with employer coverage or Medicare.

The survey finds significant insecurity among older adults regarding their ability to have sufficient income in retirement and access to affordable healthcare and coverage. Nearly half of adults, ages 50 to 70, have retirement savings of less than $50,000 and nearly two in five have savings of less than $25,000. Because of their limited savings, nearly two in five older adults said that they were not too confident or not at all confident they would have enough income and savings to live comfortably in their retirement. In addition, fewer than half of older adults have or expect to have retiree health benefits from their own or their spouse's employer. Older adults are very concerned about their ability to pay for their healthcare when they need it and to afford health insurance. More than three in five adults, ages 50 to 70, said they were very or somewhat worried they might not be able to afford needed medical care in the future. Seventy-one percent said they were very or somewhat worried that they wouldn't be able to afford health insurance.

The majority of older adults expressed interest in new ways to protect themselves from the high cost of medical care both before and after retirement. The survey asked older adults and working families if they would be interested in having 1 percent of their earnings deducted from their paychecks and placed into an account within the Medicare program. They could then use their accumulated savings in their accounts to pay for long-term care, Medicare premiums or other healthcare costs that Medicare does not cover. A substantial majority of respondents, 69 percent, said that they would be interested in having an account like this. There was broad-based, majority support across income, regions—regions of the country—health status, and political affiliation. Interest was highest among adults in their early 50s.

The survey also asked adults under age 65 if Medicare were available to their age group, how interested they would be in having Medicare coverage before their 65th birthdays. Nearly three-fourths said they would be very or somewhat interested in having this option. Interest was highest among people with the least protection from their healthcare costs. Ninety-four percent of uninsured older adults and 84 percent of those with individual coverage were very or somewhat interested in early participation in Medicare.

I think I'm going to stop here and turn this over to our expert panel.

Karen Davis: Thanks very much, Sara. We'll hear first from Dallas Salisbury, the president and CEO of the Employee Benefits Research Institute. Dallas.

Dallas Salisbury: Thank you very much for having me. I want to add a couple of comments that relate or reinforce the survey. First, related to current retirees and the trends that they're facing, in terms of their income, we've seen about 20 years of flat lines in terms of the proportion of retirees receiving annuity income from the pension system. That's been flat at about 24 percent of retirees getting private defined benefit annuity income, the median annual value of that is $6,500, and about 12 percent report public defined benefit income, the median value for those public employees, many of whom do not get Social Security, is $14,400.

If we look at current workers and baby boomers we've seen a dramatic change in how they are saving or how preparations are being made. As recently as 1992, 62 percent of households had a primary worker with a defined benefit plan that is now declined at below 40 percent. As recently as 1992, 60 percent had an opportunity to save through a defined contribution plan that has increased now to about 80 percent. But with that growth there's still an issue as to reinforce what Sara was saying from your survey and data, the median balance in those defined contribution plans is now only about $18,000. To put that $18,000 in context, the median Social Security benefit today is $10,300 a year. To essentially go on the market and purchase that same annuity, someone would need savings of $166,000 at the point of retirement.

The second major trend line that has been referenced is what's happening with the employer provided retiree health benefit. The decline there has been substantial as well. As recently as 1997, 22 percent of establishments in the country promise some retiree medical, by 2002 that had declined to 13 percent. And based on surveys done in 2003 and 2004, it looks like that is now probably down to between 9 and 10 percent of those establishments. If one then looks at the area where most workers have gotten that coverage, the large employer sector, of those employers with 500 and more employees, which represents about 32 percent of the labor force, again 10 years ago, 1993, 46 percent provided coverage for retiree medical—and that was down in 2004 to 28 percent for pre-retired—eligible—Medicare eligible retirees, by those for Medicare eligible retirees, 1993 was 40 percent, that's now declined down to 20 percent.

A second point is whether or not these—if you will—security trends are likely to continue or abate, there appears to be a continued decline in defined benefit plan sponsorship, and those retiring in the most recent year were down to 20 percent with a private defined benefit annuity, as opposed to what had been running in the 23 to 24 percent range. In defined contribution, we're seeing many employers now move to so-called default inclusion, almost the equivalent of mandatory participation in recognition of how small those account balances have been. And to underline the value or the potential value of the 1 percent account or some other approach to automatic saving for retiree medical, in July of 2004, we published an issue brief looking at how much individuals would need to have accumulated in order to provide for retiree medical benefits. And assuming relatively conservative rates of healthcare inflation and the full implementation of Medicare Part D, an individual who only expected to live until 80 would need about $108,000 in savings in order to cover all of their Medigap premiums, Part B, Part D, the out-of-pocket under Part D, et cetera. And I have a father about to turn 92, for somebody living until 95, which he has a high probability of doing, that savings requirement age 65 on all of this would now be about $300,000 and that doesn't include potential long-term care expenditures.

So if one looks at the hard data, individuals are increasingly facing the prospect of non-coverage, of non-annuity income, and of dramatically increased needs that reinforces the advisability of serious attention to Medicare and retiree medical expenses, which is so appropriately highlighted by your survey.

Again, thank you for inviting me to participate.

Karen Davis: Thank you, Dallas. We're going to turn now to John Rother, who is director of Policy for AARP.

John Rother: Thank you Karen and I will–very much appreciate being—having the opportunity to comment and first to applaud the survey. I want to start with two kind of cautionary notes. The first is that by focusing on the 50 to 70 group, we can focus on the transition from private to public health insurance and I think this appropriately highlights a lot of issues in that, but it excludes the 70-plus population, which is the high-risk population and the high-use population in Medicare, so that many of the findings here are really understating the problem for the most vulnerable Medicare beneficiaries.

The second thing is that I think the survey shows real grounds for alarm among the boomer generation for all reasons that Dallas just outlined and add to that the very low level of total savings available to this population. I think the general stereotype may be that boomers are doing better than their parents. I think, on the contrary for many who no longer have defined benefit pensions, who no longer have employer provided retiree healthcare, and who have inadequate savings levels, they are substantially at greater risk and in an environment where healthcare costs out-of-pocket under Medicare are ever higher. I think that there's real concern for middle-class as well as low-income boomers looking ahead, and this survey documents their well-founded anxiety about all those costs.

But I think that the key points I wanted to point to have to do with the under 65 population and the things that really stand out for me in this survey are two. One is that one-third of beneficiaries are uninsured just prior to enrollment in Medicare. It's a much higher figure then we had understood before. It's cause I think for quite a bit of concern because well people are obviously putting off elective procedures, many things that happen to you that require a health treatment are not things you can control the timing for. And people at 63 and 64 are higher risks than younger people, and this is a particularly difficult age segment to insure through private individual means, and so I think that there's really a strong case made here for opening up Medicare to early enrollment, even though obviously people are going to have trouble affording the full per capita cost even if that was available to them.

The second point is the willingness, in fact I think the—beyond willingness—the eagerness of many survey recipients to, and participants, to fund the 1 percent account. I think we're seeing people searching for some solution that's going to let them feel greater economic security and address some of these higher and higher health costs, and the 1 percent add-on account in

Medicare is a creative way—not the only way but certainly a creative way—that would permit many people to be better prepared for retirement and better able to face the ever higher cost sharing requirements.

So in conclusion, as Medicare becomes itself a high-deductible plan with cost-sharing now in the thousands of dollars per year, I think we've got to be more flexible, more creative about giving people better ways to deal with that, and by allowing people to enroll early to protect their assets or by allowing them to save the extra 1 percent within the Medicare program and these add-on accounts. I think those are both very creative ways and very promising ways that are at least a partial response to the challenges that this survey so powerfully lays out.

So thank you very much, Karen.

Karen Davis: Thank you, John. Well, I think you've heard the main themes that are coming from this survey: that the older adult population is sicker and they are more vulnerable and more at risk. So I was struck that 70 percent of those in this 50 to 70 age group have chronic conditions yet a fourth of them don't have easy access to care because they're uninsured before going on Medicare. And among the Medicare disabled, you know, two in five say that they were uninsured before going—qualifying for Medicare. So there are some very important public policy steps that could be taken to ensure that older adults go onto Medicare both healthier and wealthier. One would be to eliminate the two-year waiting period for coverage of the disabled under Medicare. About 84 percent of the disabled Medicare beneficiaries said it was very important to them to qualify for Medicare coverage. Another that we've stressed is the possibility of buying coverage under Medicare for uninsured older adults who find coverage in the individual market both inadequate and very expensive. And then finally, I think the most exciting new finding from this survey is the high degree of interest of older adults in setting aside more of their wages in a Medicare Health Account that Medicare would manage and make sure they've got extra money available to help them pick up out-of-pocket medical expenses in old age.

So I think at this point we'll turn and open it up to questions.

Operator: Thank you. Ladies and gentlemen if you have a question at this time please press the one key on your touchtone telephone. If your question has been answered or you would like to remove yourself from the queue you may press the pound key. One moment please.

Our first question comes from Theresa Barry of *Bloomberg News*.

Theresa Barry: Hi, I just have a question. Has anyone looked at the cost of adding people to Medicare in the ages between say 50 and 64?

Karen Davis: The premium for that age group would run about $300 a month if they were to pay all of it themselves. So certainly there have been proposals advanced, for example, by President Clinton that would have people pay that kind of a premium, maybe pay a somewhat higher premium at age 65 for their Part B Medicare coverage, and that could be done at relatively low cost but you get relatively low participation if you don't also subsidize that $300 a month for lower-income uninsured individuals, and there's where significant costs come in. So I don't have a number on the tip of my fingertips. I don't know, John, whether you might as well, but we're really talking about $2 to $5 billion a year, it gets to be significant if, say, you said you pay either $300 a month or 5 percent of your income, which ever is less. So if you really made it affordable to older adults at modest income you'd be talking about something on that order or magnitude.

Theresa Barry: Thank you.

Operator: Again, if you have a question at this time please press the one key.

Our next question comes from Joseph Haas of *CD Publications*.

Joseph Haas: Yes, I wanted to ask if this 1 percent Medicare add-on plan whose—what the genesis is of this, whose idea is it, and do the panelist know if it's part of any pending legislation before Congress, if some member of Congress is advocating for it? Thanks.

Karen Davis: Yeah, this something I've been particularly interested in and have felt that it's important to get some sense of the interest of older people, so that's one of the reasons why we did the survey and asked this question. At this point, it's not a legislative proposal. It's really being put out there and would obviously require further analysis of what would be the likely take-up and how significant those savings would be, and what the administrative costs would be, and all of the questions about specifically whether it would be done. For example, whether it would be tax-free wages or whether you would pay income taxes on the amounts that were withheld, and how they would be invested. But certainly the way we phrase the question, it implies that Medicare would manage these accounts so they wouldn't be private investment accounts but simply invested in the government bonds that support the trust fund. So—but it would be an individual personal account so that the money you set aside would be available for you when you retire.

John, I don't know whether you have any other comments on that.

John Rother: Well, I think you should look at this as a kind of a teaser. The fact that there was such a strong response from the survey participants indicates that this is an idea with legs that's worth developing and I think members of Congress will be interested very much in any idea that both is good for—it's probably good for Medicare, but it's also, you know, consistent with the whole themes about promoting savings and promoting pre-funding, and so I think they'll be a high level of interest in this. But this is a contribution that The Commonwealth Fund is making to the public debate that I think constitutes news today and certainly members of Congress will be interested in pursuing it.

Operator: Again, if you would like to ask a question at this time please press the one key.

I'm not showing any further questions at this time.

Karen Davis: In that case, we'll draw to close. We're obviously available if you have follow-up questions. And Mary you want to tell people again how they might get a copy of the transcript and the supporting materials.

Mary Mahon: Yes, thanks Karen. The transcripts and—of this—of today's call and the audio file will be available on our Web site; The Kaiser Family Foundation is taping that for us. It will be available on their site as well, but you can get all the supporting materials on our site, www.cmwf.org.

Thanks very much everyone for calling in this morning.

Karen Davis: Yes, thanks to those who've called in and thanks very much to the panel for the information you've shared with us today.