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In the Literature

EMPLOYER-SPONSORED HEALTH INSURANCE AND PRESCRIPTION DRUG COVERAGE FOR NEW RETIREES

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Despite its reputation as the most reliable private source of prescription drug coverage for Medicare beneficiaries, employer-sponsored health insurance is becoming increasingly less dependable for new retirees. A *Health Affairs* Web Exclusive study (July 23, 2003) has found a sharp decline in the proportion of retirees ages 65 to 69 with medical coverage, including prescription benefits, from an employer.

All indications point to further erosion as employers continue to cut back on coverage for new retirees. Given that Congress is considering waiting until 2006 for the new Medicare drug benefit to take effect, many seniors are likely to have difficulty filling the coverage gap in the meantime.

Results from the Commonwealth Fund-sponsored study, "Employer-Sponsored Health Insurance and Prescription Drug Coverage for New Retirees: Dramatic Declines in Five Years," show that from 1996 to 2000, the percentage of Medicare beneficiaries in the 65–69 age group covered by employer-sponsored health insurance fell from 46 percent to just over 39 percent. There was a similar decline in employer-sponsored drug benefits, from 40 percent in 1996 to 35 percent in 2000. Health coverage for older retirees (age 70 and older), meanwhile, has remained relatively stable.

For the analysis, authors Bruce Stuart and his colleagues at the University of Maryland School of Pharmacy used the Medicare Current Beneficiary Survey, which reports data from a nationally representative sample of approximately 12,000 beneficiaries each year.

Among new retirees, coverage of men has dropped the most rapidly. The share of men ages 65 to 69 receiving benefits from their own retirement policies fell 26 percent from 1996 to 2000. According to the authors, men have accounted for most of the loss in retirement benefits in this age group. The rate of decline for men (nine percentage points) was three times that of women (three percentage points).

The erosion would have been more severe during the study period had men not increasingly sought coverage under their spouses' policies. In 1996, only 17 percent of men with retiree benefits obtained them from a spouse; that percentage climbed to 25 percent in 2000.

Future retirees will experience further erosion of benefits from employers. The authors outlined a number of factors:

- There is nothing to suggest that the pullback in employer offers of retiree health benefits has reached bottom. In fact, firms have indicated in surveys that they are likely to reduce their level of retiree coverage in the future.
- The historical increase in labor-force participation by women has nearly reached its peak. By 2010, 3.4 percent more women in the 55-to-64 pre-retirement age group will be in the workforce—too small of an increase to counteract declining employer coverage offer rates.

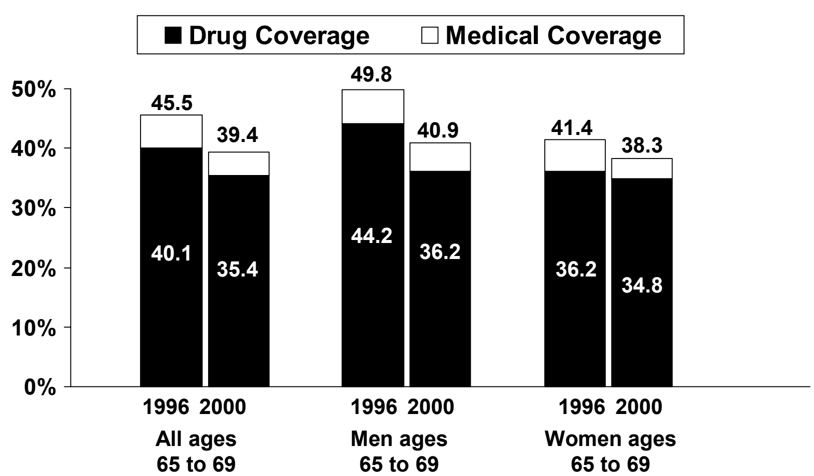
- Employers have singled out prescription benefits for cuts in the face of rapidly rising drug costs.
- The drop in employer-sponsored benefits offered to new retirees occurred over five years—a very short period. Even if the trend continues at the current pace, future coverage for new retirees will be seriously eroded. Demographic and market forces, however, may possibly accelerate the pace.

Most new retirees have so far managed to cope with declining offers of health coverage from their former employers. Alternative sources of supplemental insurance have included Medicare+Choice managed care plans, Medicaid, Veterans Affairs, and other public programs, individually purchased private insurance (Medigap plans), or a combination of plans.

But as the authors point out, only a small proportion of new retirees are eligible for public programs. Meanwhile, none of the standardized Medigap policies and only a handful of Medicare+Choice plans currently available are as generous in their drug coverage as the typical employer-sponsored policy. A growing proportion of Medicare+Choice enrollees, for example, are faced with annual caps on their drug spending—still an uncommon feature of employer coverage. Enrollee' average monthly premiums and cost-sharing are also increasing, and plan pullouts in many regions have stranded increasing numbers of beneficiaries. Furthermore, the decline in Medigap coverage rates among younger Medicare beneficiaries observed in the late 1990s is unlikely to reverse itself, given rapidly rising policy premiums.

The erosion in retiree coverage, coupled with a deteriorating set of adequate alternatives, adds particular urgency to the Medicare drug debate, the authors conclude. They say a properly structured drug benefit would at least provide employers with an incentive to maintain critical benefits that are unavailable in traditional Medicare.

Percentage of 65-to-69-Year-Old Medicare Beneficiaries With Employer-Sponsored Medical and Drug Coverage, 1996 and 2000



Source: B. Stuart, P. K. Singhal, C. Fahlman, J. Doshi, and B. Briesacher, "Employer-Sponsored Health Insurance and Prescription Drug Coverage for New Retirees: Dramatic Declines in Five Years," *Health Affairs* Web Exclusive (July 2003).