Employer Reaction to Health Care Reform:
Retiree Strategy Survey
About This Survey

The health care reform legislation enacted in March 2010 represents the largest transformation to the national health care system since the introduction of Medicare and Medicaid in 1965. Certain provisions in the new law will affect employers’ retiree health care programs, and many plan sponsors have begun accounting for the cost impact of these changes. Health care reform may also provide employers an opportunity to reexamine their long-term retiree health benefits strategy and potentially reduce current and future costs.

In 2010, Aon Hewitt conducted two similar surveys over a period of six months (one in May 2010 and one in November 2010) on employer reaction to health care reform. The surveys specifically focused on employers that offer medical benefits to retirees and their families and their reactions to the retiree aspects of health care reform. The primary focus of the surveys was to determine whether employers planned to make changes to their retiree benefits strategy in light of health care reform. The two surveys combined garnered responses from 344 companies representing 2.2 million retirees. This highlights piece presents findings from the combined surveys in three sections: overall results, Medicare-eligible benefits results, and pre Medicare benefits results.

Key Findings: Across All Plans

- **38%** of respondents are evaluating changes to their long-term retiree medical benefits strategy in the next year in response to health care reform.
- **25%** of respondents are currently implementing or in the process of evaluating changes.
- **16%** of companies have no plans to evaluate their retiree benefits strategy in response to health care reform.

Overall Findings

In response to the new law, about six out of ten employers intend to evaluate their long-term retiree medical benefits strategy in the near future, and nearly half of these companies have already begun the evaluation process. Only 16% of companies have no plans to evaluate their retiree health care program in response to health care reform.

Our survey results show that a growing number of companies realize that now is the time to take a closer look at their retiree medical strategies, so they can act swiftly to leverage key cost and risk management opportunities the new law brings to employers offering these programs. Employers are also motivated to adapt their programs in response to long-term cost implications of the new law on their existing strategies.
For Medicare-eligible retirees, health care reform introduces key changes impacting employer strategies related to prescription drug coverage. The law eliminates tax advantages associated with the Retiree Drug Subsidy (RDS) many employers have been receiving directly from the federal government since 2006, but also enhances Medicare Part D through discounts from pharmaceutical manufacturers on brand drugs dispensed in the “donut hole,” as well as through additional federal subsidies gradually over the next ten years as the current coverage gap is effectively phased out.

Of the 221 companies in the surveys that pay some portion of health coverage for their retirees age 65 or older, three-quarters currently collect the RDS. Among those, 73% said they are altering their retiree drug benefits strategy in light of these provisions under the law. Nearly all such employers (86%) expect to implement changes by 2013, when the RDS tax advantages are eliminated, but 61% anticipate announcing changes as soon as 2011, in order to begin recognizing accounting savings more quickly.

Alternatives most favored by employers making or contemplating changes are those that utilize the enhanced sources of funding available through Medicare Part D. When asked to rank the options they are considering, 34% of companies ranked contracting with a Part D Prescription Drug Plan (PDP) as the number one option and 30% view moving to a pure defined contribution (DC) approach, where post-65 retirees can purchase benefits through the individual Medicare retiree plan market as their top choice. Seventeen percent of companies are most likely to eliminate post 65 retiree drug coverage altogether, in light of the provisions in the new law.

Of employers favoring contracting with a PDP, a majority (57%) plan to utilize an “EGWP + Wrap” approach, whereby the employer contracts for a standard Part D plan design, with a wraparound benefit that attempts to preserve the current plan design and formulary strategy.

Key Findings: Medicare-Eligible Retiree Benefits

- 73% of respondents anticipate altering their retiree drug benefits strategy in response to this legislation
- 61% of respondents plan to announce the changes by 2011
- 86% of respondents expect to implement changes by 2013, when the RDS tax advantages are eliminated
Similarly, employers are looking to utilize new cost management opportunities with respect to pre Medicare retiree benefits. Of the 336 employers that provide coverage to their pre-65 retirees, 74% were planning to apply for the temporary federal reinsurance program intended to help employers offset a portion of the cost of health claims for retirees age 55 to 64 and their families. Nearly half of such companies plan to use the proceeds to reduce premiums, including both employer and participant share, while 21% intend to reduce the employer share of premiums only.

About half of respondents plan to make changes to their benefits strategy to leverage the health insurance exchanges that states are required to create in 2014. Twenty-one percent of respondents favor moving to a pure defined contribution approach, where retirees could use an account established by the employer to purchase coverage through the exchanges. Fifteen percent of employers anticipate eliminating pre-65 coverage altogether in response to creation of the exchanges.

When asked specifically about their strategies for addressing the 40% excise tax on high-cost health plans beginning in 2018, over one-quarter of employers anticipate changing plan features to reduce plan costs (e.g., managing deductibles, copays, coinsurance, etc., or utilizing an HSA/HDHP strategy), over time to manage plan costs and mitigate excise taxes. Twenty-four percent believe they will source coverage through the individual market under a defined contribution approach, specifically to address current excise tax concerns. However, the vast majority of employers (82%) do not anticipate making such changes until 2012 or later.

Key Findings: Pre-Medicare Retiree Benefits

- **74%** of respondents plan to apply for the temporary federal Early Retiree Reinsurance Program (ERRP)
- **58%** of respondents plan to share the ERRP proceeds with participants by lowering their premium contributions towards health care coverage
- **54%** of respondents plan to evaluate their benefits strategy to leverage the health insurance exchanges that states are required to create in 2014

Pre-Medicare Retiree Benefits

Employers are motivated by both the cost implications of doing nothing to their existing retiree health care programs, as well as the opportunities for employers and retirees to reduce costs through specific strategies made possible under health care reform. Though several key provisions in the new law take effect in the future, companies intend to evaluate and refine their programs very soon, enabling them to realize accounting savings more quickly, while giving retirees some time to digest and prepare for these changes.
When anticipating how to handle the additional costs associated with the new health care reform coverage and benefits requirements starting in 2011, 45% of companies have not determined how to handle these costs yet, 9% said they will absorb additional costs, and another 46% said they will pass the additional costs to employees. Among those, that indicated they will pass along the additional costs to employees, the majority (61%) said they would pass along 25% or less of the additional costs.

| Addressing Additional Costs Arising From Health Reform Coverage and Benefit Requirements |
|:--:|:--:|:--:|
| 46% | Pass additional costs to employees |
| 45% | Undetermined at the time |
| 9%  | Employer will absorb costs |

(n=466; multiple responses)

Nearly 75% of respondents provide five or fewer unique medical plans to their employees. Fifty percent of companies that participated in the survey have more than 5,000 full-time employees covered under their health care plans.

**Conclusions**

Employers reviewing their existing health care strategies in light of reform are focused on answering two questions: “What changes do we need or want to make to our health care plans?” and “How can we make them without significantly increasing costs?” After assessing the grandfather provision, companies realize they already comply with many of the requirements of nongrandfathered plans, so the changes they’ll need to make are not likely to add a significant cost or administrative burden. Most employers would rather have the flexibility to change their benefit programs than be restricted to the limited modifications allowed under the new law.

For the latest information on the impact of health care reform on employers, please visit [www.aonhewitt.com/healthcarereform](http://www.aonhewitt.com/healthcarereform)
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