

# Lower Health Claims Liability

## *How employers manage health care benefits for older workers and retirees*

Employers sponsoring health plans struggle with the high cost of offering those plans. Is it any wonder that 90 percent of mid-size employers do not offer retiree health coverage? Nearly 60 percent of large employers are in the same boat.<sup>1</sup>

The high employer cost of health benefits for a growing senior population prevents most employers from offering retiree health plans. With employees retiring later, employers search for better financial and service solutions for older workers. By engaging a dedicated support center for insurance and enrollment services for retirees and Medicare-eligible workers, employers can offer enhanced benefits while lowering future claims exposure.

This white paper examines the challenges of providing employer-sponsored health plans for retirees and Medicare-eligible workers and the advantages of adding a dedicated support center at little or no cost to the employer.

### Trends Affecting Health Care for Older Workers

Gone are the days when most employers provided health coverage for their retirees. Twenty years ago, 66% of employers with 200 or more employees offered retiree health benefits. By 2009, only 29% of employers sponsored a retiree health plan.<sup>2</sup> Today, employers see few alternatives. Employers simply cannot afford the high costs.

Adding to health care costs, employees are working longer and retiring later. At a time when they are more likely to utilize benefits, most working employees or their spouses over age 65 retain the employer health plan as their primary coverage. This and the following trends present major challenges for employer-sponsored health plans.

- Increasing life expectancy
- Aging labor force
- Growing Medicare population
- Eligibility gap between Medicare at 65 and Social Security at 67
- Skyrocketing health care costs

*The trend of employees retiring later increases overall claims liability*

<sup>1</sup> Mid-size employers = 100-999 employees, Large employers = 1,000 or more employees, Agency for Healthcare Research and Quality, *Research in Action* Issue 17

<sup>2</sup> The Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits 2009 Annual Survey*

### Increasing Life Expectancy

Average life expectancy continues to rise in the United States. The average life expectancy in 2000 was 76.8 years. It increased to a record high 77.9 in 2007. Advancements in medicine contributed to a drop in 10 of the 15 leading causes of death. Death rates for the three leading causes – heart disease, cancer and strokes – decreased between 1.8 to 4.6 percent.<sup>3</sup>

Increasing life expectancy means a greater number of older Americans will require some form of health coverage for a longer time.

### Aging Labor Force

Between 1997 and 2007, the number of employed workers age 65 and older increased 101 percent. The statistic is startling considering it does not include the aging baby boomer generation.

From 2004 to 2014, projections estimate the number of workers aged 55 and older will grow four times faster than the total labor force with an annual growth rate of 4.1 percent. By contrast, projections for the 25-to-54-year age group are 0.3 percent and are essentially flat for 16-to-24-year-olds.<sup>4</sup> Employers cannot ignore the implications.

Americans are living longer and working longer. Improved preventive care and medical technology contribute to increased life expectancy. Health care that once concentrated on acute illnesses now focuses on chronic illnesses. Approximately 80% of Americans have at least one chronic condition, such as high blood pressure or diabetes. Combined with a longer life expectancy, the treatment of chronic illnesses expands the use of health care services.

Reports estimate the cost of providing health care for Americans over 65 is three to five times greater than care for someone younger.<sup>5</sup> The added costs are troubling to employers besieged with already high health plan costs.

### Growing Medicare Population

Introduced in 1965, Medicare today covers 95% of eligible participants.<sup>6</sup> In 2010, a projected 40.2 million people in the United States will be 65 years of age and older. Projections are the number of people in this age group will grow rapidly over the next few decades. This trend, like many population trends, is due largely to the baby boomer generation. The oldest of the baby boomers (those born between 1946 and 1964) turn 65 in 2011.

***The number of older workers is growing four times faster than the total labor force***

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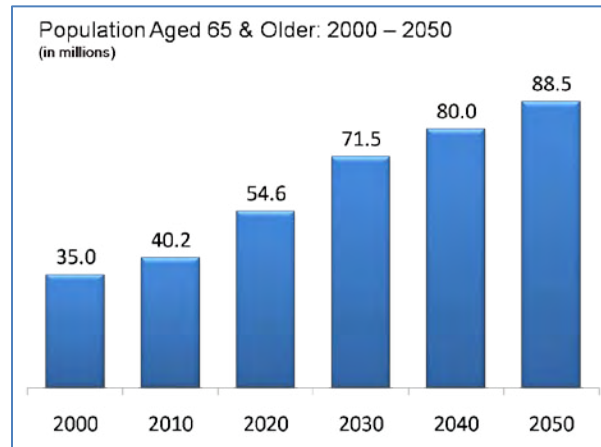
<sup>3</sup> Centers for Disease Control and Prevention, Morbidity and Mortality Weekly Report, October 30, 2009, 59(42); 1185

<sup>4</sup> U.S. Bureau of Labor Statistics, Spotlight on Statistics, July 2008, *Older Workers: Are there more older workers in the workplace?*

<sup>5</sup> Centers for Disease Control and Merck Company Foundation, *The State of Aging and Health in America 2007*

<sup>6</sup> Office of the Actuary, Centers for Medicare & Medicaid Services Department of Health and Human Services, *Brief Summaries of Medicare & Medicaid: Title XVIII and Title XIX of The Social Security Act*, November 1, 2006

By 2050, the over 65 projection increases to 88.5 million people and represents 20 percent of the total population – a 150% increase from 2000.<sup>7</sup>



How does this affect employers that sponsor health plans? Employers<sup>8</sup> must offer employees over age 65 the option to continue their employer-sponsored health plan as long as they are still working. “Medicare Secondary Payer” regulations require the employer’s health plan to pay first on eligible claims for those employees. The regulation includes Medicare beneficiaries with coverage through their spouses’ employer plan. In the past, Medicare paid first, even if the Medicare beneficiary had other coverage. Employer-sponsored plans paid secondary, which reduced or eliminated payments on certain claims.

With the growing number of Medicare-eligible workers, the employer’s liability for claims and future claims exposure increases. For both fully insured and self-funded health plans, the liability and claims exposure usually result in higher costs.

*The two-year gap between Medicare and full retirement through Social Security has many employees working beyond age 65*

#### Medicare – Social Security Eligibility Gap

In 1983, to reduce expenditures, Congress passed legislation for a phased-in increase in the Social Security retirement age from age 65 to 67. Medicare’s eligibility at age 65 did not change. This created a gap between Medicare’s availability at age 65 and Social Security at age 67. Although discussed, there has been no aligning of Medicare’s eligibility with Social Security’s retirement age. Employees work longer so they receive the full social security benefit when they do retire.

Increased life expectancy, the aging of the workforce and the rising number of employees working beyond age 65 puts a strain on employer’s efforts to control health care costs.

<sup>7</sup> Population Division, U.S. Census Bureau, Released: August 14, 2008

<sup>8</sup> Regulation applies to employers with 20 or more employees

### Skyrocketing Health Care Costs

The current system of employer-sponsored health coverage began in the 1940s as an incentive to attract employees. Strong labor unions and tax advantages from the government quickly escalated the growth of employer-sponsored health plans. In 2008, employer-sponsored health plans covered 69% of workers.

Employers do not need to be told about the skyrocketing costs of providing health care benefits. They live it. Since 1999, average premiums for family coverage increased 131%.<sup>9</sup> A report on small businesses projects 178,000 small business jobs will be lost by 2018 because of health care costs.<sup>10</sup>

What once was an incentive for employers has become a financial burden so severe it threatens its existence. The impact of future health care reform on employer-sponsored health plans is still unknown. In the meantime, employers have some very tough decisions to make regarding health care benefits.

### **The Problem for Employers**

Employers find themselves in a catch-22. They cannot justify the high cost of a retiree health plan. Without one, however, older workers delay retirement so they can keep their health coverage when they need it most. For older workers under 65, coverage before Medicare is generally limited and expensive.

There are higher claims costs associated with older workers and few affordable options for employers. Federal legislation shifts the primary payer status for Medicare-eligible workers to the employer-sponsored health plan. Most workers over 65 keep their employer-sponsored health plans even if there are Medicare options with lower out-of-pocket costs. Many older workers assume the employer-sponsored plan has better coverage and lower costs. The increasing number of older workers raises the average age of the group. As a result, health care claims and premiums usually increase.

Typically, when employees have questions about benefits, they seek the help of their human resources (HR) department. Despite the best efforts of HR personnel, navigating all the available alternatives for Medicare-eligible employees is confusing and time-consuming.

Employers need a financial and service benefit solution for retirees and those nearing retirement that has little or no cost for the employer.

*Retirees and older workers have higher claims costs, gaps in coverage and confusing Medicare choices*

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<sup>9</sup> Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2009 Summary of Findings*

<sup>10</sup> Small Business Majority, *The Economic Impact of Healthcare Reform on Small Business*, July 11, 2009

## The Solution: A Dedicated Support Center for Retirees and Employees Nearing Retirement

To overcome the benefit challenges of retirees and employees nearing retirement, employers are utilizing dedicated support centers. Dedicated support centers assist retirees, those nearing retirement and their families to transition from group to individual health benefits. With an emphasis on guiding employees and former employees through the health care maze, dedicated support centers provide a much-needed analysis for the specific needs of the individual.

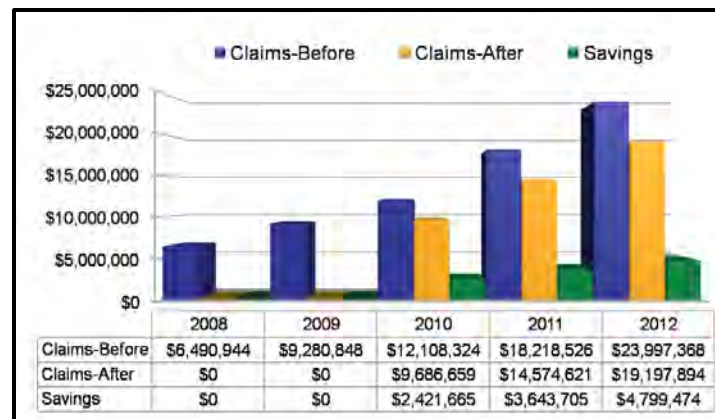
### Benefits for the Employer

Additional benefits emerge for the employer when they use a dedicated support center, including:

**Lower current claims liability:** Studies show older workers use more health care services and are generally more willing to spend a greater portion of their income on health care. Older workers are more interested in asset protections. In working with a dedicated support center, they often find health coverage through Medicare options that are a better fit for their financial planning. By selecting other health plan options, a decrease in claims exposure and liability for the employer-sponsored plan can occur. The demographics for the group also change. If the result is a lower average age, claim costs and premiums typically decrease.

*Example: The following is a cost-savings projection for one company's experience. It shows claims before and after adding the dedicated support center and projected savings. Assumptions for 2010 include a 14% trend in claims and an increase in the number of members, age 65 or older, from 956 to 1,211 members. It assumes 20% of the Medicare-eligible population elects a Medicare plan offered through the support center.*

*Fist-year savings: \$2.42 million      Savings by year three: \$10.9 million*



*A dedicated support center can lower employers' claims liability and provide a competitive alternative to a retiree health plan*

**Increased benefit options:** Employers that do not currently offer retiree health care benefits are able to offer to their retirees technical and expert consulting services through the dedicated support center. Older workers nearing retirement also benefit from the support they receive in planning for their future. The dedicated support center offers an additional benefit at no cost to the retiree or soon-to- retire employee.

**Enhanced recruiting and retention:** Employers are able to promote the added benefit support for retirees and those transitioning from an active to retired status. With so few employers offering any kind of retiree health care package, the added benefit of the dedicated support center enhances recruiting and retention efforts for the employer. It builds a supportive and caring culture for the organization, especially during difficult economic times.

**Improved productivity:** With all the variations and regulations for Medicare coverage, creating a clear understanding takes time. Misunderstanding compliance issues can have serious consequences. A dedicated support center takes that burden off HR personnel, employees and family members. Removing the responsibility from HR personnel allows more time for other, strategic HR functions. Employees and family members eliminate hours searching online or speaking with Medicare representatives. A dedicated support center enables a more productive use of everyone's time.

## What to Look for in a Dedicated Support Center

To capture the full benefit of a dedicated support center for retirees and employees nearing retirement, employers should look for the following essential requirements:

*Look for an independent support center with full asset protection consulting by licensed professionals*

**Low or no cost for services:** Look for a delivery model that, at a minimum, has a very low cost for the support services. To realize maximum savings, the preferred model has no cost to the employer. There should be no participation requirements or administration responsibilities for the employer.

**Independent service organization:** For unbiased decision and enrollment support on Medicare plan selection, it is important that the selected support center is an independent service organization. Organizations affiliated with specific insurance carriers or other restricted product offerings may not provide the best solutions.

**Full asset protection consulting:** The best support centers offer a full array of senior-based insurance and financial consulting services. In addition to Medicare information and enrollment support, services such as individual health insurance, life insurance, long-term care and retirement funding provide comprehensive choices for full asset protection.

**Appropriate Licensing:** Consultants are Medicare enrollment and plan specialists with appropriate insurance and Medicare Advantage licenses. Documented support is available of consultants' experience and knowledge of all delivery models, such as HMOs, PPOs and Health Savings Accounts.

**Regulatory/procedural compliance controls:** Documented compliance procedures for regulatory and plan requirements and internal procedures for privacy, measurable service standards and process controls should be made available. Internal processes should have a fully developed analysis model including individual-based needs assessment and post-enrollment support.

**Comprehensive support services:** The best support centers provide comprehensive support services including a dedicated call center with a toll-free number, online web and email support as well as open enrollment and communication support for employers.

**Activity reports:** The support center should provide regular activity reports including call center activity, demographic and geographic data, enrollment and product reports.

**Private label:** A support center that allows for private labeling assists employers in branding the added benefit as its own. It enhances the overall benefit package and demonstrates the employer's support in providing its employees with helpful retirement planning tools.

**Balanced employer-employee support:** The best support centers balance the needs of the employer with the end-users (the employees and retirees). The support center acts as an ambassador for the employer by representing the valued benefit of its services that the employer sponsors.

## The XYZ Company Advantage

XYZ Company provides a private-labeled, no-cost support center solution to employers that do not currently offer retiree health benefits. Created by former health insurance executives, XYZ Company is uniquely qualified in understanding the complexities of Medicare and the challenges employers face in providing health care benefits for the growing senior population.



XYZ Company's licensed insurance and Medicare specialists provide full asset protection consulting including Medicare and individual health insurance, life insurance, long-term care and retirement funding consulting.

XYZ Company's proven three-step support model includes an individual-based needs assessment, plan comparison and cost analysis, individual and onsite open enrollment support. XYZ Company is an independent organization with no contractual limitations with insurance carriers. It offers

services nationally and is contracted with all major health insurance and financial services providers.

The following are a few of the strategic partnerships with XYZ Company:

**Arthur J. Gallagher:** one of the world's largest insurance brokerage and risk management firms, Arthur J Gallagher partnered with XYZ Company in offering its dedicated support center to Gallagher's employer-sponsored health plan clients.

**Banner Health:** one of the largest nonprofit hospitals in the country, Banner Health currently offers XYZ Company's dedicated support center services to its more than 35,000 employees.

**Health Net:** Health Net offered XYZ Company's dedicated support center services to members enrolled in Health Net's Medicare Advantage plans in nine states where Health Net made a business decision to exit those markets.

**To find out how your company can benefit from XYZ Company's dedicated support center, contact John Smith at [jsmith@xyzcompany.com](mailto:jsmith@xyzcompany.com) for a no-cost analysis or visit [xyzcompany.com](http://xyzcompany.com).**