

For Immediate Release

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Employers Anxious About Retiree Medical Promises

Employers are feeling anxious about the costs of their retiree medical obligations, and their ability to address these obligations is constrained by their need to address larger workforce issues during difficult economic times, and wariness about existing marketplace solutions.

Brookfield, Wisconsin—A weak economy and uncertainty about the direction, timing, or impact of national health care reform have plan sponsors in a quandary as to how to address the rising cost and continuing administrative burden of their retiree medical plans. These findings are from a new survey from ISCEBS and Towers Perrin. The survey also revealed a sense of urgency about the need to make changes to costly retiree medical plans, an urgency compounded by the historical lack of marketplace solutions for pre-Medicare retirees, creating further anxiety among plan sponsors.

“Employers have a good understanding of their retiree medical problems, and a wish-list about the general features of an attractive solution. Specifically, they want retirees to have access to high-quality commercial insurance products and they want an outsourcing partner to handle administration,” says C. Scott Boring, CEBS, Society President and Vice President of Lockton Insurance Brokers LLC.

But plan sponsors remain concerned about retiree disruption, and are looking for clarity about the right way to recast their ‘deal’ with employees and retirees to achieve broader workforce management objectives.

The joint nationwide survey conducted by Towers Perrin and the International Society of Certified Employee Benefit Specialists, now in its fifth year, drew responses from 155 organizations on issues and objectives influencing retiree medical strategy and design.

Tension Between Retiree Medical Strategy and Workforce Needs

As employers have strained the capacity of their human resources staffs to address life-or-death business challenges over the past year, issues as important and pressing as retiree medical have been put into a holding pattern. To get a sense of the scope of this issue, nearly 70% of survey respondents indicated that they continue to provide retiree medical coverage to some or all retirees, and about 80% of retiree medical plan sponsors pay some portion of the cost of plan coverage. Even extending future retiree medical coverage to new hires — a concept conventionally thought to be a thing of the past — is a reality for 40% of the survey’s respondents.

The most heightened tension is with pre-65 retirees, for whom there remains a lack of access to affordable private insurance options. Without affordable marketplace offerings, employees without access to subsidized employer coverage before age 65 are

delaying retirement, giving rise to other workforce management challenges. Even the 45% of employers who subsidize pre-65 coverage but limit their subsidy to a fixed dollar maximum, or cap, are feeling pressure, as costs rise above the caps and retirees — who must pay the full excess cost — are exposed to high and rapidly rising premium cost-sharing.

Employers have more alternatives for post-65 retirees, whose employer coverage is secondary to Medicare, due to a rich variety of affordable individual insurance products. Despite this, only 11% of survey respondents reported weaning off plan sponsorship and converting to a premium reimbursement model linked to private commercial insurance offerings. While the precise reasons for this apparent inertia are unclear, there is evidence that survey respondents seek a broader, more comprehensive marketplace-based solution that supplements private insurance with outsourced administration. “Medicare coordinators” offer just this type of a one-stop-shopping solution, but may need a year or more to gain sufficient traction in the market to build credibility and appeal for plan sponsors.

Change *is* coming

Survey respondents are clear about their desire for change, once the likely features of potential national health care reform are better understood and outsourcing solutions begin to mature. Employers understand the role of retiree medical as a component of total rewards, and the ways in which thoughtful, strategic planning can balance appeal for employees and retirees with affordability for employers.

To view the survey results, *Retiree Medical Challenges and Opportunities*, visit www.iscebs.org

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About The International Society of Certified Employee Benefit Specialists

The International Society of Certified Employee Benefit Specialists is a nonprofit educational association providing continuing education opportunities for those who hold or are pursuing the Certified Employee Benefit Specialist (CEBS), Compensation

Management Specialist (CMS), Group Benefits Associate (GBA) or Retirement Plans Associate (RPA) designations offered through the CEBS® program. Visit the Society Web site at www.iscebs.org.

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