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FOR IMMEDIATE RELEASE

**Employers Continue to Consider Bold Changes to Retiree Medical for 2009 and Later**

*Employers appear eager to explore solutions that involve rethinking plan design, cost sharing and the employer's role in sponsorship and administration for both pre-65 and post-65 retirees.*

**Brookfield, WIS., December 18, 2008** — Providing medical benefits for pre-65 and post-65 retirees presents continuing complex and costly challenges for most employers, a new survey from ISCEBS and Towers Perrin shows. The survey found that employers are struggling to balance conflicting objectives in responding to organizational cost pressures, rapidly rising retiree contributions, administrative challenges, and the transition of older workers into retirement.

In the absence of a panacea, employers are examining ways in which current and emerging market offerings can support “changing the deal” with employees and retirees without undermining workforce management initiatives or inciting undue employee or retiree unrest. Importantly, many survey respondents indicated that they plan to consider major changes — even bold ones — in the coming years, which shows an interest in finding effective alternatives to traditional employer sponsorship and subsidization of retiree medical.

“Employers seem ready for change, but also appear unsure about market readiness of alternatives and potential retiree disruption” said Philip Grisafi, CEBS, Society President and Senior Vice President of Mosse & Mosse Associates, Inc.

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

**Major Challenges, New Opportunities**

While the long term trend toward employer exit is clear, with only 39% of employers offering retiree medical to new hires, over 70% of respondents still offer retiree medical to current retirees and some portion of their current active population. This means that near term strategies are increasingly important to manage employers' current obligations. Nearly 70% of

respondents cited costs and cost increases as a significant force influencing change in their programs. This factor resonates with another major factor, the current economic environment, which nearly 90% of respondents cite as an influential driver of change. These continued uncertainties fuel employers' eagerness to explore alternatives to offload trend risk and begin to distance themselves from plan sponsorship and administration efforts for both pre-65 and post-65 retirees.

For pre-65 retirees, employers continue to wrestle with difficult challenges given the lack of access to affordable individual insurance for this high-cost population. The absence of affordable company-sponsored pre-65 coverage means that many older employees will delay retirement, presenting another significant workforce issue for employers. Among survey respondents, there is a broad range of subsidy levels for pre-65 coverage, with about two-thirds subsidizing between 40% and 80% of plan cost. Increasingly, however, employers are capping their financial support for pre-65 retiree medical coverage. Forty-eight (48%) of respondents to this year's survey indicated they have a cost cap, up from 43% last year.

While only 7% of employers have ceased financial support for pre-65 coverage in the past two years, 42% have either changed or plan to change the cost-sharing "deal" between company and retiree. This suggests rapidly increasing retiree contributions in the years ahead, adding further pressure on retirement affordability for many workers. In response, a significant percentage of employers (34%) have introduced, or plan to introduce, a Health Savings Account (coupled with a High Deductible Health Plan) as a means to promote tax free retiree medical savings.

For post-65 retirees, financial pressures on employers and retirees are similar to those for pre-65 retirees. Many employers (60%) who have capped their subsidy report plan costs in excess of the cap. Almost 40% have or will recast cost-sharing terms with post-65 retirees, and almost 20% have ceased – or plan to cease – providing any post-65 financial support at all.

Against this trend of declining financial support, there is a rich array of coverage alternatives for post-65 retirees given the thriving individual insurance market triggered by the 2003 Medicare Modernization Act. Survey respondents indicate increasing interest in adopting or evaluating alternatives to traditional employer-sponsored post-65 coverage to take advantage of this growing market. Significant percentages of employers indicate that they have adopted – or plan to adopt – alternatives including Medicare Advantage plans, Part D drug plans, Medigap options, and new approaches promoting the purchase of individual post-65 coverage. This suggests a more rapid movement toward an ultimate exit for employer plan sponsorship.

## **Changes Unfolding Over the Long Term**

“Employers appear to be taking a ‘go-slow’ approach so far to adopting major changes in their retiree medical programs,” said Stephen Parahus, ASA, Towers Perrin Senior Consultant. “But given the current state of the economy, we expect that more employers will need to consider dramatic change in the short term to balance cost savings imperatives with HR and retiree relations objectives.”

To view the survey results, EMPLOYERS ARE POISED TO TAKE ACTION ON RETIREE MEDICAL PLANS, visit [www.iscebs.org](http://www.iscebs.org)

## **About Towers Perrin**

Towers Perrin is a global professional services firm that helps organizations improve performance through effective people, risk and financial management. The firm provides innovative solutions in the areas of human capital strategy, program design and management, and in the areas of risk and capital management, insurance and reinsurance intermediary services, and actuarial consulting. Towers Perrin has offices and alliance partners in the United States, Canada, Europe, Asia, Latin America, South Africa, Australia and New Zealand. More information is available at [www.towersperrin.com](http://www.towersperrin.com).

## **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 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](http://www.iscebs.org).

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