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## **Employers Acting Now to Take Advantage of New Retiree Medical Solutions**

### ***Reform driving rapid change in employer-sponsored retiree medical programs***

**NEW YORK, June 9, 2011** — Rapid development of post-health care reform retiree medical options is empowering employers to embrace bold, new solutions to help active employees prepare for retirement and enable current retirees to obtain more cost-effective health care coverage, according to nearly 250 large employers responding to the Sixth Annual Employer Survey on Retiree Medical Strategy, conducted jointly by Towers Watson (NYSE, NASDAQ: TW) and the International Society of Certified Employee Benefits Specialists (ISCEBS).

“Cost inflation, tax law changes and accounting rules influence how employers have defined their offer of health care benefits to retirees. Many employers have struggled to continue providing valuable benefits while managing their financial commitment,” said Stephen Parahus, senior consultant with Towers Watson. “Now that health care reform has created new options for retirees to purchase cost-effective individual coverage, employers are seizing the opportunity to assess their current approach to managing retiree health care benefits.”

Nearly 60% of the retiree medical plan sponsors responding to the survey revealed that the high cost of providing coverage and opportunities under health care reform are primary reasons for rethinking their role in providing retiree medical benefits. Among these employers, 87% cite new federally subsidized insurance options under reform for pre-65 coverage; 73% cite the “Cadillac tax” as a concern, and 58% are swayed by coverage enhancements for Medicare Part D prescription drug coverage.

For Medicare retirees, many employers are adopting one of two options. Approximately one-third of employers have converted their current Retiree Drug Subsidy programs to Part D Employer Group Waiver Plans (EGWP) or plan to do so in the next two years in order to take advantage of the higher funding

available to Part D plans. A small percentage of employers (5%) have discontinued group plan sponsorship entirely and are instead helping Medicare retirees purchase higher-value medical and pharmacy insurance in the individual market through the use of increasingly common Medicare coordinators. This approach enables employers to reduce their financial commitment while ensuring that retirees have access to attractive coverage options, including enhanced Part D coverage available to all Medicare participants.

“There are really no current implications of reform for pre-Medicare retirees. Changes for this group are expected to begin as we near 2014, when the exchanges are operative, but these changes will also depend on whether reform goes into effect as written or if it is modified,” said Steven Grieb, CEBS Society President and Vice President and Senior Trust Counsel for Marshall & Ilsley Institutional Trust.

Approximately 80% of respondents currently provide a subsidy for pre-Medicare retiree coverage, and most respondents plan to keep these subsidies over the next several years. Of the employers subsidizing pre-Medicare coverage, 46% have capped their subsidies, leading to substantial increases in retiree contributions and increasing the likelihood of older employees delaying retirement.

While subsidies are likely to continue well into the future, employers are making changes to their retiree medical plan design for pre-Medicare retirees. Forty-seven percent made plan design changes in 2011 or earlier, and another 25% are considering changes for 2012 or 2103. In addition, 42% of respondents are considering terminating group plan sponsorship for pre-Medicare retirees altogether and encouraging them to elect more favorable coverage in the insurance exchanges slated to take effect in 2014.

Employers are also looking to improve retiree health care awareness by providing account-based plans (33%), communicating costs for pre-Medicare coverage (32%) and promoting planning resources so employees can anticipate health care costs in retirement (29%).

Employers have been long searching for ways to reduce or eliminate their financial commitment toward retiree medical. “Prior to reform, the lack of effective individual retiree insurance options created an impediment to employers exiting retiree medical,” said Stu Alden, senior consultant with Towers Watson. “Now, with reform, this exit can be a mutually beneficial transition that reduces cost for employers while providing retirees with significant value and enhanced choice through the emerging individual market. This is true today for Medicare retirees, and — depending on the ultimate shape of health care reform — could be true in 2014 and beyond for pre-Medicare retirees.”

For access to the full survey report, visit [www.towerswatson.com/retireehealth](http://www.towerswatson.com/retireehealth) (<http://staging.towerswatson.com/research/4634>).

**About the Survey**

The Sixth Annual Towers Watson/ISCEBS Employer Survey on Retiree Medical Strategy tracks employers' actions and plans regarding retiree medical strategies and practices. The survey was completed by 248 employers, between January 2011 and February 2011, and reflects respondents' 2010 and 2011 retiree medical program decisions and strategies, and their plans for years after 2012. These employers collectively employ 2.8 million full-time employees, have 1.1 million employees enrolled in their retiree medical programs and operate in all major industry sectors.

**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<sup>®</sup> program. Visit the Society website at [www.iscebs.org](http://www.iscebs.org).

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