Trends In Retiree Health Insurance, 1997–2003

Today’s workers might find that retiree benefits have disappeared by the time they retire.

by Thomas Buchmueller, Richard W. Johnson, and Anthony T. Lo Sasso

ABSTRACT: Although millions of older Americans rely on employer-sponsored retiree health benefits to help pay their medical expenses, declines in this coverage have been documented. Using data from the Medical Expenditure Panel Survey, our findings reveal steady erosion in retiree health benefits since the mid-1990s. Based on this much larger survey of private establishments than previous studies have used, we conclude that in 2003 only about one-quarter of private-sector employees worked at establishments that offered health benefits to retirees, down from 32 percent in 1997. Private firms have also been passing higher shares of health insurance costs to retirees. [Health Affairs 25, no. 6 (2006): 1507–1516; 10.1377/hlthaff.25.6.1507]

Although millions of older Americans rely on retiree health benefits from a former employer to help pay their medical expenses, coverage may be disappearing. As health care costs rise, the workforce ages, and global competition intensifies, many employers seem to be concluding that they can no longer afford to offer subsidized health insurance to retirees. The implementation of the Medicare prescription drug benefit in 2006 may further erode employer coverage, with some firms willing to have their retirees rely solely on enhanced public-sector health benefits. In late 2005 and early 2006, several large companies, including GM, Ford, Chrysler, Nissan, Verizon, and Sears, announced cuts in retiree health benefits for future retirees. However, despite widespread media reports and anecdotal accounts, there is little hard statistical evidence about the decline in employer health benefits for retirees. To fill that gap, we used data from a large, nationally representative survey to estimate recent trends in the share of private-sector workers employed at firms offering retiree health insurance.

- Breadth of retiree coverage. In 2002, employer-sponsored retiree health insurance covered about 5.3 million adults ages 55–64 and about 10.5 million adults age 65 and older.1 For early retirees, employer-sponsored health benefits provide pri-
mary insurance coverage. Few affordable alternatives exist. Although federal law requires employers with twenty or more employees to offer continuation coverage to separating workers, coverage must last for only eighteen months (or twenty-nine months for those with disabilities), and former employees must pay the full premium cost. Private nongroup coverage is expensive, especially for those with health problems, and many insurers deny coverage for even relatively minor health problems. Adults younger than age sixty-five can qualify for Medicaid or Medicare benefits only if they are blind or disabled or have end-stage renal disease (ESRD). Medicaid recipients must also meet strict eligibility, income, and asset tests.

After age sixty-five, retiree health insurance supplements Medicare, defraying cost-sharing requirements and typically covering services excluded from the basic Medicare benefits package. For example, most retiree health plans cover prescription drugs, which Medicare did not cover until Part D was implemented in 2006. Beneficiaries with employer drug coverage can now avoid paying Part D premiums and still obtain help with drug expenses.

**Erosion of coverage.** Retiree health insurance offers dropped sharply about fifteen years ago. The share of private firms with 200 or more employees providing retiree health insurance fell from 66 percent in 1988 to 36 percent in 1993. Most analysts attribute this decline to a 1993 accounting rule requiring employers to recognize expected future retiree health care costs as liabilities on their balance sheets. Although fragmentary, the available evidence suggests that less erosion in access to retiree health benefits has occurred since 1993. Employer surveys by first KPMG and then the Health Research and Educational Trust (HRET), in partnership with the Henry J. Kaiser Family Foundation (KFF), show that between 1993 and 2003, the share of private firms with 200 or more employees providing retiree health insurance fluctuated between 40 percent and 35 percent. From 2003 to 2005, however, the share fell from 38 percent to 33 percent. Data from Mercer Human Resources Consulting indicate that the share of employers with 500 or more workers offering health benefits to early retirees declined from 46 percent in 1993 to 29 percent in 2001 but remained roughly constant through 2005. Hewitt Associates found that among employers with 1,000 or more workers, the share offering health benefits to early retirees fell from 88 percent in 1991 to 73 percent in 2000. Recent surveys of retirees and workers nearing retirement generate mixed results, with some showing a decline in coverage and offers and others showing little change.

**Recent developments.** An important recent development in retiree health benefits is employers’ effort to shift costs to retirees. Employer surveys show that between 2004 and 2005, about seven in ten private firms offering retiree health benefits and employing 1,000 or more workers increased retiree contributions to premiums, and more than one-third increased cost-sharing requirements. Nearly two-thirds had caps in place in 2005, limiting firms’ future financial obligations for retiree health coverage. Household surveys also reveal rapid premium increases for
older adults with retiree health benefits. For example, median monthly premium contributions to employer health plans by Medicare beneficiaries age sixty-five and older in the Health and Retirement Study (HRS) more than tripled in inflation-adjusted dollars, increasing from $13 (in constant 2002 dollars) in 1998 to $50 in 2002.¹¹

These studies have a number of limitations. The existing employer surveys are quite small. The 2005 Kaiser/HRET survey collected data from only 1,182 firms with 200 or more employees, and the Mercer survey collected data from fewer than 3,000 firms.¹² The focus on large employers ignores the many workers employed by small firms. Further, to assess the financial security of future generations of retirees, we need information on trends in the share of workers with access to retiree health benefits, which these surveys do not report. Self-reports of future retiree health benefits in worker surveys might not be reliable, because few workers are well informed about their future retirement benefits.¹³ Our study was designed to fill in some of these gaps.

Study Data And Methods

■ Data source. Our data are from the Medical Expenditure Panel Survey Insurance Component (MEPS-IC), a nationally representative, repeated cross-sectional survey of private-sector establishments. We used data from 1997 to 2003, a period of rising health insurance costs when retiree plans came under strong financial pressure.¹⁴ The sample size (approximately 25,000 establishments per year) is roughly ten times as large as the Kaiser/HRET survey sample. MEPS-IC has an average response rate of roughly 78 percent, which also compares well to other establishment surveys.¹⁵

MEPS-IC collects information on whether the establishment offers health insurance to active workers and retirees (younger than age sixty-five and age sixty-five and older), as well as data on premium levels and cost sharing. It also collects data on many establishment and firm characteristics. One limitation of MEPS-IC is that occasional changes in the questionnaire limit the years during which we can compare some of our measures. For example, industry information is unavailable for 2003, and retiree premium information is consistent only between 2000 and 2003.

■ Methods. An important methodological issue is the appropriate unit of observation. Simply estimating the share of establishments offering retiree health benefits would not shed much light on workers’ future retirement security, because these estimates give as much weight to an establishment employing a handful of workers as to one employing thousands. The variation in retiree health insurance offers by firm size makes simple establishment-level estimates especially problematic.

Instead, we weighted establishments by number of employees to derive estimates of the share of private-sector workers employed by firms offering retiree health benefits. (For comparison purposes, we also show estimates at the simple establishment level.)¹⁶ These worker-level estimates overstate the share of work-
ers qualifying for retiree health benefits, because MEPS-IC does not indicate the firm’s benefit eligibility standards. Some employers offering benefits exclude particular employees from coverage, such as part-timers and hourly workers.

**Study Results**

- **Offer rates by firm size.** Large private establishments are much more likely than small establishments to offer health benefits to retirees. In 1997, only 9 percent of establishments with 25 or fewer employees and 25 percent of establishments with 26–100 employees offered retiree health benefits, compared with 40 percent of establishments with 101–500 employees and 51 percent with more than 500 employees (Exhibit 1). For each size category, the share of private employers offering retiree health benefits declined between 1997 and 2003, although for the largest establishments, the decline was not statistically significant. The share of establishments with fewer than 100 employers offering retiree health benefits fell by roughly one-third. Among establishments with 101–500 employees, the offer rate fell ten percentage points, roughly a 25 percent decline relative to the offer rate in 1997. Offer rates declined only 5 percentage points, or about 9 percent in relative terms, among the largest establishments (those that employ more than 500 workers).

- **Offer rates by share of private-sector workers.** Because many people work at large establishments, the share of workers with access to retiree health benefits exceeds the share of establishments offering them. In 1997 about 32 percent of private-sector workers were employed at establishments offering retiree health benefits (Exhibit 2). By 2003 this figure was down to 25 percent. Expressed in levels, this change means that the number of private-sector workers with access to retiree

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**EXHIBIT 1**

*Trends In Employers’ Offers Of Retiree Health Insurance, By Establishment Size, 1997–2003*

<table>
<thead>
<tr>
<th>Percent of establishments offering retiree coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
</tr>
<tr>
<td>501+ workers</td>
</tr>
</tbody>
</table>

**SOURCE:** Authors’ estimates from Medical Expenditure Panel Survey Insurance Component (MEPS-IC) data.

**NOTES:** For establishments with 1–25, 26–100, and 101–500 workers, 2003 offer rate differs significantly from the 1997 offer rate (p < .05). For establishments with 26–100, 101–500, and 501+ workers, 2003 offer rate differs from the 2003 offer rate among establishments with 1–25 workers (p < .05).
health benefits fell by about 6.4 million. Employers are slightly more likely to offer coverage for retirees who are younger than age sixty-five than for those who qualify for Medicare (Exhibit 2).

**Offer rates by key establishment characteristics.** *Industry.* The share of workers with access to retiree health benefits varies by industry sector (Exhibit 3). In general, workers in high-turnover, lower-wage industries with relatively few unionized workers, such as personal and professional services and construction and agriculture, have low rates of retiree health coverage that declined relatively rapidly between 1997 and 2002. By contrast, workers in lower-turnover, higher-wage industries that tend to be unionized (manufacturing; finance, insurance, and real estate; and transportation and utilities) generally have higher rates of retiree health coverage that fell more slowly over time.

*Establishment size.* Roughly half of workers in private establishments with more than 500 employees worked for firms that offered retiree health benefits in 2003. By contrast, in that year only about 9 percent of workers in private establishments with twenty-five or fewer employees worked for firms with retiree health benefits (Exhibit 3). The share of private-sector workers at establishments offering retiree health benefits fell for workers at establishments of all sizes, but the decline was most pronounced for workers at establishments employing 25–500 workers.

*Unionization.* Access to retiree health benefits is more prevalent among unionized workers than nonunionized workers (Exhibit 3). Between 1997 and 2003, the share with access to retiree health benefits increased to 58 percent for unionized workers; it fell by nearly a third, to just less than 20 percent, for nonunionized workers.

*Age of workers.* Workers at private establishments with relatively high shares of older employees experienced slightly less erosion in access to retiree health benefits between 1997 and 2003 than did their peers at establishments with fewer older employees. We ranked establishments by the share of the workforce older

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**EXHIBIT 2**
Share Of Private-Sector Workers At Firms Offering Retiree Health Insurance, By Age Group Targeted By Plans, 1997 And 2003

<table>
<thead>
<tr>
<th>Percent of workers in establishments offering retiree coverage</th>
<th>1997</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any coverage</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Under age 65</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Medicare-eligible</td>
<td>70</td>
<td>70</td>
</tr>
</tbody>
</table>

**SOURCE:** Authors’ estimates from Medical Expenditure Panel Survey Insurance Component (MEPS-IC) data.

**NOTES:** Offer rate in 2003 differs significantly from offer rate in 1997 (p < .05).
than age fifty and compared access to retiree health benefits among workers at establishments in the top quintile of the distribution (at which older workers made up at least 27 percent of all employees) with all other establishments. In 2003, about 27 percent of workers at establishments with the oldest workforces were employed by firms offering retiree health benefits, compared with about 25 percent of workers in the bottom four quintiles of the distributions (Exhibit 3). Because older workers probably value retiree health benefits more than younger workers do, these findings are consistent with the notion that employers’ decisions about benefits should reflect employees’ preferences. 20

**Age of firm.** Firms that have been in business longer are much more likely to offer retiree health benefits than firms that were established in recent years (Exhibit 4). In 2003 about a third of workers in firms that had been in business for twenty or more years had access to retiree health benefits, compared with about 4 percent of workers in firms that had been in business for fewer than five years and about 7 percent of workers in firms that had been in business for five to nineteen years.

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**EXHIBIT 3**

*Share Of Private-Sector Workers At Firms Offering Retiree Health Insurance, By Establishment Characteristics, 1997 And 2003*

<table>
<thead>
<tr>
<th>Establishment characteristic</th>
<th>1997 (%)</th>
<th>2003 (%)</th>
<th>Change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>All establishments</td>
<td>32.3</td>
<td>25.3</td>
<td>−7.0b</td>
</tr>
<tr>
<td><strong>Industry sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>30.6</td>
<td>30.2</td>
<td>−0.4</td>
</tr>
<tr>
<td>Personal and professional services</td>
<td>23.9</td>
<td>17.7</td>
<td>−6.2b</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>40.6</td>
<td>37.9</td>
<td>−2.7b</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>32.7</td>
<td>22.7</td>
<td>−10.0b</td>
</tr>
<tr>
<td>Finance, insurance, real estate</td>
<td>54.4</td>
<td>50.6</td>
<td>−3.8b</td>
</tr>
<tr>
<td>Transportation, utilities</td>
<td>53.3</td>
<td>55.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Construction, agriculture</td>
<td>15.5</td>
<td>5.7</td>
<td>−9.8b</td>
</tr>
<tr>
<td><strong>Establishment size</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1–25 employees</td>
<td>13.6</td>
<td>8.7</td>
<td>−4.9b</td>
</tr>
<tr>
<td>26–100 employees</td>
<td>26.0</td>
<td>18.1</td>
<td>−8.0b</td>
</tr>
<tr>
<td>101–500 employees</td>
<td>42.6</td>
<td>32.0</td>
<td>−10.6b</td>
</tr>
<tr>
<td>500+ employees</td>
<td>55.0</td>
<td>50.6</td>
<td>−4.3</td>
</tr>
<tr>
<td><strong>Unionized workforce</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any</td>
<td>54.9</td>
<td>58.3</td>
<td>3.4b</td>
</tr>
<tr>
<td>None</td>
<td>28.5</td>
<td>19.6</td>
<td>−9.0b</td>
</tr>
<tr>
<td><strong>Share of employees age 50 and older</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top one-fifth of establishments</td>
<td>32.3</td>
<td>27.4</td>
<td>−4.8b</td>
</tr>
<tr>
<td>Bottom four-fifths of establishments</td>
<td>32.3</td>
<td>24.7</td>
<td>−7.6b</td>
</tr>
</tbody>
</table>

**SOURCE:** Authors’ estimates from Medical Expenditure Panel Survey Insurance Component (MEPS-IC) data.

**NOTES:** Results by industry are for 2002 because industry identifiers were not available in 2003. Ranked by share of employees age 50 and older, the top one-fifth of establishments reported that older workers made up at least 27 percent of their workforce.

*Percentage points.

*Offer rate in 2003 differs significantly from offer rate in 1997 (p < .05).
Employer-sponsored health insurance premiums for retirees younger than age sixty-five generally exceed premiums for active workers, which in turn generally exceed premiums for Medicare-eligible retirees (Exhibit 5). In 2003, average monthly premiums for single coverage reached $399 for benefits to early retirees, $293 for benefits to active workers, and $266 for benefits to retirees age sixty-five and older. Early retirees are the most expensive to cover because they generally incur more-costly health problems than younger workers do but are not old enough to qualify for Medicare. Retirees age sixty-five and older are less expensive to cover because their benefits supplement Medicare, which finances most of their care.

Average total premiums increased rapidly between 2000 and 2003, and employers reduced their share of the premium cost, especially for retirees. Total premiums for single coverage grew at annualized rates of 12 percent for active workers, 15 percent for early retirees, and 9 percent for Medicare-eligible retirees. The em-
ployee share grew even more rapidly, increasing at annualized rates of 23 percent for active workers, 21 percent for early retirees, and 15 percent for Medicare-eligible retirees. In 2003, employers bore 82 percent of the premium costs for active workers but only about 55 percent of the costs for retirees (data not shown).

Discussion

Our findings reveal steady erosion in retiree health benefits since the mid-1990s, consistent with some earlier research. Based on a much larger survey of establishments than previous studies have used, we conclude that in 2003 only about one-quarter of private-sector employees worked at establishments that offered health benefits to retirees, down from 32 percent in 1997. Private-sector firms have also been passing greater shares of health insurance costs to retirees. Between 2000 and 2003, employers offering benefits raised the premium contributions required of retirees younger than age sixty-five with single coverage by an average of 78 percent, or about 21 percent per year.

Our estimates likely overstate the share of private-sector workers who will eventually receive retiree health benefits. Firms often exclude certain classes of employees from coverage, such as part-timers, hourly workers, and workers in particular occupations. Some workers will not satisfy the special eligibility rules for retiree health benefits, such as age and service requirements, which many employers have been tightening recently. Also, rising premium contributions will lead some retirees to forgo coverage. Unlike employer-sponsored pension benefits, which vest workers over time and thus guarantee them some benefit when they retire, employers generally reserve the right to change retiree health benefits at any time (unless restricted by collective bargaining agreements). If current trends continue, many workers (especially younger ones) now employed by firms that offer retiree health benefits might find that their benefits have been eliminated by the time they retire.

Comparison with the public sector. Our findings of substantial declines in retiree health benefits in the private sector stand in sharp contrast to the situation in the public sector, where retiree health insurance remains commonplace. The federal government continues to offer health benefits to its retirees, as did 84 percent of state and local governments employing 200 or more workers in 2005. Public-sector workers make up about 16 percent of the workforce. However, retiree health benefits for public-sector workers are also under pressure. Like private employers, public employers face rising health care costs and an aging workforce. A recent study found no retrenchment in retiree health benefits for government workers in the early 2000s. However, a change in government accounting rules, to take effect in 2006 and 2007, will require state and local governments to recognize the expected future health care costs promised to current and future retirees as a long-term liability. It is impossible to predict the impact of this change on public-sector retiree health benefits, but government failure to address these liabilities could reduce state
and municipal credit ratings, raising borrowing costs.

**Impact of Medicare drug benefit.** The creation of a Medicare drug benefit adds to uncertainty over the future course of retiree health benefits. Medicare provides an incentive to employers to continue retiree drug coverage, by paying 28 percent of the annual drug costs incurred per retiree between $250 and $5,000. Only 9 percent of large employers that offered retiree drug benefits and responded to a 2005 survey said that they planned to drop coverage in 2006, although more employers might choose to do so in later years. A recent Congressional Budget Office analysis predicted that many employers would drop their retiree health plans following the introduction of the Medicare drug benefit, causing 17 percent of all Medicare beneficiaries to lose retiree health benefits.

The erosion in retiree health benefits among private-sector workers is part of a larger trend that threatens retirement security. In addition to cutting retiree health benefits, many employers have replaced traditional defined-benefit pension plans, which promise a federally guaranteed lifetime benefit based on earnings and years of service, with defined-contribution retirement plans. Retirement benefits from defined-contribution plans typically depend on uncertain investment returns, and participants must generally make regular contributions throughout their careers. Long-term fiscal imbalances may soon lead to cutbacks in Social Security and Medicare. Even if these programs are not cut, and retiree health plans continue at their current levels of generosity, rising health care costs will force future generations of retirees to devote ever-increasing shares of their incomes to health care.

The research for this paper was conducted while one of the authors (Lo Sasso) was a Special Sworn Status researcher of the U.S. Census Bureau at the Chicago Census Research Data Center (RDC). Research results and conclusions expressed are those of the authors and do not necessarily reflect the views of the Census Bureau. This paper has been screened to ensure that no confidential data are revealed. Support for this research at the Chicago RDC from the National Science Foundation (Award nos. SES-0004335 and ITR-0427889) is also gratefully acknowledged.

**NOTES**

6. Claxton et al., *Employer Health Benefits*.


12. Claxton et al., Employer Health Benefits; and Mercer, National Survey.


14. MEPS-IC was first fielded in 1996, but we begin our analysis in 1997. Survey methodology changes in 1997 make it difficult to compare the 1996 data to later years. Data from 2003 are the most recent available.

15. The 2005 Kaiser/HRET establishment survey collected data from 2,013 employers, for an overall response rate of 48 percent. Claxton et al., Employer Health Benefits.

16. All estimates, at both the establishment and worker levels, use MEPS-IC sample weights to adjust for sampling probabilities.

17. These comparisons might underestimate differences in offer rates by firm size, because some small establishments might be part of large firms.


19. Our results were similar when we restricted our definition of unionized establishments to those in which at least 10 percent of the workforce belongs to unions.


23. In fact, we found that retiree health benefit offers did not decline over time for workers at unionized firms.

24. Claxton et al., Employer Health Benefits.


