Employee Benefits Report

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Why Most Employers Are Eyeing Public Exchanges for Pre-Medicare Retiree Benefits

A new survey by Willis Towers Watson found more than half of U.S. employers are confident that public health exchanges will be a viable option for their pre-65 retiree coverage within two years. As costs for health plans continue to rise, the survey also found that nearly three-quarters of employers plan to make substantial changes to pre-65 retiree health benefits in the near future.

The employer shift to public exchanges is underway as costs for health plans continue to escalate.

More than half—56 percent—of U.S. employers believe that public health insurance exchanges are a viable alternative to group health plans for pre-65 retirees, a new survey by Willis Towers Watson found. The survey further found that 72 percent of employers plan moderate to significant changes in pre-65 retiree health benefits over the next four years.

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Life Insurer Crisis Unfolding

Years of near-zero interest rates are resulting in a crisis for life insurance and long-term care insurance companies. They are facing the challenge of how to fund policies that were sold at a time when actuaries couldn't foresee a world with interest rates below 8 percent, and now can't envision a world with interest rates much above zero or 1 percent.

Low interest rates have affected life insurers' earnings. As a result, people who bought universal life policies in the 1980s and 1990s—some that guaranteed annual returns of 4 percent or more—are experiencing a sharp rise in their premiums, triggering about a dozen lawsuits against insurers.

The Federal Reserve has raised short-term interest rates over the

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“Employers are seeking alternatives to providing their retirees with the same group health care coverage they offer active employees,” said John Barkett, senior director of public affairs at Willis Towers Watson, a global advisory, broking and solutions company, in a statement. “Many employers have already transitioned their post-65 retirees to original Medicare plus private individual Medicare plans, or are planning to. This keeps costs down and retiree satisfaction up. However, because Medicare is not available to younger retirees, employers are looking elsewhere for a solution.”

The survey revealed that employers expect a 4.1 percent cost increase for pre-65 retiree health coverage after plan changes, or 5.7 percent without plan changes this year. This compares with an expected 2 percent cost increase for Medicare-eligible retiree healthcare after plan changes, or 3.3 percent before plan changes this year. These expected cost increases factor in that some employers fund retiree benefits through fixed contributions made to health reimbursement arrangements.

In his *Business Insurance* article, “Employers look to public exchanges for pre-Medicare retiree benefits,” Jerry Geisel wrote that many employers are optimistic that public health insurance exchanges approved in the 2010 Affordable Care Act (and that went into effect in 2014) will serve as an alternative to the coverage they now offer their pre-Medicare-eligible retirees.

“An advantage to that approach: Lower-income pre-Medicare-eligible retirees—those with incomes between 100 percent and 400 percent of the federal poverty level—are eligible for federal premium subsidies for plans purchased in the public exchanges,” Geisel wrote. “For example, subsidies are available in 2016 for a family of four collectively earning up to $97,000. The public exchanges are not available to Medicare-eligible retirees.”

The Willis Towers Watson survey found that of employers offering pre-65 retiree medical coverage today, 67 percent offer pre-65 retirees a health insurance subsidy. If retirees are eligible for a federal subsidy, they can purchase plans on public exchanges with the subsidy. If

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last year, but yields in the bond market have remained low. This has had a detrimental impact on life insurers. More than three-quarters of the industry’s $6.4 trillion in invested assets is in bonds.

When an 8 percent bond from the 1990s matures, the funds must be reinvested, but many bonds today only pay about 2 percent—about half of the guaranteed return of 4 percent for insurance policies sold to people several decades ago.

More Small and Mid-Sized Firms Self-Insuring

Meanwhile, in another health insurance-related report, new research by the Employee Benefits Research Institute found that the share of private sector self-insured health plans and number of covered workers in self-insured health plans have increased among small- and midsized firms since enactment of the ACA in 2010. The percentage of private-sector establishments offering health plans at least one of which is self-insured has increased from 28.5 percent in 1996 to 39 percent in 2015.

While data do not demonstrate that ACA is conclusively the cause of the growth in self-insured plans, they “are consistent with the prediction that the ACA would cause more small- and midsized employers to adopt self-insured plans,” Paul Fronstin, director of EBRI’s Health Research and Education Program, said in a statement.

Employment-based health plans generally fall into one of two categories—fully insured plans or self-insured plans. The key distinction is whether the employer has decided to purchase an insurance contract to cover the costs and financial risks associated with its employee health plan, or to use its own funds to cover such costs.

Since the passage of the ACA, some commentators have speculated that an increasing number of small and mid-sized employers would convert their health plans from fully insured to self-insured plans. The rationale has appeared to be that several of the key ACA components—creditable coverage, affordability, essential benefits, and various taxes and fees—would drive up the cost of health coverage, thus possibly making self-insurance a more attractive option for many employers. To discuss your options, please contact us for more information.

not, they can still purchase plans from public exchanges without a federal subsidy or directly from health insurance companies with or without an employer subsidy.

"With employer confidence in public exchanges for pre-65 retirees growing, we expect the individual plan market to play an increasingly important role in employers being able to continue providing health benefits for that demographic," Joe Murad, managing director for Individual Exchange Solutions at Willis Towers Watson, said in a statement.

In a recent *Forbes* article, Bruce Japsen noted that a number of large companies are shifting more costs onto retirees age 65 or older who are eligible for federal Medicare health insurance.

"Supplemental retiree health coverage once paid for by companies is shifting to a defined contribution approach or employers are unloading retiree coverage altogether," Japsen wrote.

The Willis Towers Watson 2016 Emerging Trends in Health Care Survey was conducted in January and February of this year to gain insight into emerging trends in U.S. employer healthcare. The 467 employers that responded represent 12.1 million employees at midsize to large companies across the nation.

For more information on coverage options for your pre-Medicare retirees, please contact us. ■

Employers Offer Increasingly Generous Benefit Packages to Top Earners

The rich get richer, and the wealthy get far nicer benefit packages too.

A new report by the Pew Charitable Trusts Foundation found employers spend a median of 38 cents of each compensation dollar on benefits, and those earning more receive more generous benefit packages too.

"Controlling for other factors, jobs with higher pay generally also come with more extensive and expensive benefit packages," the authors wrote. "Specifically, each additional dollar of average hourly pay is associated with another 67 cents per hour in employer spending on benefits."

The report, titled "Worker Benefits—and Their Costs—Vary Widely Across U.S. Industries," found many factors influence what is offered and what employers spend. The analysis found that two employers offering the same benefit might pay different amounts, and two workers earning the same wage could, due to benefits, have "radically different levels of total compensation."

"Workers with smaller paychecks, who can't afford to pay out of pocket for things like extra health care expenses and child care, get less support from their employers to meet those very needs," wrote Rebecca Greenfield in an *Employee Benefit News* article. "In the meantime, better-paid people don't have to dip into their bank accounts for such expenses, and

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can instead use their salaries to get even richer by investing the money or buying a house or putting it away for retirement. A better-paid person can put more money in a 401(k), a deal that's even sweeter if the employer matches contributions."

Some of the key findings included:

- Employers provide workers with a variety of benefits besides pay. The "average" job has benefits that cost the employer 38 cents for each dollar spent on wages.
- Employers spend the most on wages, non-health forms of insurance, and legally required benefits. The typical employer spends far more on wages than on benefits. At the median, employers spend the most on short- and long-term disability and life insurance and on state- and federally mandated benefits, such as Social Security.
- Employer spending varies dramatically within categories. Benefit costs are influenced by many factors, including the quality of the benefits provided, the size and type of employer, and the type of job each worker has.
- Benefit offerings and spending vary substantially by industry. Employers in mining and extraction and those in utilities spend significantly more on benefits than those in other sectors. In contrast, employers in low-paying sectors such as retail provide few benefits and spend relatively little on them.
- Jobs with higher pay also tend to have more expensive benefits. Each additional dollar of average hourly pay is associated with another 67 cents per hour in employer spending on benefits.
- Benefit spending creates substantial variation in total compensation among workers earning the same pay. A quarter of those making about $15 per hour receive less than $4.02 in benefits, but another quarter get more than twice that amount.

The benefits that workers receive, including paid leave, retirement plans, health insurance, disability insurance, Social Security, Medicare, state and federal unemployment insurance and workers' compensation, are designed to help workers manage and prepare for financial challenges. Along with pay and working conditions, the availability of benefits contributes to the quality and desirability of jobs. Many employers choose to provide benefits to align with norms in their industry, be competitive in recruiting and retain high-quality employees, and demonstrate their commitment to worker well-being.

"Most employees see employer-provided benefits as important for their financial well-being and prefer benefits to equivalent increases in pay," the authors wrote. "In the 2014 Survey of American Family Finances—a Pew-commissioned, nationally representative survey examining how diverse families were faring in today's economy—98 percent of workers with employer-provided health insurance described it as important to their households' financial security."

How does your company's benefits program stack up against your competitors'? For a review and consultation, please contact us.

Average Age of Retirement Now 62—Up From 59

At a time when people in the United States are working longer hours and taking second jobs to pay the bills and save for retirement, a new Gallup poll found the average age that Americans are retiring was 62 in 2014, up from age 59 in 2010.

"As a result, our economy is less productive than it could be, and that trend is expected to continue for the next 35 years unless something is done to turn it around," wrote Michael Molinski in his *USA Today* article, "Delayed retirement is both a symptom and a cause of a troubled economy. "

This is the highest retirement age that Gallup has found since first asking Americans the question in 1991. This age has increased in recent years, while the average age at which non-retired Americans expect to retire, 66, has largely stayed the same. However, this age too has increased from 63 in 2002.

"Retirement age may be increasing because many baby boomers are reluctant to retire," the authors of the Gallup report wrote. "Older Americans may also be delaying retirement because of lost savings during the Great Recession or because of insufficient savings even before the economic

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downturn. Furthermore, in 1995, more non-retired Americans expected to retire younger—15 percent expected to retire before age 55, compared with 4 percent in 2014."

The poll found that the majority of all age groups expect to retire at age 65 or older. This includes 62 percent of 18- to 29-year-olds, 62 percent of 30- to 49-year-olds, and 58 percent of 50- to 64-year-olds. At the same time, an optimistic 15 percent of the youngest age group expects to retire before age 60. Adults closer to that age are naturally less likely to think they will be ready for retirement at that point.

"The pressure to be financially prepared for retirement is evident in the recent Gallup finding that saving for retirement is Americans' top financial worry," the authors of the Gallup survey wrote. "According to a 2011 Wells Fargo/Gallup Investor and Retirement Optimism Index survey, the value of investments is the key factor determining when pre-retired investors say they will retire, followed by their health, the cost of healthcare, and inflation.

"However, according to a more recent Wells Fargo/Gallup survey, U.S. investors are highly cautious about retirement savings, saying they would prefer secure investments with low growth potential over investments with high growth potential and a risk of lost principal."

The Gallup poll comes as a study by the University of Paris-Sorbonne found that as both younger workers (ages 15-24) and older employees (55-65) have been forced into the workforce over the last few decades, the age distribution of the nation's labor force has taken on a barbell shape—a bad sign for the productivity of workers and the future of the economy. This is because the most productive workers are ages 25-54.

"Retirement has taken a back seat to corporate profitability for more than 40 years as the United States has embraced the reduction of pensions, and now the U.S. economy is paying the price with lower productivity," Molinski wrote. "Without pensions, older workers are being forced to work longer hours and stay in the workforce longer, and that means they're squeezing out some of the most productive workers of all, known as core workers, according to a study by the University of Paris-Sorbonne."

For more information on retirement plans for your workforce, please contact us.

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Longer Lives Increase Need for Long-Term Care Insurance

A new study by the Urban Institute that found the more affluent live longer reinforces the importance of long-term care insurance planning for middle-income and affluent Americans, says Jesse Slome, director of the American Association for Long-Term Care Insurance.

"If you live a long life, the likelihood of needing long-term care services increases exponentially," Slome says. "Wealthier Americans have lower rates of heart disease, diabetes, stroke and other chronic conditions, which is good news, but also means they are destined to live long lives and face a real risk of needing care sometimes for months and sometimes for years."

"Those with earnings in the top half of the U.S. population have seen their life expectancy increase by more than six years," Slome says. "Those in the bottom half have only seen an increase of just over one year."

The study highlights an important message that Slome urges insurance and financial professionals to share with their clients. Speaking to agents endorsed by the organization, the long-term care insurance expert shared, "having wealth means you are more likely to live a long life, but most have absolutely no plan in place to deal with the consequences and the financial costs," Slome says. "Unfortunately, far too many retirees wait too long to even think about a plan. At that point their options are limited."

He noted that most long-term care insurance policies stop accepting applicants at age 75 and that meeting health qualification requirements after age 70 can be difficult. "There are options available for short-term care insurance where policies are available into your 80s and health requirements can be easier to meet," Slome says.

Group long-term policies give employees a more affordable option. They offer discounted rates, unisex rating (beneficial for women) and simplified underwriting. Although few true guaranteed-issue group plans exist anymore, simplified underwriting gives an option to some people who might not qualify for coverage on the individual market. For more information, please contact us.