



Issue Brief

Health Care Reform: What is at Stake for Current and Future Retirees

November 2007

Introduction

The prospect for health care reform has the greatest momentum since the 1990s, with national polls indicating health care is the predominant domestic issue for Americans. As the country enters the 2008 presidential election season, many of the candidates have declared universal health care coverage a key component of their campaigns. The large number of uninsured with no or limited access, and the rising costs and declining quality of care, make health care reform an urgent matter.

This issue brief from the Alliance for Retired Americans Educational Fund (ARAEF) examines the stake that retirees have in the health care reform discussion and why their involvement is critical if there is to be universal coverage with an adequate benefits package. In particular, questions need to be raised and answered on prospective changes to Medicare, retiree health care, long-term care, and the health security of younger generations.

Medicare

Since the 1965 enactment of Medicare, the social insurance program has provided hospital (Part A) and outpatient (Part B) health care coverage for persons over age 65 and younger adults with permanent disabilities. Part A is financed by a 1.45 percent payroll tax from both employees and employers; Part B is financed through a combination of beneficiary premiums and federal general revenues. The two-part scheme of the program reflects the structure of private insurance in the 1960s that generally had separate insurance for hospital and physician care.

Medicare has a significant impact on the private health care system. Federal spending on Medicare accounted for 18 percent of national health expenditures in 2005.¹ Although financed publicly, most services are delivered by private providers. Medicare is the largest single payer for services provided by home health agencies. Hospitals nationwide receive over one-third of their revenue from Medicare, while doctors and other clinical services receive over 20 percent of their revenue from the program.²

Whatever cost containment measures, standards for quality, access and benefits are contained in health reform proposals, Medicare must be examined simultaneously with the overall health care system.

Medicare consistently has been popular with beneficiaries because the program provides a guaranteed and defined set of benefits with a choice of providers at the same price nationwide, regardless of a beneficiary's health status or income. The administrative costs are considerably less than those of private health plans. Medicare works to contain costs, monitor quality, and support America's health care system.

Although coverage of some preventive services has been added over the decades, the program does not provide coverage for all health care needs—there are ceilings and exclusions. For example, Medicare does not cover most long-term care, dental, podiatry and vision care.

Even before the 2003 Medicare Prescription Drug, Improvement and Modernization Act (MMA) took effect, Medicare covered only 58 percent of beneficiaries' health care expenses. About 4 in 10 beneficiaries spent more than one-fifth of their income on health care in 2003; 1 in 4 spent 30 percent of their income on health care.³

Private sector incursions into Medicare have added costs for beneficiaries as evidenced by Parts C and D. Part C pertains to the Medicare Advantage (MA) managed care plans offered by private insurers. The MMA created a Part D prescription drug benefit that is administered by private insurers and provided either through stand-alone drug plans (PDP) or the MA plans. The legislative design of the prescription drug benefit allows a significant gap in coverage when beneficiaries must pay all of their drug costs. A recent Alliance for Retired Americans poll conducted by Lake Research Partners shows that voters over age 65 overwhelmingly agree (86 percent) that the cost of prescription drugs is becoming difficult to handle.⁴

Medicare Questions That Must Be Addressed in National Health Care Reform Plans

- How do the Medicare program and older Americans fit into the plan?
- How will the escalating costs of Medicare and the entire health care system be brought under control?
- Will the Medicare program be used as a model to expand coverage to others below age 65?
- Will Medicare benefits be expanded to include uncovered services such as dental, vision, podiatry and preventive care?
- How will the gap in the prescription drug benefit be closed and the march toward privatization of the program be halted?

Retiree Health Care

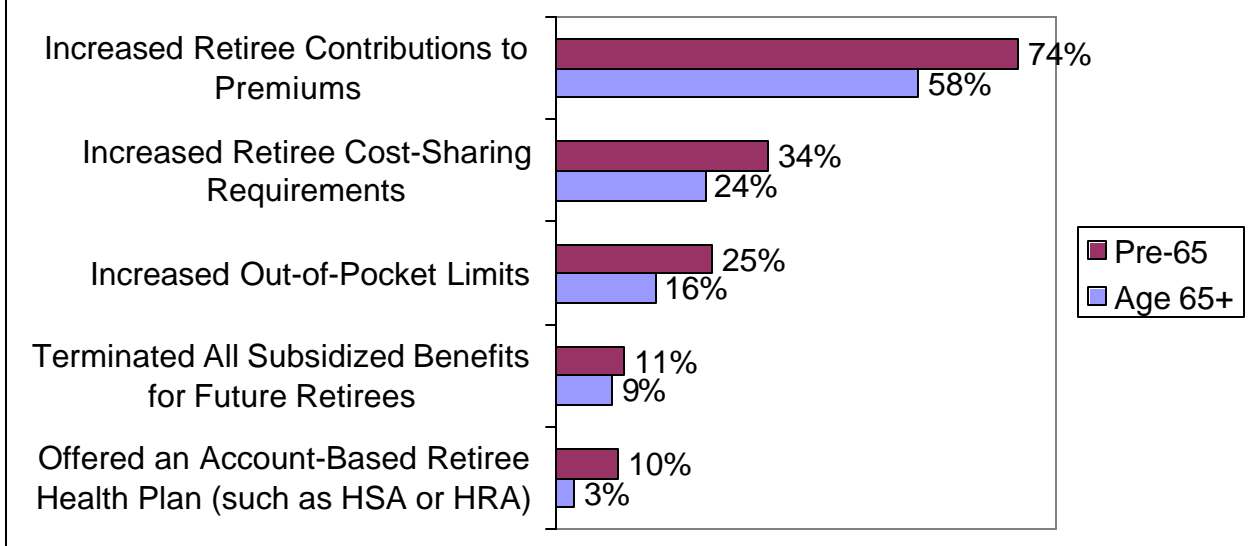
With the graying of the baby boomers, the number of older adults (ages 55 to 64) and seniors (age 65 and over) will account for one-fourth of the population in 2011.⁵

Many retirees depend upon their union- or employer-based retiree health care plans to close many of the gaps in Medicare. However, the percentage of employers that offer health benefits for retirees decreased from 66 percent in 1988 to 35 percent in 2006.⁶ Additionally, premiums and cost-sharing for retirees with employer-provided plans are rising faster than inflation every year. Fifty-eight percent of employers raised premiums and one-fourth (24 percent) raised cost-sharing for Medicare-eligible retirees in 2006.⁷

Most early retirees are without any insurance coverage. Only a little more than a third (37 percent) of early retirees, those between ages 55-64, have health care coverage based on prior employment. Of those who do, their out-of-pocket costs are steadily increasing. In 2006, 74 percent of large employers increased premiums for retirees under 65 and one-third (34 percent) raised cost-sharing requirements.⁸

Many workers are losing the prospect of having health coverage when they retire. Between 2005 and 2006, 11 percent of surveyed employers eliminated benefits for future early retirees and 9 percent did the same for future Medicare-eligible retirees.

Percentage of Large Private-Sector Employers that Made Changes to Retiree Health Benefits between 2005 and 2006



Note: Based on responses from private-sector firms with 1,000 or more employees offering health benefits.
 Source: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

The 2003 MMA offers tax-free subsidies to employers that provide their Medicare-eligible retirees with drug coverage that is at least as generous as the standard Medicare benefit. In 2006, 82 percent of large employers accepted the subsidy for their health plan. Although most of them (79 percent) say it is likely they will continue to accept the subsidy and offer drug coverage in 2008, that figure will drop considerably by 2010. Just slightly over half (54 percent) of employers plan to continue taking the subsidy and providing prescription drug coverage by then.⁹

Corporate bankruptcies have become a growing threat to retiree health care. When a firm goes bankrupt, retiree health benefits are left to the discretion of the bankruptcy court, since there is no separate fund for retiree health care. Many retirees, and active workers, have lost health benefits through bankruptcies.

If these trends continue, and they are expected to, fewer and fewer retirees will have adequate health care coverage.

Retiree Health Care Questions That Must Be Addressed in National Health Care Reform Plans

- What is the future for employer-provided retiree health care coverage?
- Will employer plans continue to offer prescription drug coverage under Medicare Part D?
- What measures will be taken to cover early retirees and protect the health—and pension—plans of workers and retirees of bankrupt companies?

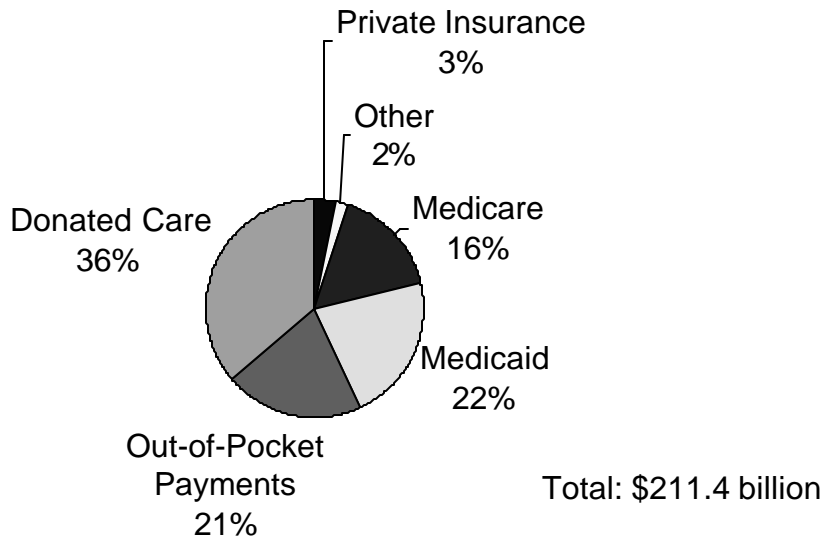
Long-Term Care (LTC)

The American public believes LTC is an important issue that must be addressed. An Alliance for Retired Americans poll shows that over half of voters age 65 and older said they are “very or somewhat worried” that all of their savings will be wiped out on paying for their long-term care costs.¹⁰ Nearly 8 in 10 (78 percent) of American voters of all ages say that long-term care should be included in the health care reform proposals of the 2008 presidential candidates.¹¹

LTC expenditures may be minimal to costly, depending on the setting and extent of care. According to a 2006 survey, the national average cost of a private room in a nursing home is about \$70,900 a year. Four hours daily of home health aide services would total about \$36,500 annually.¹² National expenditures, including unpaid caregiving and out-of-pocket spending by care receivers and their families, amounted to over \$211 billion in 2004. If donated care as well as out-of-pocket spending are taken into account, then recipients and their caregivers pay for 57 percent of LTC.¹³

Excluding donated care, which is typically home-based, about two-thirds of LTC expenditures are for institutional care. Medicaid, a jointly funded federal-state program, pays for nearly half. Medicaid, however, is not a comprehensive base for LTC protection—recipients must spend down their assets to qualify.

Sources of Spending for LTC for the Elderly, 2004



Source: Congressional Budget Office. Testimony on the Cost and Financing of Long-Term Care Services by Douglas Holtz-Eakin, Director. April 27, 2005.

In addition, the National Governors Association (NGA) emphasizes that states are struggling to bear the primary public role of financing LTC services and stresses Medicaid cannot continue as the primary funding mechanism.¹⁴ Medicaid also faces annual budget cuts in Congress.

Medicare's coverage of long-term care is limited mainly to skilled nursing facility care for short periods following hospitalization and to intermittent nursing care provided at home. Most employer-provided health plans do not provide for long-term care.

LTC insurance is not a major source of funding for LTC services—only about 6.5 million policies are in effect. Availability and affordability are shortcomings of LTC insurance. It is not available to people who already have LTC needs. All policies currently sold exclude those with pre-existing conditions—one in 5 applications overall. Nearly 60 percent of individuals over 80 who apply are declined coverage.¹⁵

Of LTC recipients living in the community, more than three-quarters (78 percent) rely solely on family and friends to provide the assistance they

need.¹⁶ Families play an incredible role in providing care. There are an estimated 44.4 million individuals—one in five adults—providing health care for adult family members and friends.¹⁷ It is anticipated there will be fewer family caregivers in the future partially because the fertility rate of baby boom women is lower than earlier generations¹⁸ and the very old population needing LTC will increase faster than the population who would traditionally care for them.¹⁹ It is unrealistic to continue to depend on family caregivers in the future if caregivers are fewer in number and they do not receive sufficient support.

A long-term care system that provides quality care requires a workforce that is well trained, compensated with adequate wages and benefits, and with opportunities for advancement. Home health, personal care and nursing home aides are the front line workers in delivering paid LTC. Yet, LTC workers have few protections in the health field themselves—over half have no health insurance or pension coverage.

The NGA acknowledges that these direct-service workers face poor working conditions, earn low wages—the wages for personal and home health aides average between \$8.05 and \$8.75 per hour—receive few benefits and generally lack knowledge about public benefits.²⁰ As a result, vast numbers of these workers leave their jobs within the first few months of employment. Aggressive measures must be undertaken to recruit and retain LTC workers, otherwise substantial shortages of home health aides and nursing aides will occur in the next several years.

Long-Term Care Questions That Must Be Addressed in National Health Care Reform Plans

- Will the institutional bias in long-term care coverage be transformed into increased support for home and community based services?
- How will long-term care be financed?
- How will individuals afford the long-term care they and their families need?
- How will the plan build up a long-term care workforce?
- How will the plan support family caregivers?

Future of Our Families

Seniors are more likely than any other age demographic to worry about the health care needs of generations to come. Their motivation lies in their compassion and concern for their children and grandchildren. An Alliance poll found that the top two health care issues voters over age 65 would like to see Congress address above all other choices were controlling rising health care costs (50 percent) and guaranteeing affordable health care for every American (43 percent).²¹

Their concern is justified with the facts on health care spending nationally and personally. Health spending accounts for 16 percent of the U.S. gross domestic product (GDP) in 2007; the Congressional Budget Office (CBO) estimates that will this will increase to 25 percent in 2025, 37 percent in 2050 and 49 percent in 2082.²²

Annual premiums for employer provided family coverage has nearly doubled in the past several years. In 2000 the annual premium was \$6,351 with the employee contributing one-fourth. In 2007, the average premium is \$12,106. Thus, the average total cost of a family health insurance premium now exceeds the annual income of a full-time minimum-wage worker.²³

Limits on public programs and gaps in employer coverage leave over 46 million Americans uninsured—9 million of the uninsured are children. From 2000 to 2006, the percentage of employers that offer health benefits declined from 69 to 61 percent. Four out of five (82 percent) of the uninsured in 2006 live in households with at least one full-time worker (71 percent) or a part-time worker (11 percent).²⁴

Generational Questions That Must Be Addressed in National Health Care Reform Plans

- How do we make sure that everyone gets high-quality health care as good or better than they have now?
- How do we bring the uninsured into the health care system?

Alliance for Retired Americans Position

The Alliance for Retired Americans supports the creation of a high quality, affordable, universal health care system, which provides comprehensive services, including long-term care, and is based on a sound financing model similar to Medicare.

The Alliance also supports other proposals, such as employer mandates or extending eligibility in other existing federal and state programs, that would move toward the achievement of these goals.

The willingness of political candidates, particularly presidential candidates, to address the national health care crisis is an important criterion for the Alliance.

Alliance members and all older Americans have a major stake in the health care reform debate during the presidential and Congressional campaigns and afterwards. It is critical that their voices are heard as the United States moves toward achieving universal health care.

Be a Part of the Solution.

Become an Alliance Health Care Activist.

This report was researched and written by Dianna M. Porter, director for policy. This is a publication of the Alliance for Retired Americans Educational Fund (ARAEF), the research and education branch of the Alliance for Retired Americans. ARAEF is a 501(c)(3) organization that focuses primarily on retiree issues. Permission to reproduce all or part of this report is given with following credit line: Reprinted [or excerpted] with permission of the Alliance for Retired Americans Educational Fund.

¹ Congressional Budget Office. "The Long-Term Outlook for Health Care Spending." November 2007.

² Medicare Rights Center. "Medicare: A National Treasure for Forty Years." July 2005.

³ Neuman, Patricia et al. "How Much 'Skin in the Game' Do Medicare Beneficiaries Have? The Increasing Financial Burden of Health Care Spending, 1997-2003." *Health Affairs*. November 2007.

⁴ Alliance for Retired Americans. Findings from a survey of likely 2008 voters age 65+. Conducted by Lake Research Partners between August 21-26, 2007.

⁵ Census Bureau. Population Projections

⁶ Kaiser Family Foundation. "Retiree Health Benefits Examined: Findings from the Kaiser/Hewitt 2006 Survey on Retiree Health Benefits." December 2006.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

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- ¹⁰ Alliance for Retired Americans. 2007.
- ¹¹ Public Opinion Strategies – The Mellman Group. Long-Term Care National Survey. August 2007.
- ¹² Georgetown University Long-Term Care Financing Project. “National Spending for Long-Term Care.” Fact Sheet. February 2007.
- ¹³ Congressional Budget Office. Testimony on the Cost and Financing of Long-Term Care Services by Douglas Holtz-Eakin, Director. April 27, 2005.
- ¹⁴ National Governors Association. Policy Position: Long-Term Care. March 2005.
- ¹⁵ “National study reveals: 1 in 5 LTC insurance applicants are declined.” www.insurancebroadcasting.com.
- ¹⁶ Georgetown University Long-Term Care Financing Project. “Who Needs Long-Term Care?” Fact Sheet. May 2003.
- ¹⁷ National Governors Association. Center for Best Practices Aging Initiative. “State Support for Family Caregivers and Paid Home -Care Workers.” June 25, 2004.
- ¹⁸ Mothers of baby boomers had a fertility rate of 3.5 children; today it is about two children.
- ¹⁹ Between 2000 and 2025 the population age 85 and older will more than double while the traditional caregiving population—women age 20-54—is projected to increase by just 9 percent Wright, Bernadette. “Direct Care Workers in Long-Term Care.” AARP Public Policy Institute. May 2005
- ²⁰ National Governors Association. 2004.
- ²¹ Alliance for Retired Americans. 2007.
- ²² Congressional Budget Office. “The Long-Term Outlook for Health Care Spending.” November 2007.
- ²³ Kaiser Family Foundation. “Employer Health Benefits 2007 Annual Survey. September 2007.
- ²⁴ Kaiser Family Foundation. September 2007; and “The Uninsured and Their Access to Health Care.” Fact Sheet. October 2007. Another study found from Families USA found nearly 90 million were uninsured at some time during a two-year period from 2006-2007. Families USA. “Wrong Direction: One Out of Three Americans are Uninsured.” September 2007.



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