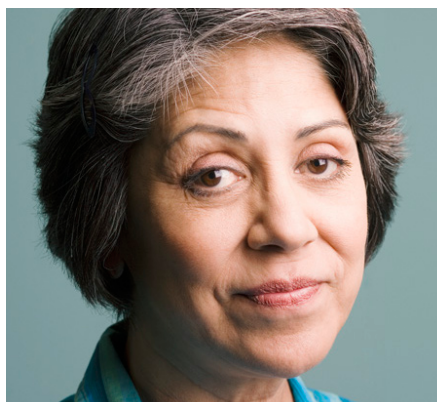
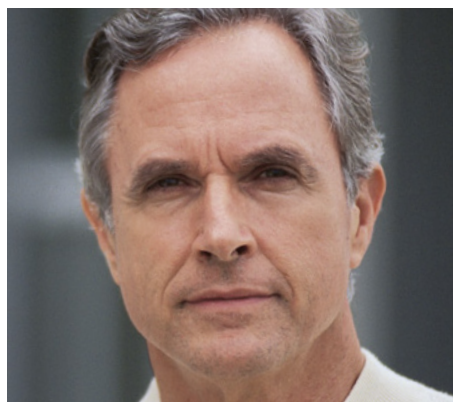


# A growing employer benefits problem:

How to reduce retiree liability but still provide cost-effective and affordable medical benefits to pre-65 retirees



Today's employers face numerous challenges when it comes to providing employee benefits.

One of the greatest issues facing employers today—and for many years to come – is how to continue providing cost-effective medical benefits for employees who wish to retire before they become eligible for Medicare.

The first wave of baby boomers is now approaching retirement. There are currently 87 million people over the age of 50, and this number will only increase over the next 30 years. This will place benefit managers in an increasingly difficult position. With a limited health care budget, is it possible to provide health care benefits to employees and continue to offer them benefits into retirement?

Eliminating retiree medical coverage could keep your employees from retiring.

According to a recent survey,<sup>1</sup> the average retirement age of employees with access to employer-sponsored health care coverage is 61. The average age increases from 61 to 64 if employees do not have access to employer-sponsored health care coverage. What does this mean for those employers who are trying to solve their liability issues by eliminating subsidized retiree health care coverage?

- Employees that are eligible to retire are choosing to remain in the workforce longer because they are unable to afford or qualify for individual health care coverage.
- They only retire when they can find adequate coverage to bridge them to their Medicare benefits. Most often, that bridge turns out to be COBRA coverage.
- They cost their employers more in health care-related expenses by staying in richer, higher-subsidized active employee benefit plans and paying COBRA rates based on active employee costs.

# The changing retiree medical benefit landscape

"It all comes down to one thing for both employers and would-be retirees: the cost of health insurance. Many employers can no longer afford the luxury of offering their retiring employees continuing health care coverage – but many employees cannot afford to leave the workplace without it."

Kenneth L. Sperling

Senior Vice President, CIGNA Senior & Retiree Services

So while eliminating pre-65 retiree coverage may address an immediate liability concern, it doesn't necessarily solve the cost problem. The example below<sup>2</sup> illustrates the cost impact of a pre-65 eligible retiree remaining in the workforce and using COBRA coverage to bridge to Medicare.

Average annual cost of a 60-64 year-old, with spouse		\$12,000
Years between target retirement age and COBRA bridge to retirement (age 61 - 63½)	x 2.5	
Average employer subsidy for active coverage	x 70%	
<b>Additional employer active cost of delayed retirement</b>		<b>\$21,000</b>
Average COBRA claim cost above premium received	\$ 6,000	
Years on COBRA (age 63½ - 65)	x 1.5	
<b>Additional employer COBRA cost</b>		<b>\$ 9,000</b>
<b>Total additional cost to employer</b>		<b>\$30,000</b>

## So what can be done to address this problem?

First and foremost, there is no "one size fits all" solution. Each employer has unique issues and needs. Eliminating retiree coverage and absorbing costs within the active population may address retiree liability concerns, but it doesn't solve the problem. However, there are many other solutions that can be explored. For example, employers who are continuing to subsidize their retiree health care coverage can implement lower cost Medicare Advantage plans, such as Private Fee-for-Service,

to help subsidize the higher costs associated with their pre-65 retiree coverage. Over the life of the retiree, the employer's cost does not change. Those dollars are simply allocated in a way to make retiree coverage more affordable when private-sector coverage is needed most.

It is possible to solve this problem and transition your workers to a healthy and secure retirement – you just have to work with the right partner. CIGNA can help you to think through your unique goals, needs and concerns surrounding early retiree health care coverage and then develop the right benefit strategy to address them.

## The CIGNA senior and retiree solution.

Contact your CIGNA HealthCare sales representative to learn more about how we can help you address the conflicting priorities of reducing your costs and liability while still providing affordable pre-65 coverage opportunities for your retirees.

To learn more about CIGNA's perspective on the issues facing employers with an aging workforce and how to address them, please contact your CIGNA HealthCare sales representative for a copy of "The New Health Care Gap: Sustaining the Continuum of Health Care Benefits for Early Retirees."

When it comes to managing your medical benefit costs, controlling future liability and helping your employees, CIGNA can partner with you to tailor the simple, affordable and easy-to-use solutions you've been looking for. Call your CIGNA HealthCare representative to learn more.

<sup>1</sup> 2006 Mercer National Survey of Employer-Sponsored Health Plans

<sup>2</sup> Figures based on CIGNA estimates

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