

Medicare, Retiree Health Benefits, and Health Savings Accounts

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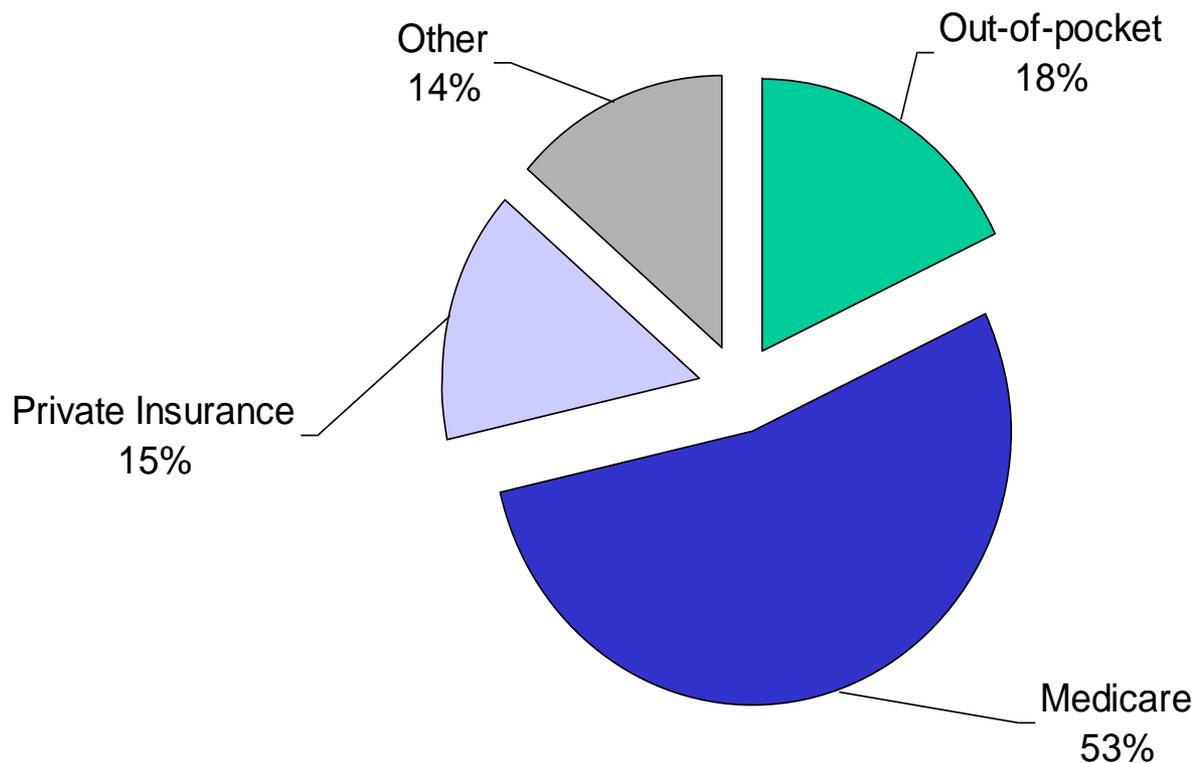
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Sources of Payment for Medicare Beneficiaries (Ages 65+) Health Care Costs



Source: EBRI estimates from the 2002 Medical Expenditure Panel Survey.

Medicare – Unfunded Liability

Future Part A benefit payments	\$8.2 trillion
Future Part B benefit payments	\$11.4 trillion
Future Part D benefit payments	\$8.1 trillion
Total	\$27.7 trillion

Net of debt held by the trust funds and represents net present value estimates over a 75-year period.

Source: GAO.

Raise Taxes or Cut Benefits?

- Choices to correct the financial imbalance:
 - Immediate payroll tax increase from 2.9% to 5.99% (107% increase).
 - Immediate 48% reduction in Part A benefits.
 - Some combination of payroll tax increase or benefit reduction.
 - Gradual changes mean much more substantial tax increases or benefit cuts.

Trends in Retiree Health Benefits

- Fewer employers offering benefits.
- When offered, retirees paying more.
 - Benefits.
 - Health care services.
- Higher age and service requirements.
- Employers reaching spending caps.
- Defined contribution approaches.
- Access-only plans.
- New hires often not eligible.
- Impact of Part D employer subsidy....

EBRI's Retiree Health Savings Model

- Allows various assumptions on:
 - Insurance premium level (source of insurance & benefits covered).
 - Annual premium increases.
 - Age at time of death.
 - Retirement age.
 - Rate of return on savings.
 - Out-of-pocket expenses.
 - Medicare Part B Premium

Savings Needed for Employment-Based Benefits Access-Only Plans at Age 65 in 2015 (assumes 7% premium growth)

Age at Death	Premium Only	Premium + out-of-pocket
80	\$160,000	\$230,000
85	\$223,000	\$321,000
90	\$296,000	\$426,000
95	\$381,000	\$548,000
100	\$477,000	\$687,000

Health Savings Account (HSA)

- Allows for tax-free accumulation of savings.
 - Tax free contribution.
 - Tax free accumulation.
 - Tax free withdrawals for health care services, COBRA and LTCI premiums, retiree health premiums for Medicare-eligible retirees.
- Qualified health plan.
 - Self-only: Minimum \$1,000 deductible, \$5,100 OOP max.
 - Family coverage: Minimum \$2,000 deductible, \$10,200 OOP max.
- Contributions
 - Self-only: limited to level of deductible up to \$2,650 max.
 - Family coverage: limited to level of deductible up to \$5,250 max.
- Catch-up contributions allowed once age 55 of \$1,000.
 - Phased-in by 2009.

Are HSAs the Answer to Retirement Savings?

Savings Potential in HSA

(Assumes catch-up contributions are made, interest and indexing of max annual contribution)

	Annual \$1,000 contribution	Annual \$2,650 contribution
After 10 years	\$24,000	\$45,000
After 20 years	\$47,000	\$103,000
After 30 years	\$81,000	\$193,000
After 40 years	\$137,000	\$340,000

Savings Potential in HSA (with distributions)

	No Distribution	Annual 10% Distribution	Annual 50% Distribution
After 10 years	\$45,000	\$27,000	\$7,900
After 20 years	\$103,000	\$41,000	\$7,900
After 30 years	\$193,000	\$48,000	\$7,900
After 40 years	\$341,000	\$52,000	\$7,900

Issues with HSA for Retirement Savings

- Life expectancy for population is known, but uncertain for individual.
 - 99% of population will be wrong if using average life expectancy.
 - Life expectancy is the biggest risk to retirement savings planning.
- Needed savings even higher if costs grow 10%
 - Part B premium increased 17% in 2005, expected increase of 13.5% in 2006
- HSA savings cannot grow faster than shown previously.
- Should consider other potential retirement savings vehicles before HSA.
 - 58% of wage & salary workers (ages 25+) eligible for DC plan
 - 75% participation rate, or 44% participation overall
 - 4% max out.
 - 25% of eligible IRA owners contribute
 - 70% max out on contribution

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