

**WRITTEN STATEMENT
OF**

DALE H. YAMAMOTO
President
Red Quill Consulting, Inc.

**BEFORE THE
COMMITTEE ON EDUCATION AND LABOR
U. S. HOUSE OF REPRESENTATIVES**

**HEARING
SAFEGUARDING RETIREE HEALTH BENEFITS**

SEPTEMBER 25, 2008

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Introduction

Good morning Mr. Chairman, my name is Dale Yamamoto. I am currently an independent consultant and recently retired from Hewitt Associates where I served as their chief healthcare actuary. I am pleased to be here today to talk about the employers' role in providing health insurance to retirees.

Focus

The chartpack that I have provided to you includes several slides outlining the key aspects of retiree health care including the prevalence of the benefits, discussion of key design features including Medicare Advantage and prescription drugs as well as slides on prefunding, and national costs. I plan to focus on the prevalence and design slides and I am prepared to discuss the other slides as well.

Prevalence

Most of my presentation will focus on the programs offered by larger employers because as you can see on Slide 3, it is that group that primarily has offered the benefits.

Slide 4 shows the declining prevalence of retiree benefits offered by employers. The top two lines are data from Hewitt's SpecBook database of over 1,000 large employers while the bottom shows the results from the latest Kaiser Family Foundation survey. Both show a declining percentage of employers offering the benefit with most of the decline happening during the 1990s.

The key reasons for the decline are shown on Slide 5: In the early 1980s, tax legislation restricted the amount a company could prefund this benefit in a trust fund. Various industry groups, including ERIC, have asked for relief of these limitations since the enactment. And in 1990; the Financial Accounting Standards Board (FASB) adopted a new accounting rule (FAS 106) requiring advance accounting of the benefit—similar to pension plans. These rules were again tightened in 2006 and the Governmental Accounting Standards Board (GASB) adopted similar rules (GASB 43 and 45) for states and municipalities.

A key point to understand is that while the statistics show a decline in the percentage of employers offering retiree health coverage, Slide 6 shows that retirees covered by employer-sponsored plans have remained relatively steady. The reason is that, in most cases, employers “grandfather” existing and soon-to-be retirees in the current plan and do not terminate their benefits.

Design

Skipping to Slide 9 shows you the types of changes that employers made between 2005 and 2006. 11% dropped coverage for future retirees. And 8% actually improved coverage in some fashion.

In my experience, retiree health care plans are one of the few benefit offerings that are difficult for employers to change. Senior management agonize over any decision to reduce these benefits and I know there have been sleepless nights for those trying to decide to terminate coverage—even for future retirees. In short decisions to change benefits in any way because of changing circumstances are not made lightly.

Thank you again for the opportunity to testify and I will be happy to address any questions.

The State of Employer-Sponsored Retiree Health Care Benefits

Dale H. Yamamoto

on behalf of the ERISA Industry Committee

House Committee on Education and Labor
Hearing on "Safeguarding Retiree Health Benefits"

September 25, 2008

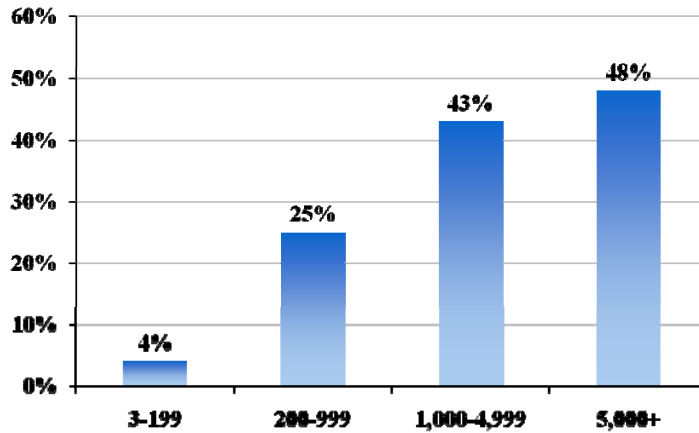


Content

- Prevalence
- Design
 - Key changes
 - Medicare Advantage
 - Prescription Drugs
- Prefunding
- Costs



Private Sector by Size Percentage Offering



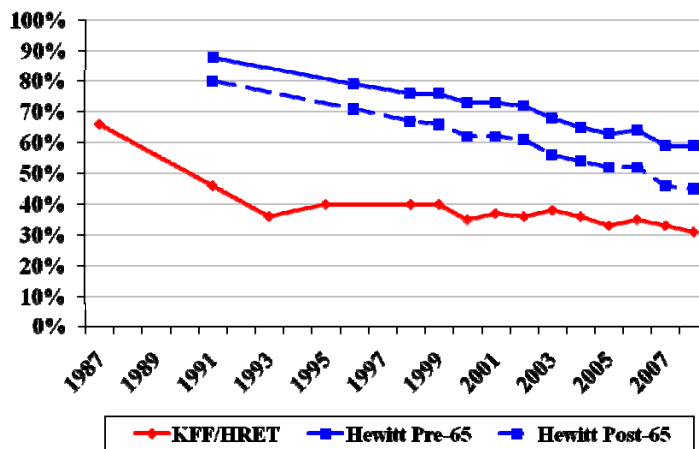
Source: Kaiser/HRET 2008 employer-sponsored health benefit survey.

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Slide No. 3

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Private Sector Percentage Offering



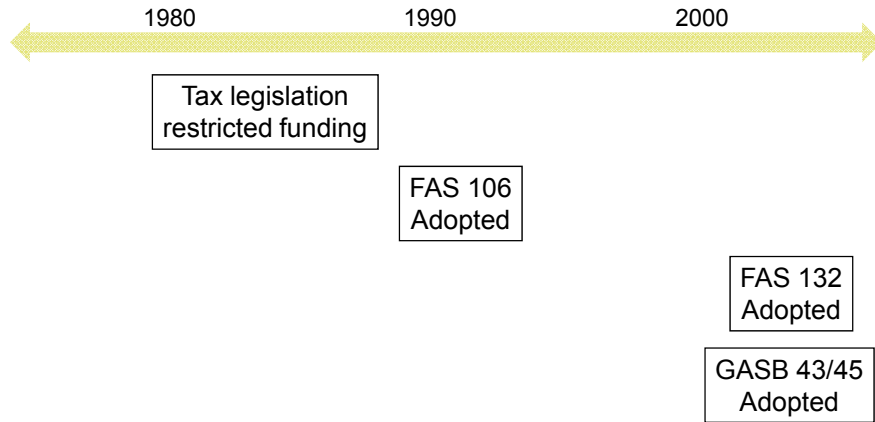
Source: Kaiser/HRET 2008 survey and Hewitt Benefit SpecSelect

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Slide No. 4

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History of Retiree Health Care

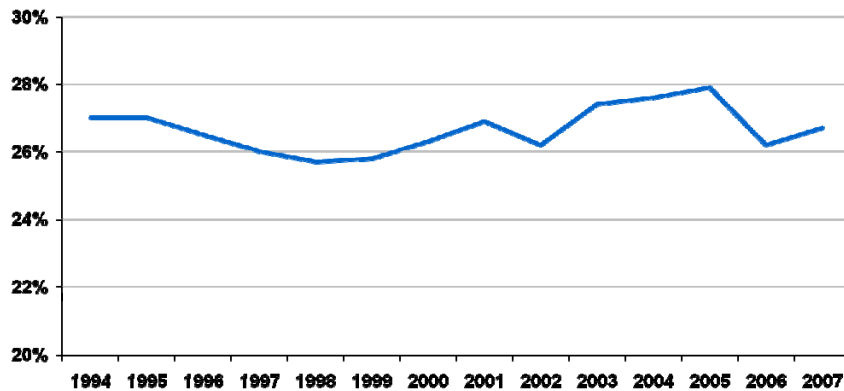


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Slide No. 5

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Percentage of Medicare Retirees with Employer Coverage



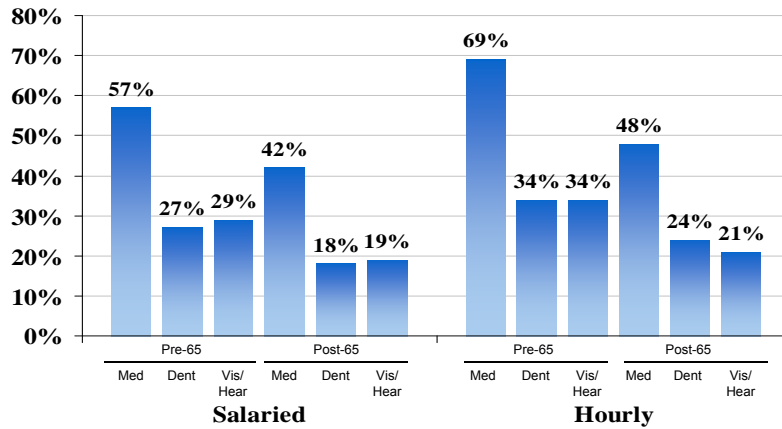
Source: GAO analysis of Current Population Survey, March Supplements 1995-2000;
Hewitt analysis of CPS, March Supplements 2001-2007

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Slide No. 6

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Benefit Plan Prevalence in 2008



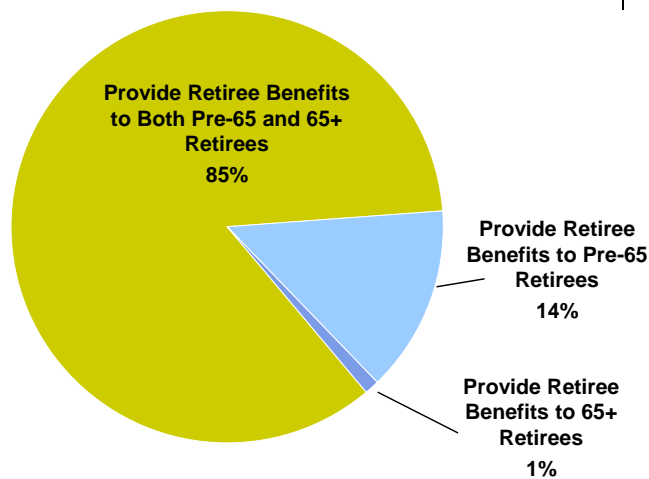
Source: 2008 Hewitt Benefit SpecSelect

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Slide No. 7

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Private Sector Employers Percentage Offering



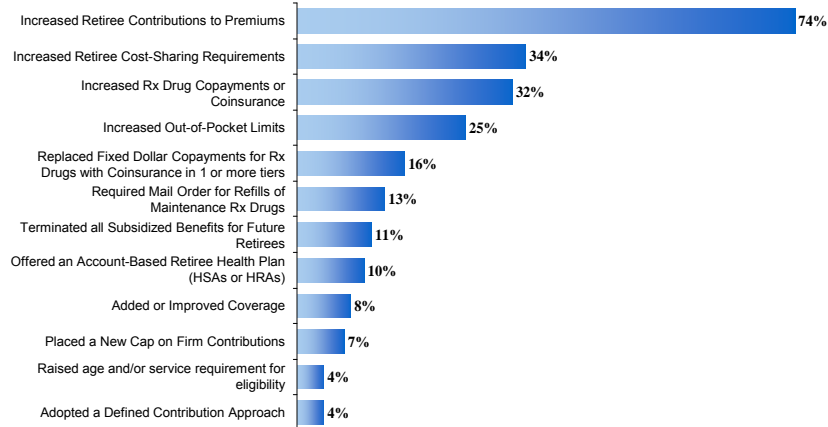
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Employers Changes to Pre-65 Benefits between 2005 and 2006



SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Slide No. 9

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What the 8% Did (the 8% Who Improved Benefits)



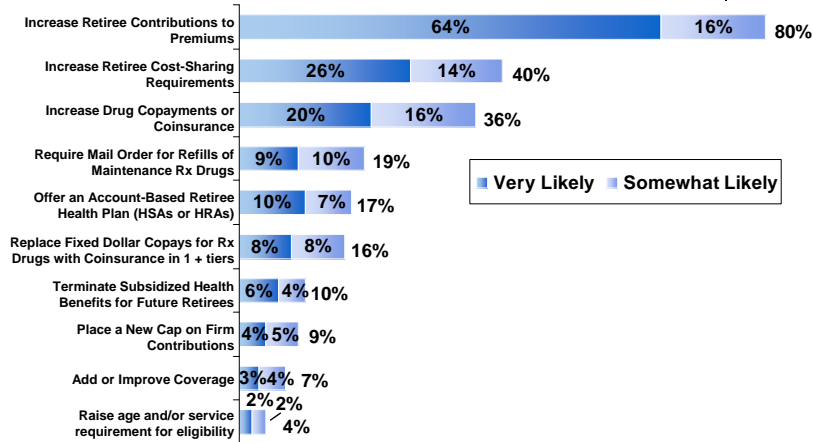
- Added new medical benefits
- Lowered retiree contributions to premiums
- Added retiree health benefits for newly acquired group of employees
- Increased lifetime maximum
- Added domestic partner coverage
- Covers 100% after Medicare vs. 80%
- Improved preventive benefits
- Premier physician network at lower cost

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Slide No. 10

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Likelihood of Making Changes to Retiree Health Benefits for 2007



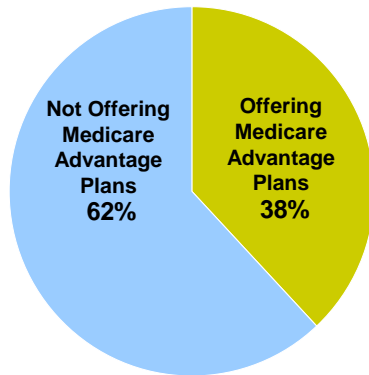
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Slide No. 11

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Private-Sector Employers Offering Medicare Advantage Plans



Medicare Advantage plans may include Medicare Health Maintenance Organization (MHO) plans, Medicare Preferred Provider Organization (PPO) plans or Medicare Private Fee-for-Service (PFFS) plans.

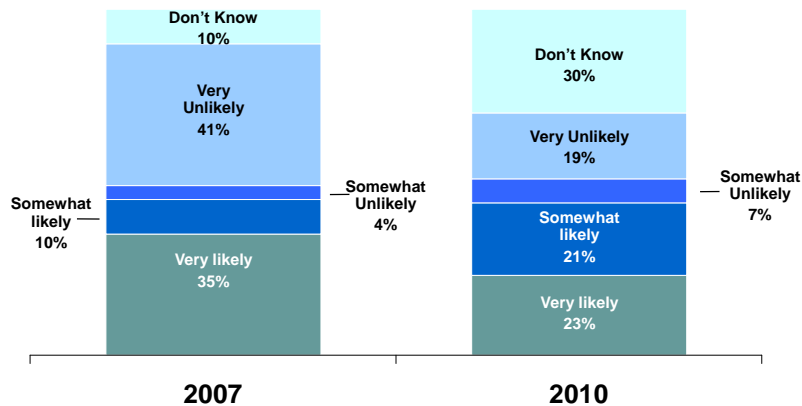
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Slide No. 12

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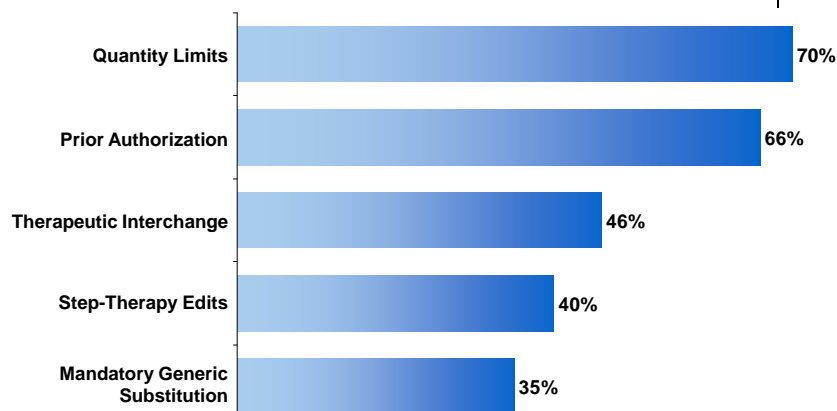
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Slide No. 13

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Drug Utilization Management Features for Age 65+ Retirees



Under step-therapy, patients receive progressively higher-cost treatments only if lower-cost alternatives are found to be ineffective. Under therapeutic interchange, drug substitutions can be made by the pharmacy or PBM.

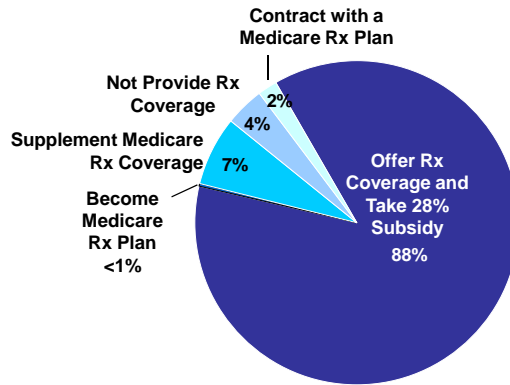
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Distribution of Retirees by 2007 Employer Part D Alternatives



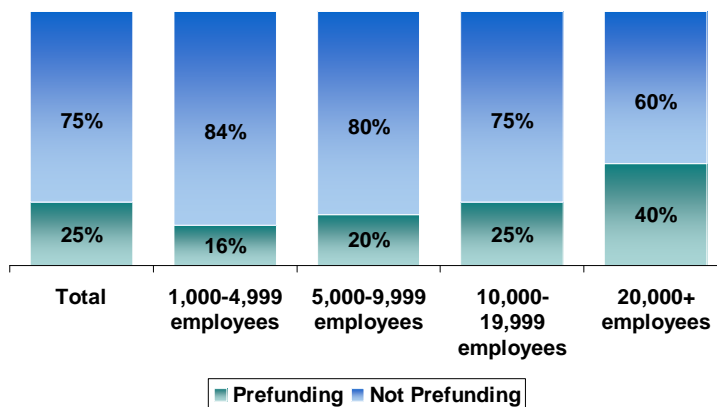
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Slide No. 15

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Percentage of Employers Pre-Funding, by Firm Size



Note: Firms that report pre-funding have made contributions to the fund within the last three years.

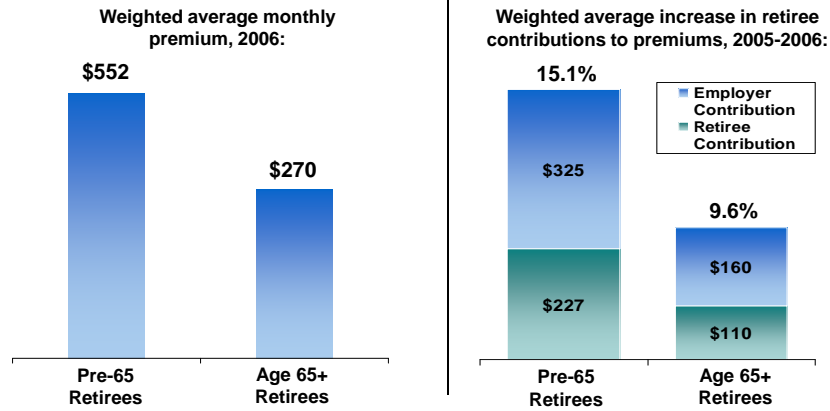
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Slide No. 16

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Average Monthly Premiums for New Retirees



Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2006 in plans with the largest number of enrolled retirees. Includes firms that do not require retiree contributions.

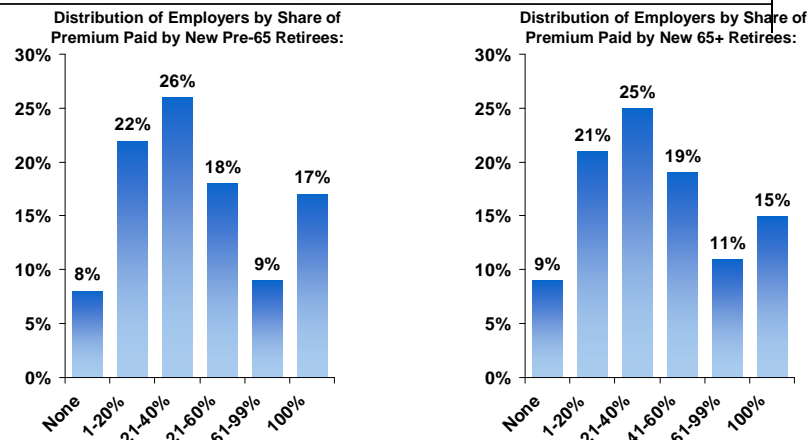
SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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Slide No. 17

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Distribution of Employers by Share of Premium Paid by Retirees



Note: Premiums for retiree-only coverage for full-time employees retiring on or after January 1, 2006, in plans with the largest number of enrolled retirees.

SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.

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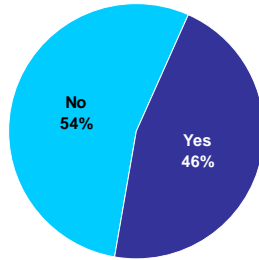
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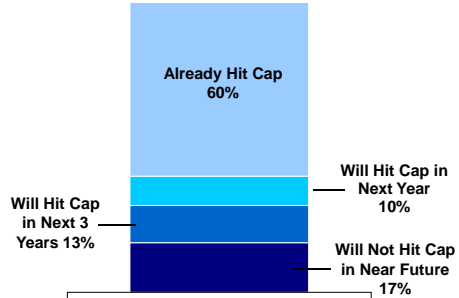
Percentage of Employers With a Subsidy Cap (Pre-65s)



Of large private-sector employers, percentage with a cap on their largest plan:



Of large private-sector employers with a cap on their largest plan, percentage that anticipate hitting the cap:



SOURCE: Kaiser/Hewitt 2006 Survey on Retiree Health Benefits, December 2006.