

EARLY RETIREE REINSURANCE PROGRAM PROGRAM STATUS UPDATE, FEBRUARY 2012

Early retirees between 55 and 64 often face difficulties obtaining insurance in the individual market because of age or chronic conditions that make coverage unaffordable and inaccessible. These early retirees are often charged more for health coverage or denied coverage altogether in the individual market. At the same time, the availability of group health coverage for America's retirees also has declined significantly over the past two decades with the percentage of large employers providing workers with retirement health coverage dropping from 66 percent to 26 percent since 1988.¹ Without early retiree coverage, many retirees in this group have few alternatives until 2014 when individuals can buy quality, affordable coverage through new competitive marketplaces to be established through State-based Affordable Insurance Exchanges created by the health reform law.

The Early Retiree Reinsurance Program (ERRP) was established by section 1102 of the Affordable Care Act enacted on March 23, 2010 (Pub. L. 111-148) and was designed to be a temporary program to help employers continue to provide access to quality, affordable health coverage for early retirees. ERRP was appropriated \$5 billion to provide financial assistance for employment-based health plan sponsors who cover millions of early retirees and their families. Plan sponsors are required to spend reinsurance funds to offset the plan's increased costs, plan participants' costs, or both.

ERRP has accomplished its goals of providing significant relief to these plan sponsors – including private businesses, schools and educational institutions, State and local governments, unions, religious organizations and other employers. To date, ERRP has provided \$4.73 billion in reinsurance payments to more than 2,800 employers and other sponsors of retiree plans, with an average cumulative reimbursement per plan sponsor of approximately \$189,700.

Initial results from a recent survey to gauge plan sponsors' experience with ERRP funds begin to outline the impact of ERRP. Based on 859 surveys, representing 28 percent of plan sponsors that received funding in 2010 and 2011, and 55 percent of funds disbursed:

- Plan sponsors reported that they provided health coverage to 19.1 million plan participants.
- Of these plan participants, 13 million have already benefited, either directly or indirectly, from the ERRP program, as their health plan sponsors have already begun applying the ERRP funds received to offset the plan's increased costs, plan participants' costs, or both.
- For plan sponsors that purchase health insurance directly from a carrier to cover their workers and early retirees, ERRP funds have reduced the increase in sponsor-paid premium costs by up to 27 percent.
- ERRP not only provides immediate relief to plan sponsors but will also provide a bridge to 2014, as survey responses indicate that:
 - Fifty-six percent of responding plan sponsors have used ERRP reimbursements to date. Of these plans sponsors already using funds, 15 percent report that they have spent some, but not all of their funding.
 - Forty-four percent of survey respondents indicate that they will apply all of their reimbursements to the 2012 or 2013 plan year.

- Based on survey respondents that indicated that they have not spent all of their ERRP funding, it can be concluded that at least \$615 million in ERRP funds of survey respondents will be applied in 2012 or later.

The ERRP has significantly benefited retirees, their spouses and dependents, and other plan participants across the country. For example:

- In Louisiana, the Caddo Parish School Board has been able to use its \$2,740,982 in reimbursements to offset premiums by 27 percent in 2010 and 21 percent in 2011 for its 8,100 plan participants.
- The premiums for 4,827 plan participants of the Wausau Paper Corporation in Wisconsin will be 3 percent less than they would have been in 2012 thanks to the \$1,040,935 in ERRP reimbursements.
- The County of Jackson, Michigan has 332 plan participants and received \$398,186 in reimbursements. Jackson County has used the funds to offset a third of its sponsor cost increases in 2011 and 2012.
- Central Southern Tier Health Care in New York received \$1,438,341.86 which has been used to offset a 2011 mid-year cost increase of 4 percent to plan subscribers in the participating school districts in its consortium and help lower proposed 2012 increases of 5 percent to the plan premiums.

The impact of ERRP funds received can be significant. Some survey respondents report that ERRP reimbursement has been used to offset some (as much as 50 percent) of the premium that would otherwise have been charged to subscribers or offset some (up to 100 percent) of the annual increases in the plan sponsors' fully-insured premium costs.

This initial snapshot analysis of reimbursement requests shows that ERRP funds are helping to relieve the high costs of care of patients with serious health conditions, with a large proportion of the reimbursements for claims related to chronic and high-cost conditions such as heart disease, cancer, respiratory disorders, arthritis, and diabetes.² The funds provided relief from costs of care received from institutional providers, such as hospitals. The largest portion of submitted costs was for items and services delivered in institutional settings, such as hospitals and ambulatory surgery centers.

ERRP has proven to be a critical source of support, benefiting retirees and employees across the country, and the health plan sponsors that provide vital access to health coverage and will continue to provide this support as plan sponsors apply their funding to future plan years. The overwhelming response to the ERRP program is a clear example of the significant health care costs experienced by early retirees and plan sponsors and highlights the importance of programs such as the ERRP in the Affordable Care Act.

¹ Kaiser Family Foundation/Health Research & Educational Trust 2011 Employer Health Benefits Survey. Kaiser Family Foundation. <http://ehbs.kff.org/pdf/2011/8225.pdf>.

² Data based on claims which have been processed for reimbursement through the automated system edits since October 2011.