



Fact Sheet: Early Benefits from the Affordable Care Act of 2010 Reinsurance Program for Early Retirees

The historic Affordable Care Act is now law, and many of its important benefits are already beginning to go into effect. Among those benefits is a reinsurance program for early retirees that will be available to businesses around this country no later than June 23 this year. Reinsurance has been successfully used by a number of states to lower premiums for small businesses. It is an idea that was advocated by large businesses, which wanted it to be part of the Affordable Care Act because they believe it will defray the high and often unpredictable cost of early retirees, helping them to maintain retiree benefits at affordable levels.

Why is Early Retiree Reinsurance Important?

- **Growing population with greater health risks:** The baby-boom population is mostly age 55 to 64. The percent of people reporting fair to poor health is over 50 percent higher among people ages 55 to 64 versus those ages 45 to 54. The death rate of people ages 55 to 64 is more than twice that of those ages 45 to 54. Among all adults, Americans ages 55 to 64 have the highest rate of obesity, making older Americans susceptible to chronic illness.¹
- **Greater health costs:** Health spending for the average person age 55 through 64 is about 50 percent higher than the average for people ages 45 to 54.² High out-of-pocket health spending has caused a significant number of older Americans to delay retirement to fund such costs.
- **Less access to affordable coverage:** Less than half of people ages 55 to 64 work full-time.³ Millions of workers fully retire before they reach age 65. Individual market insurance is often not an option: premiums have increased more for older than younger Americans. The number of employers providing health coverage to early retirees has significantly eroded over the years, from 66 percent of large firms in 1988 to 31 percent in 2008.⁴

Early Retiree Reinsurance Facts: The early retiree reinsurance program provides \$5 billion for temporary financial help for employer plans to continue to provide valuable coverage to certain retirees

- **Effective date:** The program becomes effective June 23, 2010. Payments are retroactive for a plan year, so employers and early retirees will be able to take advantage of them for costs incurred from the date the program is established. The program ends on January 1, 2014, when early retirees will be able to choose from the additional coverage options that will be available in the health insurance exchanges.
- **Who qualifies:** Payments will be made to employer-sponsored health plans on behalf of an early retiree (and his or her spouse, surviving spouse, and dependents). An “early retiree” is defined as an individual age 55 and older who is neither an active employee nor eligible for Medicare.
- **Eligible firms:** Payments will be made to employer-sponsored health plans on behalf of early retirees. To receive assistance, plans must apply, document claims, and implement programs and procedures to generate cost savings for participants with chronic and high-cost conditions. Plans will be subject to audits to assure fiscal integrity.
- **Amount of assistance:** For each such early retiree (and his or her spouse, surviving spouse, and dependents), the employer plan will receive up to 80% of costs, minus negotiated price concessions, for health benefits between \$15,000 and \$90,000. This reinsurance corridor shall be adjusted in subsequent fiscal years by the medical component of the consumer price index.
- **Savings for enrollees:** Plans must use these proceeds to lower health costs for enrollees (e.g., premium contributions, copayments, deductibles, etc.) .

Frequently Asked Questions:

- **Who applies and when?** Employer and union-based plans will submit an application to HHS to participate in the program. Many of them will already be familiar with the process for submitting applications for the Retiree Drug Subsidy program; we expect the process will be similar. The application will be available in June.
- **How will payments be made?** Plans with approved applications will submit paid claims to the Department of Health and Human Services.
- **What types of employer-sponsored plans are eligible?** Both self-funded and insured plans can participate, including plans sponsored by private entities, state and local governments, nonprofits, religious entities, unions, etc.
- **What types of services qualify for reimbursable services under the program?** Plans can get program payments for medical, surgical, hospital, and prescription drug costs.

- **How should employers treat reinsurance payments when it comes to taxes?** Proceeds are excluded from gross income.

¹ National Center for Health Statistics, *Health United States, 2007*. (Atlanta: Centers for Disease Control and Prevention, 2007).

² Centers for Medicare and Medicaid Services, *National Health Expenditures by Age, 2004*.

³ Richard W. Johnson, "What Happens to Health Benefits After Retirement?" *Work Opportunities for Older Americans*. (Boston, MA: Boston College Center for Retirement Research, February 2007).

⁴ Kaiser Family Foundation, *Employer Health Benefit Survey*, (Menlo Park, CA: Kaiser Family Foundation, 2009).