Health savings accounts (HSAs) could assist future retirees in meeting their health care expenses during retirement, particularly those employees who opt for an early retirement before they are eligible for Medicare. A number of studies indicate the challenges faced by retirees in obtaining and paying for retiree health insurance. The savings needed to fund health care in retirement are substantial. Employees have a poor grasp of the expenses they will incur to fund health care in retirement. Finally, public and private employers are continuing to substantially reduce or eliminate retiree health insurance.

In 2003, the Employee Benefit Research Institute (EBRI) analyzed the savings needed to fund health care in retirement.¹ According to EBRI, “very few employees are expected to be eligible for retiree health benefits in the future.”² The study noted that only very large employers are likely to offer the benefit, yet most private sector workers are employed by smaller companies, i.e. those with less than 500 employees. Therefore, only 11 percent of U.S. private companies offered retiree health insurance to Medicare eligible retirees. Twelve percent offered coverage to retirees under age 65.³ The estimates of savings needed to fund retiree health costs varied widely depending on factors such as age at time of death, premium costs and changes thereto, and out-of-pocket expenses. The study found that a Medicare eligible individual with access to retiree health

² Id., Executive Summary.
³ See id.
insurance needed to save a present value for $37,000-$750,000 to retire at age 65 in 2003. If the same individual does not have access to employment-based insurance and instead purchases Medigap insurance, he would need to save from $47,000-$1,458,000. Early retirees need substantial savings just to cover the cost of health insurance from the time they retire until they are eligible for Medicare. A 55-year-old with access to employment based retiree health insurance need to save $50,000 just to cover the premium costs, assuming a 7% annual increase in the cost of premiums. Recently premiums have been increasing at double-digit rates, so if premiums increased at 14% per year the cost of funding premiums until Medicare eligibility would be $70,000. EBRI noted that policymakers have a number of options available to address eroding retiree health benefits including expanding Medicare to cover more retiree health expenses. Policymakers could also consider altering the tax treatment “to level the playing field …among employers, active worker, and retirees;” requiring employers to provide retiree health insurance; and public education programs aimed at making future retirees more aware of the need to save substantial amounts to fund retiree health care expenses. Another study surveyed very large employers, i.e., those with more than 1000 employees, and noted that “[o]ver the past decade…there has been a steady erosion of retiree health insurance benefits that threatens to increase the number of future retirees with such coverage.” A majority (89%) of the large employers surveyed provide

---

4 Id.
5 Id.
6 See EBRI Issue Brief at p.17.
7 See id.
8 See EBRI Issue Brief, Executive Summary.
9 See id.
benefits to both Medicare-eligible retirees and under 65 early retirees.\textsuperscript{11} The cost of providing retiree health insurance increased by 13.7 percent from 2002-2003.\textsuperscript{12}

Many employers have placed caps on their future obligations to fund retiree health benefits for two reasons. First, the cost of providing the benefits has increased substantially in recent years.\textsuperscript{13} Second, changes in accounting standards promulgated by the Financial Accounting Standards Board now require employers to account for retiree health obligations on an accrued basis.\textsuperscript{14} Nearly one-half of companies have placed caps on their retiree health obligations, and about one-half of those companies with established caps have already reached the financial cap.\textsuperscript{15}

The average total premium cost for early retirees is $427 per month for an individual or $845 for retiree and spouse coverage.\textsuperscript{16} Since Medicare provides some coverage, the premium cost for Medicare-eligible employees is considerably less, i.e., $212 per month for retiree only and $419 for retiree and spouse coverage.\textsuperscript{17} The average retiree contribution to the total premium is $166 per month for early retirees and $83 per month for Medicare-eligible retirees.\textsuperscript{18} Retiree contributions to premiums paid increased by 20 percent from 2002-2003 for early retirees, and increased by 18% for Medicare-eligible retirees.\textsuperscript{19} Most large employers (93%) provide coverage for prescription drugs for Medicare-eligible retirees, but many are considering reduced benefits since over one-

\textsuperscript{11} See Kaiser/Hewitt Survey, Executive Summary.
\textsuperscript{12} See id.
\textsuperscript{13} See id.
\textsuperscript{14} See id.
\textsuperscript{15} See id.
\textsuperscript{16} See id.
\textsuperscript{17} See id.
\textsuperscript{18} See id.
\textsuperscript{19} See id.
half of employer costs for Medicare-eligible retirees are attributable to prescription
drugs.\textsuperscript{20}

Employees are ill-informed about the health care benefits available to them in
retirement and the expenses they will likely face for health care during retirement.\textsuperscript{21}
Anecdotal evident suggests that many retirees are returning to the workforce because of
the “unanticipated high cost of health care and lack of third-party coverage.”\textsuperscript{22} One study
surveyed employees ages 45-64 concerning their expectations regarding retiree health
care expenses.\textsuperscript{23} Of those surveyed, about 35\% obtained health insurance through
government employment; one-third were employed by smalls companies with less than
100 employees; 42\% were employed in companies with more than 1,000
employees; and 16\% were union members. The study found that a majority of
employees “are not well informed about their benefits (either Medicare or employer-
related), nor are they well prepared for meeting their health expenses.”\textsuperscript{24} The study also
found “a serious mismatch between what workers are expecting and what they are likely
to have available to them.”\textsuperscript{25} General Accounting Office data show that 57\% of
eyearly retirees and 65\% of Medicare-eligible retirees were eligible for employer-
sponsored retiree health insurance in 1999.\textsuperscript{26} However, 64\% of early retirees and
59\% of Medicare-eligible retirees expect to receive retiree health insurance.\textsuperscript{27}

\begin{itemize}
  \item \textsuperscript{20} See id.
  \item \textsuperscript{22} Workers’ Knowledge at 385.
  \item \textsuperscript{23} See id. at 386.
  \item \textsuperscript{24} Id.
  \item \textsuperscript{25} Id.
  \item \textsuperscript{26} See id.
  \item \textsuperscript{27} See id.
\end{itemize}
Since many employers are reducing benefits or eliminating retiree health coverage, such expectations are probably unrealistic.\textsuperscript{28}

\textsuperscript{28} See \textit{id.}. 