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News

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Aetna Rates: Fair or Unfair

ARA members are aware – some painfully aware – of the health insurance rates Aetna is charging its retirees. Those deductions from your pension check are large already and growing fast.

That's hardly surprising. Health costs are rising at the fastest rate in history – about double the inflation rate for the most recent year (2005) for which complete data is available. The national bill exceeds two trillion dollars or $6,700 per person. That is 16% of the Gross Domestic Product (GDP), the sum of all goods and services produced. Experts expect it to double by 2015 when it will be 20% of the GDP. Perhaps most alarming, health care costs are growing at six times the rate of real wages.

As we have discussed in prior Newsletters, there has been a tremendous increase in the rate at which we contribute to these pre-Medicare plans. For example, for the HMO-90 plan, the annual contribution for a retiree and spouse is in the $4,700 to $5,700 range, depending upon when you retired, what your cap was and when the cap was reached.

Those retirees who are subject to the cap are, of course, hit the hardest. Once a retiree hits the cap, all future increases must be paid by the insured. The company pays nothing more. This results in seemingly unconscionable levels of increase. For example, assume the total conventional-equivalent rate (the sum of the amount Aetna pays plus your contribution) is $500 per month and that Aetna's portion is $250 per month. Now assume the increase in the total rate brings the rate to $750, a 50% increase in the total rate. However, the Aetna's portion remained at $250 and your portion went from $250 to $500, or an increase in your payments of 100%!

There is yet another factor that seems to be forcing Aetna retiree costs up even faster than for many others. Given an aging population in these plans along with no newer/younger retirees joining the plans, the increase in claim experience is potentially heightened.

Aetna Rates (continued)

Over the past month or so, we have been in contact with the Aetna Benefits Department, specifically those involved with setting our contribution rates. We have posed a number of questions concerning methodology, assumptions, techniques, etc. included in the rate setting process. Based upon these discussions with Aetna we have come to the following conclusions:

(1) the **rate setting process** has followed generally accepted and sound underwriting practices
(2) the **assumptions concerning inflation** have been those employed in the industry for similar groups with similar plans
(3) the **assumptions concerning expected claim levels** have been based upon a 3-year averaging of the actual claim experience for these groups (with equal weights placed on each of the 3 years – in our opinion, this is a generous manner to look at experience and has tended to keep the increases lower than they could have been)
(4) the groups have been rated as **3 separate claim groups**: (a) Pre-65 Uncapped and Pre-65 Capped, (b) Post-65 Uncapped and (c) Post-65 Capped. This grouping makes the most sense based upon the number of people enrolled in each grouping
(5) there have been **no additions to our contribution rates** designed to encourage us to opt out and get a plan on our own (this concept is known as "**steerage**" whereby a carrier would specifically add something to the contribution rate to steer people out of the plan)

As mentioned earlier, the total contribution for a retiree plus spouse is approximately $5,000 per year for the (pre-Medicare) HMO-90 plan. While we are not "defending" this rate, we think all of you know someone who has contracted for a similar plan outside of a group program like ours. If you were to ask this person what his or her annual premium is, we are certain the answer would shock you. Based on comments from some of our members, the premium for a similar plan on their own (if they could even get such a rich plan) would be in excess of $10,000 per year. Accordingly, while what we pay is pretty painful, it could actually be a whole lot worse.

To sum up, it would appear that Aetna is following customary industry standards in setting rates for the Pre-Medicare group. The application of a three-year average is more than fair; it is a definite asset. However, the nature of our group – an aging population with no younger (and presumably healthier) members coming in is bound to produce greater claims than a normal group with more complete demographics. Still, it seems likely that few of us could find a plan that would give the same benefits at anywhere near the current cost to us.

At the same time we have embarked on this evaluation of the Aetna's rating processes and assumptions, we have contracted with an outside consultant to do a "rate/plan competitiveness" study for the Medicare plans. The results of that study will be published as soon as it is complete.

We continue to find that many of our members are outstanding sources of information. Please let us know if you have any comments or thoughts concerning the issues discussed here.

ARA will work with NRLN in 2008 on Legislative Issues

The National Retirees Legislative Network (NRLN) held its annual Leadership Conference January 23-24 in Washington. Director Warren Azano, chair of the ARA Legislative Committee, represented ARA. NRLN is a non-partisan, coalition of retiree associations, individual retirees and pre-retirees. It represents more than two million members across the country, and serves as a watchdog and advocate for retirees from its Washington offices.

The conference covered a wide range of topics vital to retiree interests including Healthcare, Pensions, Legislative and Lobbying Strategies, NRLN services, and the organization's 2008 Legislative Agenda. One of the high points of the meeting was the discussion of health care by staffers from the McCain Presidential Campaign and various Congressional committees, and by representatives of other outside groups.

The NRLN Legislative Agenda is ambitious and challenging, but very important to most retirees. Of course, there are powerful forces in opposition, so it is important for pro-retiree forces to stand united. Items include:

- Protection of defined pension plans from use by corporations in restructuring
- Legislation precluding employers from eliminating or slashing health care benefits, instead requiring them to at least make specified payments to their retirees, in exchange for certain benefits
- Reversal of the EEOC ruling that allows age discrimination against Medicare recipients
- Endorsement of national health care under the five principles of the National Coalition on Health Care
- Medicare reform that would allow retirees under age 65 to buy in on a cost basis
- Ask Congress to hold hearings on the plight of retirees who have lost 20% of income in the past five years
- Support new legislation that enables health care premiums (including Medicare premiums) to be tax deductible, similar to the way health insurance premiums for workers and self-employed individuals are deductible. Such deductions would be exempt from the 7.5% (AGI) limitation.

ARA's membership in NRLN gives us a number of very valuable advantages. First, NRLN is Washington based and experienced in gathering information and dealing with Congress. The staff is small, probably too small for its ambitious agenda, but it can educate members and alert them to impending problems or opportunities. Because it can speak for two million retirees, it gets far more attention than would any individual or smaller group such as ARA standing alone.

In commenting on the Washington Leadership Conference, Warren Azano emphasized that while NRLN and ARA have many of the same objectives, there are differences in approach that we must be sensitive to. For example, differences in approach among the various association members. Some of these would support a single payer national health care plan, although NRLN itself has not adopted such a position. We at ARA have opposed that approach, because it might well seriously harm Aetna and would therefore not be in our best interests. Other association members are also much more supportive of government programs to provide various retiree benefits, for the simple and understandable reason that their members' ex-employers have eliminated or drastically reduced their benefits, a problem that we thankfully do not have.

To learn more about NRLN, check out their web site at: http://www.nrln.org.

ARA Members Respond to Need to Nudge Congress

Responding to the National Retiree Legislative Network's (NRLN) early warning radar, ARA asked members to launch a few missiles in the direction of Congress and the President. Those messages were received, and Congress passed a revised version of the President's economic stimulus package that included help for low-income Social Security recipients. President Bush signed it into law February 13.

For reasons not entirely clear – possibly budget restraints – the original version of the bill that passed the House of Representatives excluded Social Security recipients who did not have at least $3000 earned income. When the Senate took up the measure, Max Baucus, D-Montana, added an amendment to waive the earned income requirement and include 20 million Social Security recipients and 250,000 disabled veterans.

Senate Democrats also tried to load the bill with provisions including an extension of jobless benefits, heating aid for the poor and tax breaks for certain industries. Republicans blocked those extensions, but went along with including disabled vets and Social Security recipients.

Most Americans will receive checks of $300 to $600 ($1200 for couples) while those added later will receive only $300 each. The amount given will reduce for individuals earning more than $75,000 and couples earning more than $150,000 and phasing out altogether for those at the highest earning levels.

Low-income wage earners who pay less than $300 in federal income taxes but who earned $3000 or more will receive checks for $300. Social Security recipients and disabled veterans were initially excluded if they did not have earned income. They will also receive $300 checks for individuals or $600 per couple.

The stated reason for putting cash into the hands of low-income Americans is that they are more likely to spend it immediately and give the economy a boost. Those more cynical see this surprising show of bipartisanship as an election year attempt to buy votes funded by IOUs that the taxpayer or his heirs will eventually have to pay. In either event, if money is being passed out, it is the contention of ARA that low-income Social Security recipients are as deserving of their share as anyone else.

We do not have a count as to how many ARA members responded to the email request to contact our national leaders, but, overall, it was significant. What's more, the system is very easy to use. The ARA email contained a link to the NRLN Capwiz system. Once in that system, all that the member has to do is enter his or her zip code. That automatically produces links to the email addresses of the President, two Senators and House member. It also displays a standard message urging the desired action. The user may send the standard message, send a revised copy, or write an entirely different message. Using the standard message, the process takes only a few minutes.

Your ARA leadership team would like to thank members who responded and urge those who did not to try it next time.

Aetna Doing Just Fine, Thank You

In a February 7 conference call to market analysts, Aetna President Ron Williams gave a glowing report on company successes. Fourth quarter profit rose 3% from membership growth, premium, and fee rate increases plus continued cost cuts.

Net income grew to $448.4 million, or 87 cents a share from $434.1 million, or 80 cents a share in the latest period. Revenue rose 1.2%, to $7.14 billion, from $6.36 billion a year earlier.

Per share profits matched the expectations of the "street" although revenue was slightly below the $7.17 billion expectation.

Other highlights were:

- Medical-loss ratio widened from 78.8% to 80.3%
- Medical membership rose by 168,000 reaching 16.85 million compared to 15.43 million a year earlier
- Fourth-quarter earnings were forecast at 92 cents a share or $4 for the year – slightly below Wall Street expectations.
- Annual revenue was reported at $27.6 billion – up 9.8%
- CEO Ron Williams told analysts that the company expects to add 550,000 to 600,000 new members in the first quarter of 2008, which would double previous projections.

Predictably, the announcement drew a loud protest outside company headquarters. A group called Connecticut Working Families used a chant, "Aetna, we won't let ya make your bucks while health care sucks." ARA applauds Aetna management for growing the business and improving profitability. Our concerns would center more on guaranteeing that Aetna provides quality service, fair value for the premium dollar, and keeps its commitments.

OOPS!
Another Aetna Error in Public View

The January 30 Hartford Courant reports that thousands of senior citizens ended up with somebody else's bill for prescription drug coverage. Because ARA members have their payments deducted from pension checks, the error apparently did not have any impact on us.

The company was quick to point out that the billing did not contain any sensitive identity information. Corrected bills were being mailed out quickly. Aetna promised to mail a letter of apology to those affected and set up a special telephone line to deal with the matter. Aetna said it was "reviewing how the system malfunctioned" and said the company was assessing options, including more extensive quality control measures to avoid problems.

If this were an isolated event, ARA would have sympathy for the company. Errors do happen, but rather too frequently with Aetna. In a recent announcement of increased profits, Aetna also promised additional cost cutting. Perhaps too much has been cut, or in the wrong places.

Clearing the Fog?
New Rules Designed to Protect Pension Plans

New rules on pension plans, growing out of the Pension Protection Act of 2006 and being phased in this year, are designed to identify troubled plans before they fail. High-profile failures at United Airlines and Bethlehem Steel plus a host of smaller companies spurred Congress into action. It wanted no part of future government bailouts.

Under the new rules, troubled plans would be given labels such as "at risk", "critical" and "endangered". Companies that sponsored plans with these labels will be required to take steps to correct the shortcomings. Evaluation will be based on a complex formula, generally linked to its funding level; how many dollars it has on hand compared to how much participants have been promised. The obvious remedy would be to pump in more dollars, but the new regulations also allow restricting benefits, something not allowed under the old law. Plans below 70% funding will no longer be permitted to pay retiring workers all of their pension benefits in a lump sum.

In April, the law requires all pension plans that may have to curtail benefits to notify affected workers in writing. Those not wishing to wait until April can use on-line tools. One such data base is AtPrime Media which offers a web site with tax, pension and other information. The data base – www.AtPrime.com – is free but requires registration.

This new attempt to protect pension plans falls into the good news/bad news category. Pension plans are generally safer than health insurance benefits because funding requirements have long been on the books. On the other hand, lawmakers have shown a willingness to allow the use of pension plan money for purposes other than pensions. In recent years, they have shown a willingness to allow troubled industries to reduce benefits or walk away from plans. The 2006 reforms seemed much more focused on avoiding the government having to pick up the bill than the protection of workers. This is proof yet again that the voice of the corporations speak louder in Washington than that of retired workers.

CONTACT ARA!

We welcome your comments, questions, ideas and letters to the editor. See mail and website addresses on page 1.

Dave Smith, Editor