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Health Coverage Options for Military Retirees

The U.S. Department of Defense (DoD) has traditionally provided health benefits to active-duty and retired service personnel and their families. Active-duty personnel who retire after 20 years or more of service are eligible to continue to receive health benefits for themselves, their spouses, and dependent children through TRICARE, the military health care plan. Yet, given the rising cost of providing health care services, DoD may need to consider some changes in benefit design to control its expenses while continuing to offer retirees health benefits. One option under consideration would alter the structure of the military benefit to encourage more retirees who establish second careers to choose their employer health plans, if available. The results of a RAND survey offer some insights into the feasibility of this option:

- Although most of the retirees surveyed have access to civilian insurance, only half of those with access choose to avail themselves of it, likely because of the growing gap between civilian health insurance premiums and TRICARE enrollment fees.
- Modest increases in civilian insurance premiums would likely lead to substantial shifts to TRICARE, whereas comparable decreases in civilian premiums would not encourage TRICARE enrollees to switch to civilian plans.

The Current Situation

Since TRICARE's inception in 1996, the annual fee for retirees enrolling in the Prime health maintenance organization option has remained fixed at \$230 for individual coverage and \$460 for family coverage. Retirees who choose not to enroll may use TRICARE Standard/Extra, the preferred provider option, which has no enrollment fee but offers somewhat less generous cost-sharing provisions than TRICARE Prime. In comparison, civilian employer health insurance premiums averaged \$2,713 for family coverage

Key findings:

- The majority of military retirees under age 65 who completed a recent survey have access to civilian insurance.
- However, only half of those with access choose to avail themselves of the insurance, likely because of the growing gap between civilian health insurance premiums and TRICARE (the military health care plan) enrollment fees.
- Modest increases in civilian insurance premiums would likely lead to substantial shifts to TRICARE, whereas comparable decreases in civilian premiums would not encourage TRICARE enrollees to switch to civilian plans.

in 2005. The large and growing gap between civilian premiums and TRICARE enrollment fees makes TRICARE an increasingly attractive option.

Because service personnel may accrue 20 years service around age 40, many have second careers after retirement and may be eligible to participate in civilian health plans either through their own post-military employment or through a spouse's employer. At the request of the Under Secretary of Defense for Personnel and Readiness, RAND researchers undertook the *2005 Survey of Military Retirees*, a pilot survey of retirees under age 65, to assess their eligibility for and use of civilian health insurance as well as their reliance on TRICARE.

Who We Surveyed and What We Asked

We randomly selected a sample of 1,600 retired officers and enlisted personnel (800 officers and 800 enlisted) who were under age 65, were living in the continental United States, and had been

retired for at least one year. Our computer-assisted telephone survey asked about the employment status of respondents and their spouses, their eligibility for and participation in civilian health insurance options, reasons for participation or nonparticipation, use of TRICARE and other coverage to pay for medical care, and the likely effect of premium increases or decreases on participation in civilian health insurance plans (if eligible). The overall response rate was 60 percent.

Findings

Overall, the survey found that about 80 percent of the survey population was employed. Most military retirees were married at the time of the survey and living with their spouses. Just over 50 percent of retirees' spouses were also employed. In total, about 78 percent of the survey population had access to civilian insurance through their own or their spouses' employer or through a union or professional association.

About half of those who were eligible to enroll at least one family member in a civilian health plan chose not to enroll. Overall, only 39 percent of the population had at least one family member enrolled in such a plan. An additional 3 percent had at least one family member enrolled in civilian coverage from a source other than an employer.

The high cost of premiums was by far the most frequently cited reason for not enrolling in a civilian plan—mentioned by close to 80 percent of those eligible but not enrolled—followed by high co-payments (58 percent) and high deductibles (57 percent). A very small proportion of those eligible—5 percent—reported that their employer had provided an incentive not to use the civilian plan.

Of the 42 percent of retirees enrolled in civilian plans, about half reported that they would give up their civilian plan if the premiums rose by 25 percent. Thus, health plan

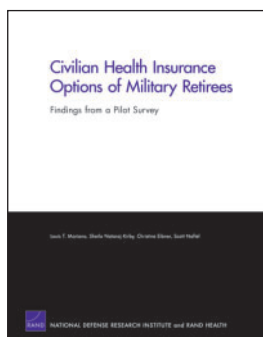
enrollment appears to be very responsive to price increases. However, only about 20 percent of the military retirees who were eligible for other health insurance but had not enrolled reported that they would be likely to enroll if premiums were to decline by 25 percent.

What lies behind the sharp difference in the responses to questions about *increases* versus *decreases* in civilian-plan premiums? Most retirees who are enrolled in a civilian plan are paying a premium contribution, and their preference for civilian insurance does not appear to be strong enough to prevent their dropping the insurance if the premium *increases*. In contrast, retirees who have not enrolled in a civilian plan are likely avoiding a high premium contribution and would not reconsider their decision even if the premiums were to *decrease* substantially.

Policy Implications

DoD's fiscal year 2007 budget request proposed raising TRICARE enrollment fees, deductibles, and pharmacy co-payments for retirees in an effort to decrease the gap between TRICARE and civilian cost-sharing. Congress did not support these changes. The results of this study suggest that, as long as DoD premiums are considerably lower than civilian premiums, increases in TRICARE premiums are unlikely to result in noticeable shifts away from TRICARE use. Further, if TRICARE premiums remain unchanged while premiums in the civilian sector escalate, TRICARE use is likely to increase.

The survey we fielded provided important information. Nevertheless, it was a pilot survey with a small sample size. A more complete understanding of choices and likely behavior in the face of TRICARE benefits changes would require a larger survey that collects more detailed data from retirees as well as data on health plan choices from their civilian employers. ■



This research brief describes work done for the RAND National Defense Research Institute and RAND Health and documented in *Civilian Health Insurance Options of Military Retirees: Findings from a Pilot Survey*, by Louis T. Mariano, Sheila Nataraj Kirby, Christine Eibner, and Scott Naftel, MG-583-OSD (available at <http://www.rand.org/pubs/monographs/MG583>), 2007, 126 pp., \$23, ISBN: 978-0-8330-4127-2. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark.

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