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Civilian Health Insurance Options of Military Retirees

Findings from a Pilot Survey

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Prepared for the Office of the Secretary of Defense

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Summary

Traditionally, DoD has provided health benefits to active-duty and retired service personnel and their families. After 20 years of service, active-duty personnel can retire and are immediately eligible to receive retiree health benefits for themselves, their spouses, and dependent children. DoD retirees are encouraged to enroll in TRICARE Prime, which has an annual enrollment fee of $230 for individual coverage and $460 for family coverage. Retirees and their families also have access to TRICARE Standard/Extra, which requires no enrollment contribution but has less generous cost-sharing provisions than TRICARE Prime.

Since service personnel can conceivably retire in their late 30s or early 40s, many of these individuals are working in second careers and have access to non-DoD health insurance. Yet the growing gap between civilian health insurance premiums (estimated to be $2,713 on average for family coverage in 2005) and TRICARE enrollment fees makes TRICARE an increasingly attractive option vis-à-vis civilian coverage. Recent evidence suggests that employees are declining employer-provided insurance in favor of alternative sources of health insurance coverage, such as TRICARE.

In an effort to better understand the extent to which military retirees have access to and are enrolled in civilian health insurance plans, DoD asked the RAND Corporation to conduct a pilot survey of retired beneficiaries under the age of 65. The goals of the 2005 Survey of Military Retirees included the following:

- Estimate the percentage of retirees who are eligible for civilian health insurance, either through their own or their spouse's employment or through a union or a professional association.
- Estimate the percentage of retirees enrolled in civilian health insurance plans.
- Explore reasons for *not* participating in civilian employer health insurance.
- Estimate the premium costs retirees pay to enroll in their civilian health plans.
- Estimate how changes in civilian premiums would affect participation in civilian employer-provided health plans.
- Estimate the use of TRICARE facilities and benefits by those with civilian health insurance.

The purpose of this report is descriptive rather than analytical. We present a descriptive overview of the findings from the survey on the topics listed above. Follow-on work at RAND is using these survey results, combined with other data, to assess usage of TRICARE medical

care and military facilities and the implications of benefit design changes on retiree behavior and health care expenditures.

Survey Methodology

The Defense Enrollment Eligibility Reporting System (DEERS) is a computerized database of military personnel and their families and others who are entitled under the law to TRICARE benefits. DEERS registration is required for TRICARE eligibility. We used the August 2005 DEERS to identify retired officers and enlisted personnel who were living in the continental United States (CONUS), were under age 65, and had been retired for at least one year (i.e., retired on or before June 30, 2004). We selected a stratified random sample of 1,600 military retirees, evenly split between officer and enlisted retirees, and administered a computer-assisted telephone survey that asked about the labor-force participation of the respondent and his or her spouse, eligibility 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 fielding period was February–March 2006, with a response rate of 60 percent. Overall, 68 percent of the officers responded to the survey, compared with only 51 percent of the enlisted personnel. The sample observations were weighted, using probability of selection and post-stratification weighting, to account for the differential probability of selection produced by the sample's stratified design and to take into account the differential response rates among the strata.

Because the data reported here are estimates based on a sample, it is important to indicate the uncertainty surrounding the estimate. Here, we report the lower and upper bounds of a 95 percent confidence interval around the estimated population mean or proportion.

Findings

Employment Status and Eligibility for Civilian Health Insurance

Overall, 80 (77.1, 83.0) percent of the survey population was employed. About 78 (74.5, 81.8) percent of officers and 81 (76.9, 84.4) percent of enlisted personnel were employed. Eighty-seven (84.4, 90.2) percent of retirees ages 60 years or younger were employed, compared with 53 (43.6, 61.9) percent of those between 61 and 64 years. Most of the retired military personnel who worked were private-sector or government employees and most worked full time, especially those 60 years old or younger. Well over half—54 (50.0, 58.7) percent—of the retirees who were employed were working for large employers, with 500 or more employees.

Over four-fifths—85 (82.5, 88.1) percent—of the military retirees were currently married and living with their spouse. Fifty-four (49.7, 58.9) percent of spouses of officers and 62 (57.6, 67.4) percent of spouses of enlisted personnel were employed, and half (43.5, 53.9 percent) of these worked for large firms. Overall, 13 (10.7, 15.9) percent of retired military households had no one employed in the civilian labor force, 40 (36.3, 44.0) percent had one wage-earner

(most often the military retiree in married households), and 47 (42.9, 50.2) percent had two wage earners.

Of the 80 (77.1, 83.0) percent of retirees who were employed, 82 (79.2, 85.7) percent were eligible to enroll in a plan offered by their current employer, and almost all of them (95.1, 98.7 percent) reported that their spouses and/or dependents were also eligible to enroll in such plans. Overall, of the survey population of military retirees, 65 (61.7, 68.7) percent were eligible for insurance provided by their employer and 58 (54.4, 61.7) percent of the population was eligible to enroll family members in such plans. Sixty-nine (64.6, 74.1) percent of retirees with employed spouses reported that their spouse's employer offered civilian health insurance and, of those, 89 (84.3, 93.1) percent reported that they and/or their dependents were eligible to enroll in the plan offered by the spouse's employer. The government and large private-sector firms were the most likely to offer insurance. Part-time workers had very limited access to insurance. Only 16 (12.8, 18.6) percent of the population reported being eligible for health insurance through another civilian source, such as a union or professional association.

If we count all sources of coverage for either the retiree or their families, we find that 78 (74.5, 80.9) percent of the survey population reported having access to some other form of health insurance for themselves and/or their families through their own or their spouse's employer or through a professional association (Table S.1).

Across the population, only 8 (5.4, 9.6) percent of military retirees were offered incentives by their own employer, and 3 (1.3, 3.9) percent were offered incentives by their spouse's employer, not to enroll in civilian insurance plans, but only 1 (0.2, 1.5) percent reported that such incentives were specific to TRICARE-eligible employees.

Table S.1
Percentage of Retired Officers and Enlisted Personnel Eligible to Enroll in a Civilian Plan and Those Currently Enrolled in Such a Plan, February–March 2006

	Officers	Enlisted Personnel	Total Population
Eligibility and Enrollment Status	**Estimate 95% confidence interval (lower bound, upper bound)**		
Retiree or family eligible to enroll in a civilian plan through an employer or professional association	72.9 (69.0, 76.8)	79.2 (75.2, 83.2)	77.7 (74.5, 80.9)
Retiree or family eligible to enroll *but not currently enrolled* in a civilian plan through an employer or professional association	35.5 (31.6, 39.5)	40.3 (35.4, 45.1)	39.1 (35.4, 42.9)
Retiree or family eligible to enroll *and currently enrolled* in a civilian plan through an employer or professional association	37.4 (33.1, 41.6)	38.9 (34.1, 43.7)	38.5 (34.7, 42.3)
Total percent enrolled in civilian plan (self and/or family) offered by employer, professional association, insurance company, and other	42.6 (38.2, 46.9)	42.1 (37.2, 47.0)	42.2 (38.3, 46.1)

NOTE: *Eligible to enroll* means that at least one family member (retiree, spouse, or dependent) was eligible. *Not currently enrolled* means that no family member was enrolled.

Enrollment of Military Retirees in Civilian Health Care Plans

Overall, 73 (69.0, 76.8) percent of retired officers and 79 (75.2, 83.2) percent of retired enlisted personnel were eligible to enroll themselves or their families in their own or their spouse's employer-provided plan, or in a plan offered by a professional association or union (Table S.1). However, half (45.9, 54.8 percent) of those who were eligible chose not to enroll either themselves or their families in civilian health insurance plans for which they were eligible. Overall, only 39 (34.7, 42.3) percent of the population was enrolled in an employer-provided civilian plan or through a professional association. Few retirees and their families were enrolled in health insurance from other sources—direct purchase from insurance companies or perhaps through Consolidated Omnibus Budget Reconciliation Act (COBRA) coverage. Adding enrollment through these sources, we find that 42 (38.3, 46.1) percent of the survey population was enrolled in a civilian plan and had either self- and/or family coverage.

Reasons for Enrolling or Not Enrolling in Civilian Plan for Which Retirees/Families Were Eligible

It is important to understand the reasons for enrollment in civilian plans as well as the reasons for not enrolling.

We first present reasons offered by respondents for enrolling in civilian plans. About half (48.5, 57.7 percent) of those currently enrolled mentioned that they preferred the network of doctors/hospitals in the civilian plan, while 49 (42.6, 54.4) percent reported the inconvenient location of medical treatment facilities (MTFs) as the reason for enrolling in the civilian plan. Thirty (24.5, 35.3) percent were eligible for free coverage through their employer or other non-TRICARE source. One-quarter (20.1, 30.2 percent) reported a lack of TRICARE coverage for needed medical care and the administrative burden and reimbursement delays associated with TRICARE as reasons for enrollment in civilian plan. Twenty (15.9, 25.5) percent said that their civilian coverage was less costly than TRICARE and, of this group, about half mentioned that the premiums were lower, as were the deductibles and copays.

Turning now to reasons for not enrolling in civilian plans, we found that the cost of the premiums was by far the most important reason for not enrolling in a civilian plan—mentioned by close to four-fifths (73.4, 82.9 percent) of those eligible but not enrolled, followed by high copays (58 [52.5, 64.0] percent) and high deductibles (57 [51.5, 63.3] percent). Half (45.0, 56.9 percent) reported that they preferred doctors in MTFs or TRICARE, and 30 (24.0, 34.7) percent said that the lack of choice with respect to doctors/hospitals was a factor in not enrolling. One-fifth (16.5, 26.5 percent) mentioned that the civilian plan did not cover care they thought they needed, while one-tenth (8.2, 15.7 percent) complained about the paperwork and reimbursement delays. A very small percentage of those eligible (5 [2.5, 7.6] percent) reported that their employer had provided an incentive to use the military coverage.

Premium Costs for Enrolling in Civilian Health Plans

According to a survey by the Kaiser Family Foundation and Health Research Educational Trust (KFF/HRET), in 2005, the average premium paid by an employee for employer-provided health insurance was $610 for single coverage and $2,713 for family coverage (Kaiser Family Foundation and Health Research Educational Trust, 2005). The KFF/HRET survey

also reported that among covered employees in firms with three or more employees, 21 percent paid no premium contributions for health care coverage. In our survey, 21 (15.8, 27.0) percent of retired officers and 23 (16.5, 30.1) percent of enlisted retirees who were enrolled in civilian plans reported that they did not pay any premiums for the plans in which they were enrolled. About 16 (10.9, 21.7) percent of officers and 26 (19.1, 33.2) percent of enlisted personnel reported paying less than $1,000 per year for health insurance coverage, while 25 (19.0, 31.1) percent of officers and 23 (16.1, 29.8) percent of enlisted personnel paid $2,500 or more for health insurance.

As expected, annual premium costs varied by whether the respondent elected self-coverage only or family coverage. The average premium was $691 ($444, $939) for self-coverage only and $1,993 ($1,736, $2,249) for both self- and family coverage. The self-coverage figure is close to the $610 reported in the KFF/HRET survey for the same year. However, the average premium for family coverage was lower than that reported above in the KFF/HRET survey. This is not entirely surprising. These retirees have access to TRICARE coverage at very favorable rates, so they are unlikely to purchase other health insurance if it is expensive.

Price Elasticity of Demand for Civilian Employer-Provided Health Insurance

In our survey, we asked retirees who were enrolled in a civilian health plan what their response would be if their civilian premiums rose by 25 percent. About 42 (38.3, 46.1) percent of the survey population was enrolled in one or more civilian health insurance plans. Of these, about half (44.1, 58.5 percent) of those paying a premium reported that they would give up their civilian plan if the premiums rose by 25 percent. Thus, health plan enrollment, according to our estimate, is very elastic, –2.0 with respect to premiums, i.e., if civilian premiums increase by 10 percent, enrollment in civilian plans may decline by 20 percent. While this is a rough approximation, retirees appear to be quite conscious of premiums, and large premium increases for civilian health insurance may result in a substantial shift to TRICARE usage. Ringel et al. (2002) find that own price elasticities of demand for civilian health insurance range from –0.10 to –1.75, suggesting that enrollment is moderately to highly sensitive to premium price.

About 50 (45.9, 54.8) percent of the military retirees who were eligible for civilian health insurance had not enrolled in civilian plans. Asked whether they would enroll in these plans if premiums were to decline by 25 percent from their current level, very few—less than 10 (5.4, 13.7) percent of retired officers and 21 (15.3, 27.5) percent of retired enlisted personnel—reported that they would enroll in the civilian plan for which they were eligible if premiums fell by 25 percent, giving us a demand elasticity of –0.38 for officers, –0.86 for enlisted personnel, and –0.76 overall. Of the population as whole, only about 3 (1.8, 4.7) percent of officers and 9 (6.4, 12.0) percent of enlisted personnel would enroll in a plan if prices fell.

The sharp difference in the responses to questions about *increases* versus *decreases* in civilian plan premiums likely reflect a difference between those currently enrolled in civilian plans and those who have chosen not to enroll in those plans. Most retirees who are enrolled 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 probably avoiding a high premium

contribution and would not reconsider their decision even if the premiums were to *decrease* substantially.

Use of TRICARE Facilities and Benefits

In 2005, 39 (34.0, 43.4) percent of all retired enlisted personnel and 45 (40.8, 49.7) percent of all retired officers received care at a civilian facility only, and another 12 (8.6, 14.9) percent and 16 (12.9, 19.0) percent, respectively, chose to go to a military facility only. Only 6 (3.8, 8.4) percent of all retired enlisted personnel and 2 (1.1, 3.5) percent of all retired officers received care at a VA or Uniformed Services Family Health Plan (USFHP) facility only. Some—between 15 and 18 percent—received care at two types of facilities, most commonly at a civilian facility and an MTF (11.0, 17.9 percent of enlisted personnel and 14.4, 21.3 percent of officers). We see a similar pattern among families of military retirees.

Retirees who were enrolled in a non-TRICARE civilian plan relied on a mix of both TRICARE and non-TRICARE civilian plans for medical treatment, despite being enrolled in civilian plans. For example, only 38 (32.2, 43.8) percent of this group said they relied exclusively on the non-TRICARE civilian plan, while 36 (30.1, 41.5) percent said they used both TRICARE and the non-TRICARE plan; 8 (4.8, 11.0) percent said they relied on TRICARE exclusively, with the probability of exclusive TRICARE use dropping significantly when the current premium costs for the non-TRICARE civilian plan were higher. Overall, 51 (44.8, 56.7) percent reported that they used TRICARE for all or some of their medical care.

Military retirees enrolled in a non-TRICARE civilian plan also relied heavily on TRICARE for coverage of prescription drugs. For example, while only 40 (33.8, 46.4) percent of officers and 30 (23.4, 37.3) percent of enlisted retirees enrolled in a civilian plan reported using only the non-TRICARE plan for prescription drugs, a much larger percentage relied on TRICARE (either exclusively or in conjunction with other coverage). Overall, 56 (50.4, 62.3) percent of retirees enrolled in a non-TRICARE civilian plan reported relying on TRICARE to some extent for their prescription drug coverage.

Policy Implications

DoD's fiscal year (FY) 2007 budget request proposed raising TRICARE enrollment fees, deductibles, and pharmacy copays for retirees to decrease the difference between cost sharing in TRICARE and civilian plans. Congress did not support these changes; the final authorization bill rules out any changes through the end of calendar year 2007. DoD hopes that narrowing the premium contribution gap would lead to a shift away from TRICARE, or would at least discourage further shifts to TRICARE. While price increases will undoubtedly lead to some decrease in the amount of medical care demanded, it is not clear how large the cost savings would be. The savings would depend on several factors—among other things, the relative rate of increase in civilian and TRICARE health insurance premiums and trends in accessibility to such plans in the civilian sector (given that some small firms are opting not to offer health insurance in the face of rising costs). In any case, as long as DoD premiums are considerably lower than civilian premiums, small increases in TRICARE premiums are unlikely to result in noticeable shifts away from TRICARE usage. Further, if TRICARE premiums remain stable while premiums in the civilian sector escalate, TRICARE usage is likely to increase.

Data from annual Kaiser Family Foundation and Health Research Educational Trust Survey (2005) indicate that civilian premium contributions for family insurance coverage increased by 46 percent between 1996 and 2005. Our findings show that while a substantial majority of the retiree population is eligible for civilian health insurance, about half of those eligible choose not to enroll, primarily for cost reasons. Our findings also highlight the fact that retirees (1) are extremely cost-conscious and might drop civilian coverage if costs of the civilian plan rose and (2) continue to rely on TRICARE for some of their medical care even if they enroll in a civilian plan.

The survey we fielded, while providing important information, was a pilot study with a small sample size. Understanding the potential impact of an increase in TRICARE premiums will require more complete information than we collected. For example, to fully model the impact of a premium increase for TRICARE, we need data on the civilian premium amounts faced by those who did not enroll, reasons for choosing to enroll in TRICARE Prime, and better precision on the estimates of interest than was possible with our limited sample size. Civilian employers may be considering multiple options for keeping their own expenditures for health care lower, including raising employee contribution amounts or entertaining the adoption of plans with higher employee deductibles and copayments. Since most respondents do not know the premium contributions, deductibles, and copayments required by health plans in which they are not enrolled, this information would need to be collected from employers rather than from individuals. In addition, the survey would need to ask directly about the impact of proposed changes in TRICARE fees and copays and about how likely future changes in civilian health plans are to affect use of both civilian and TRICARE medical care. A more complete understanding of choices and likely behavior in the face of increasing premiums and copays for TRICARE would require a larger survey that collected data from both retirees and their civilian employers.