



ENTERPRISE STRATEGY MANAGEMENT |
RESEARCH AND DEVELOPMENT

Triennial Health Benefits Study 2022

CALSTRS®

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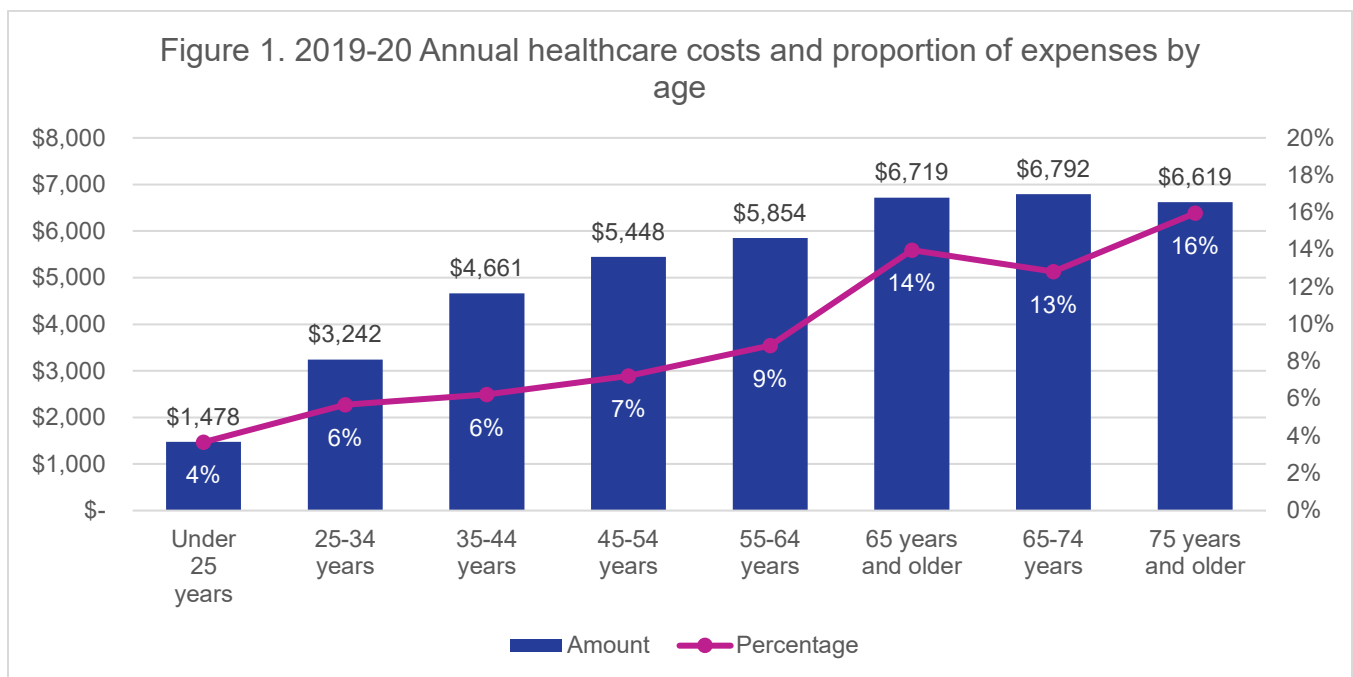
Introduction

Understanding healthcare expenses in retirement is an essential consideration for nearly every financial plan. Although CalSTRS does not administer health benefits, understanding the cost of member and retiree healthcare aligns with CalSTRS’ mission to secure the financial future of California’s educators. As members transition to retirement, understanding the costs of healthcare can mitigate some worry and help them prepare adequately.

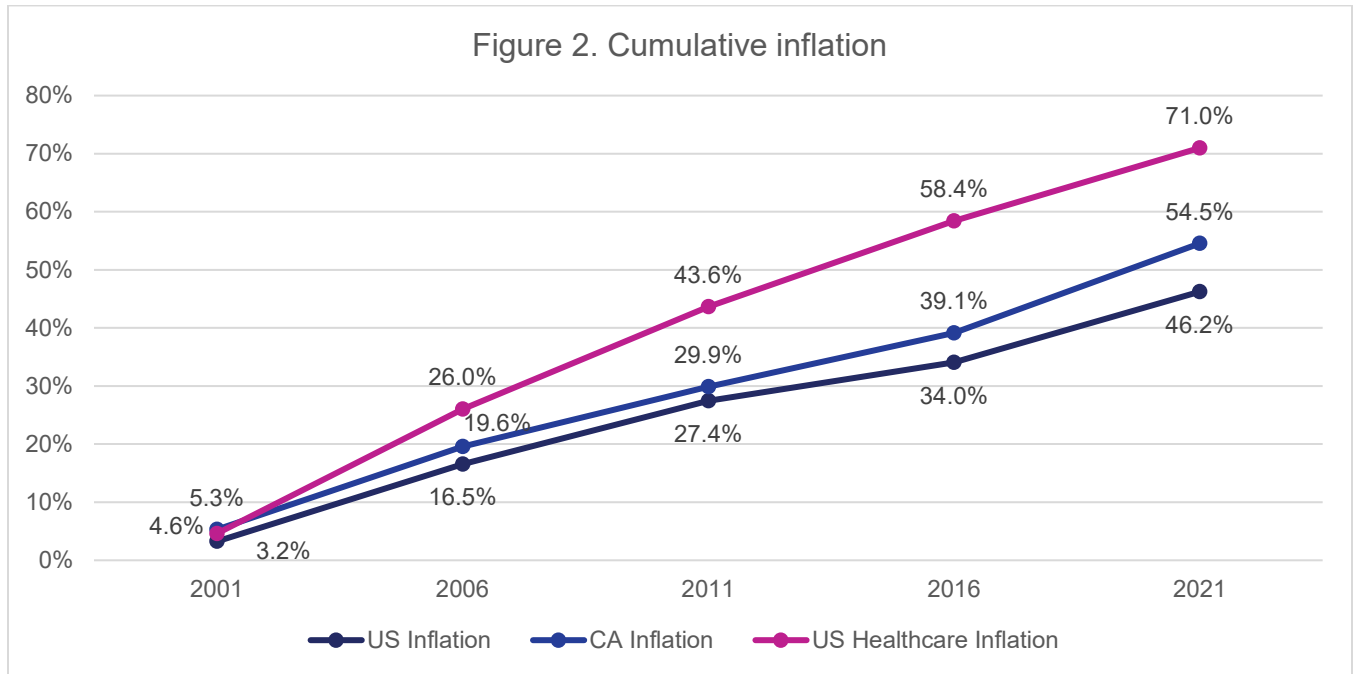
This report reviews the current cost of healthcare, the support CalSTRS’ members receive from current and former employers, and the perceptions CalSTRS members have about the cost of healthcare.

The Cost of Healthcare

There are a few elements of healthcare cost that can induce worry as the transition to retirement occurs. First, healthcare costs increase with age as individuals require more services. Consumer expenditure data from the United States Department of Labor and Statistics show, on average, healthcare costs increase with age in both the annual dollar amount and percentage of expenses, as shown in Figure 1.¹ Healthcare expenses increase with age, and they absorb a larger percentage of all expenses. When transitioning to a retirement income, this can elicit concern. Additionally, as life expectancy increases, the cumulative cost of healthcare throughout retirement has the potential to increase as well.²



Second, the cost of healthcare outpaces inflation. In most years from 2001 to 2021, California inflation exceeded overall United States inflation. United States healthcare inflation exceeded both overall United States inflation and California inflation. Over those two decades this difference in inflation resulted in a cumulative increase in healthcare costs that exceeds United States and California inflation over the same period, as seen in Figure 2.³ Despite yearly fluctuations in the different rates of inflation, over time healthcare expenses increase at a greater rate than other expenses.



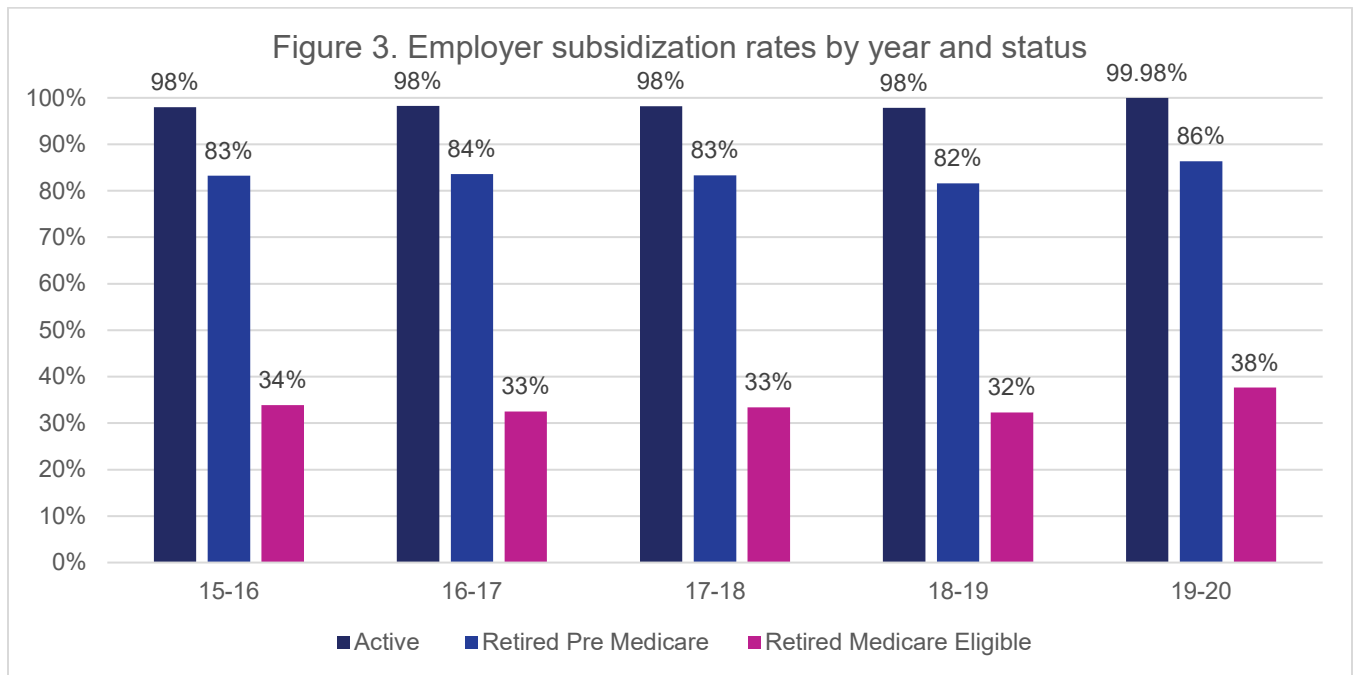
Third, for those who retire before Medicare eligibility, there may be a gap in coverage. If an employer does not continue health benefits coverage for retirees, employees who choose to or need to retire before age 65 may experience a lapse in healthcare coverage. The Kaiser Family Foundation tracks employer-supported healthcare benefits. The data suggest 27% of large firms—200 or more workers—offer health benefits to retirees, but employees in public or government service have greater access to employer-supported health benefits in retirement (69%). Of employers that offer health benefits to retirees, more offer support to early retirees (89%) and less offer support to Medicare-eligible retirees (64%).⁴

Employer-subsidized Coverage for California K-12 Educators

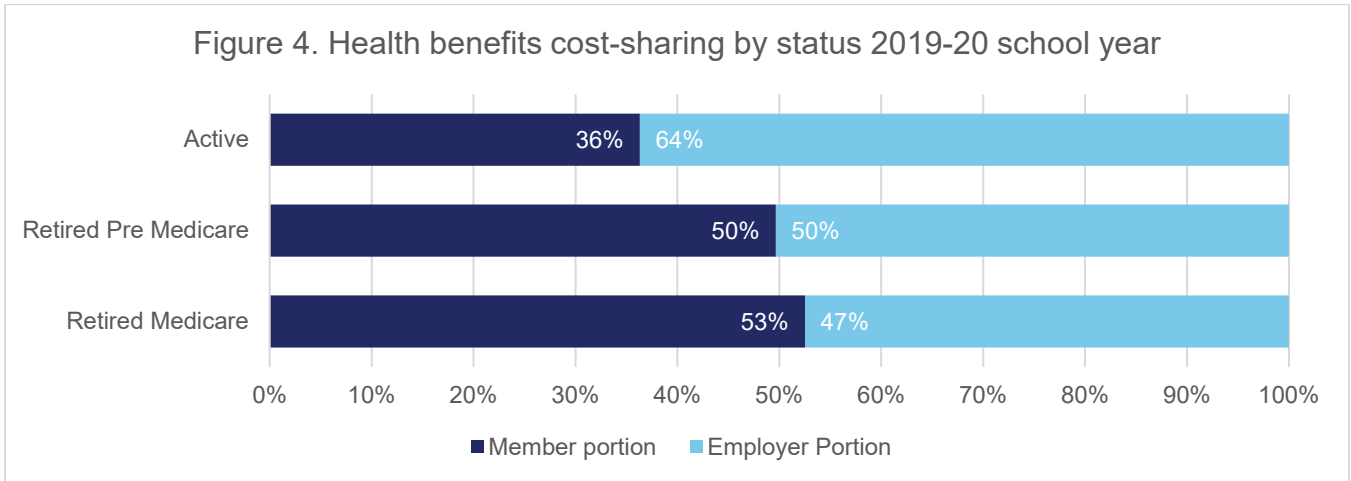
Every year, the California Department of Education collects salary and benefit information from California public school districts.⁵ CalSTRS uses this information to understand the level of support K-12 members receive for health benefit costs from their employer while active and during retirement. This data is comprehensive and reliable with most districts reporting their benefits information, which

represents more than 90% of the full-time equivalent for K-12 teachers in the state. This data is currently available through the 2019–20 school year.

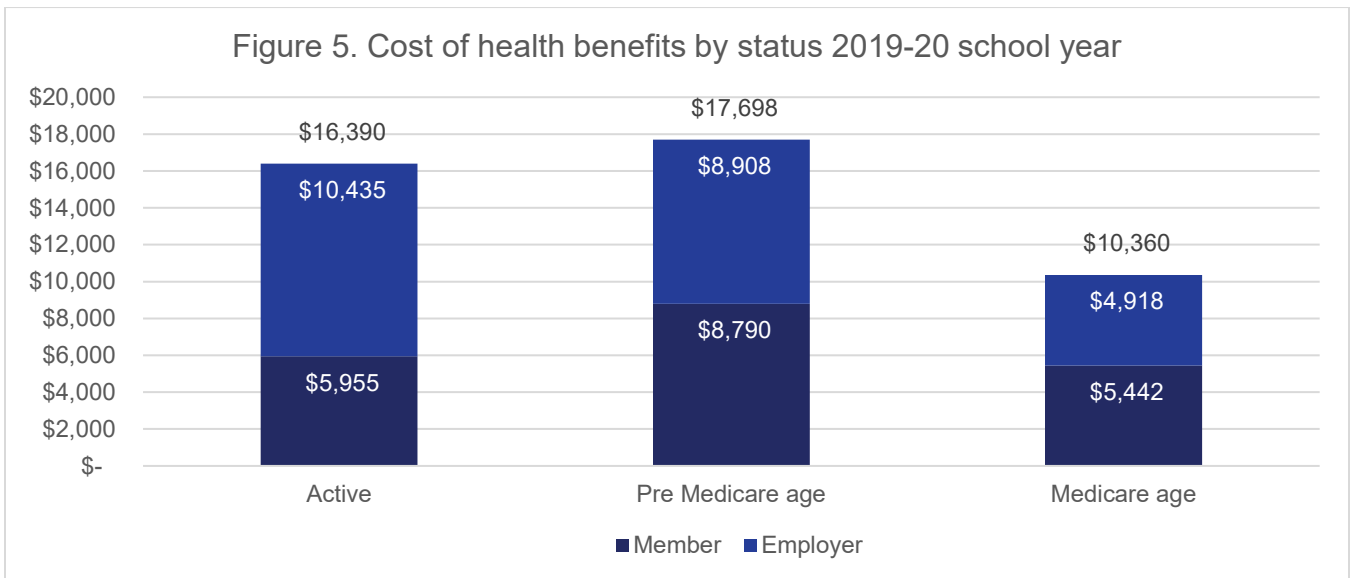
The subsidization rate represents the proportion of full-time equivalent positions with direct benefits support or support revealed through the current or former employer salary schedule. Figure 3 shows almost all active members receive benefit support from their employer. Over 80% of retirees who have not reached Medicare eligibility also receive employer support. Once retirees reach Medicare eligibility, support from former employers drops considerably. These levels of support have been consistent over the last five school years. These high levels of subsidization for active members and early retirees are consistent with the Kaiser Family Foundation data. The Kaiser data also mirrors the Department of Education data more universally—active employees are well covered, employees not Medicare eligible receive employer support at a high rate, and Medicare-eligible retirees experience a drop in the rate of support from former employers.



An examination of the average cost-sharing arrangement for members reveals the percentage of health benefits paid by the member and the percentage covered by the employer. Figure 4 shows that on average for the 2019–20 school year, active members have almost two-thirds of health benefits covered by their employer, and the cost-sharing for retired members is around 50%.

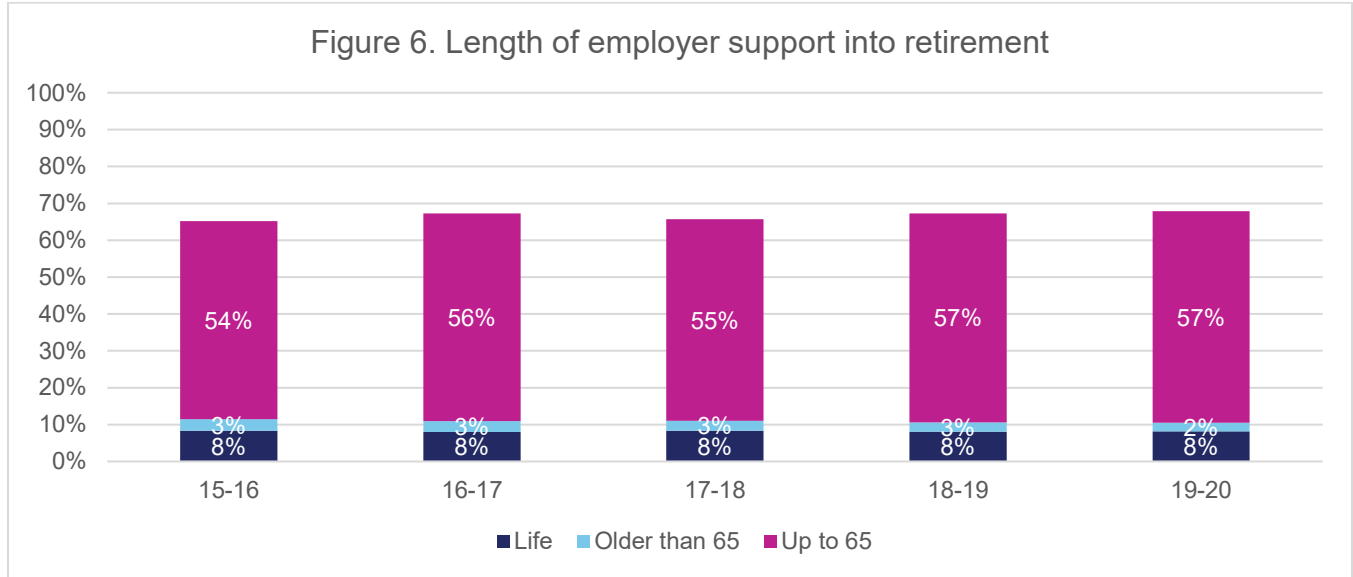


Additionally, a review of the average annual cost of all health plans for members is shown in Figure 5. For the 2019–20 school year, active members paid on average almost \$6,000. Retired members not Medicare eligible paid closer to \$9,000. This difference is not unexpected because health plans for older individuals tend to cost more. For retired members eligible for Medicare, the average annual cost falls below \$5,500. While this group of retirees is older—and their health costs are likely higher—Medicare is the first payer for health benefits, and these health plans *supplement* Medicare instead of members relying on them exclusively.



On average, this means an active member in 2019–20 spent about \$500 a month on healthcare through their employer. Prior to Medicare eligibility, when retirees might rely on their employer-sponsored health plan exclusively, the monthly premium in 2019–20 was about \$750 on average. For Medicare-eligible retirees, the health plan premium through their employer was lower at an average of about \$450

a month. However, with an additional cost of about \$150 for Medicare Part B premiums, this would have totaled to about \$600 a month.



Lastly, Figure 6 shows the percentage of employers who report they support retired member health plans to at least age 65. Over 60% of employers in the last five school years reported they support retired members to at least until age 65. About 8% of employers reported they support retirees for life.

Employer-subsidized Coverage of California Community College Educators

To understand employer-supported health benefits for community college faculty, CalSTRS surveyed community college districts directly. CalSTRS conducted the most recent survey in April 2021. Seven districts responded to the survey. This represents about 22% of faculty. The survey yielded a small sample, but the responses offer some view into community college faculty healthcare costs.

A majority—67%—of community college faculty are temporary employees.⁶ However, almost two-thirds of the responding districts indicated they offer health benefits support only to full-time active faculty. Those that offer health benefits support to temporary, part-time, or non-tenured faculty all have requirements to qualify for that support which include a combination of a certain percentage of full-time and/or a certain number of years of employment with the district.

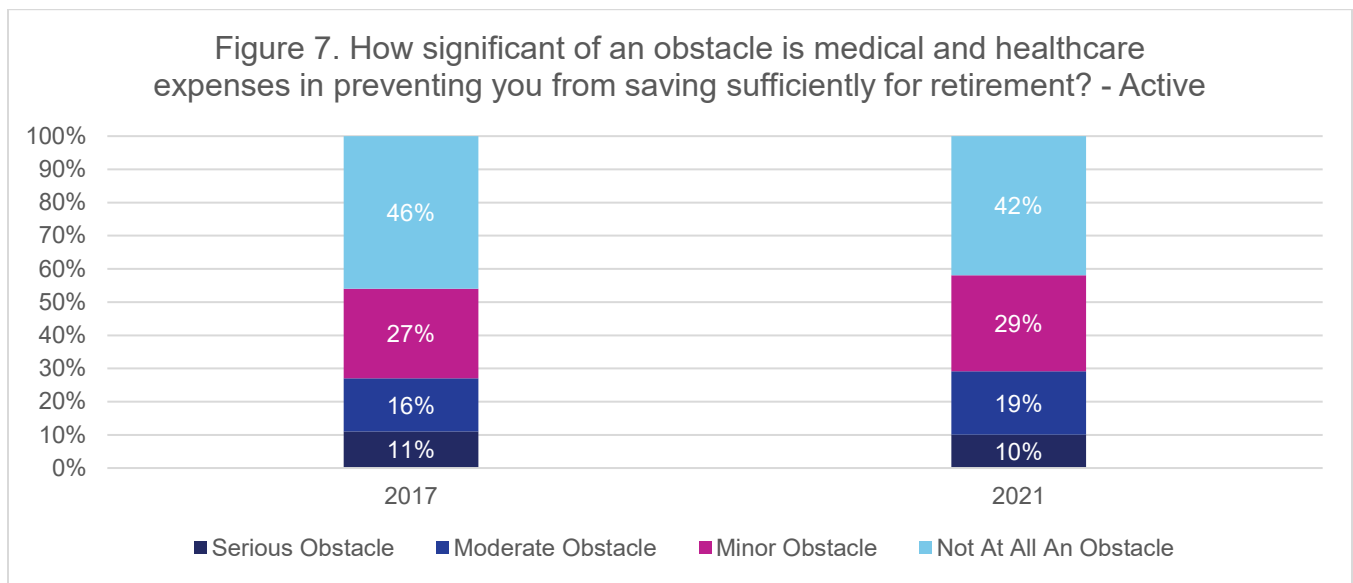
Almost all the responding districts indicated they provide health benefits support to retired faculty. However, that support often requires full-time service, a number of years of employment with the

district, or is contingent upon the hire date of the employee and their age at retirement. For Medicare-eligible retirees, support might also require Medicare Part B enrollment.

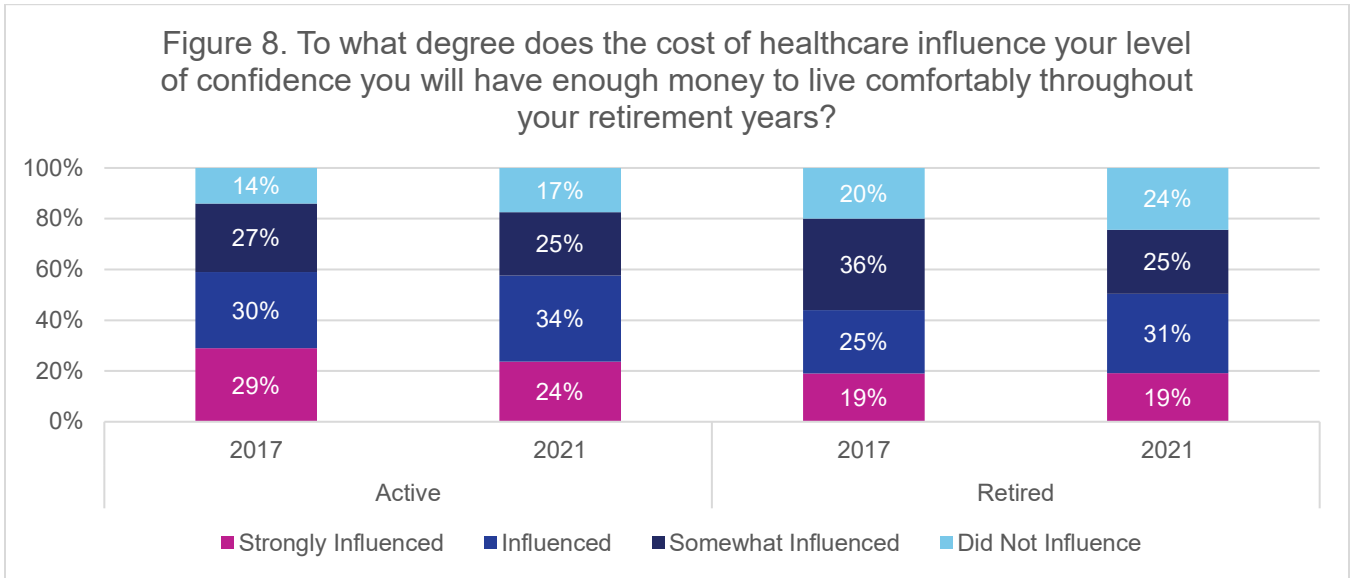
If these responses are indicative of the policies of community college districts in general, most temporary faculty do not receive employer health benefits support while working or when retired. This is a considerable number of faculty who may pay for their health benefits on their own or rely on their spouse or other family member to obtain employer-supported benefits.

Member Perceptions of Health Care Costs in Retirement

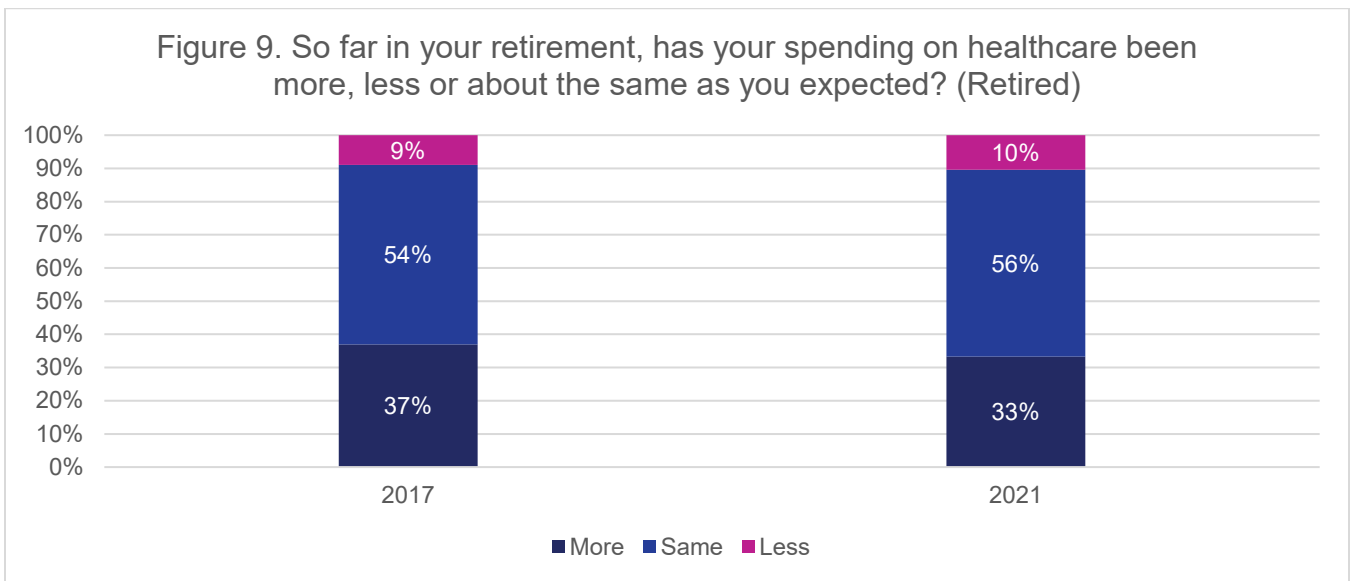
CalSTRS' [2021 Annual Member Survey](#) asked active and retired members about their experiences and expectations around healthcare costs. CalSTRS asked some of these same questions on the [2017 Retirement Readiness Assessment](#). Together, these responses help show if these perceptions about healthcare costs are changing over time.



Fewer than 30% of active members reported medical and healthcare expenses prevent them from saving sufficiently for retirement in a moderate or serious way in both 2017 and 2021.

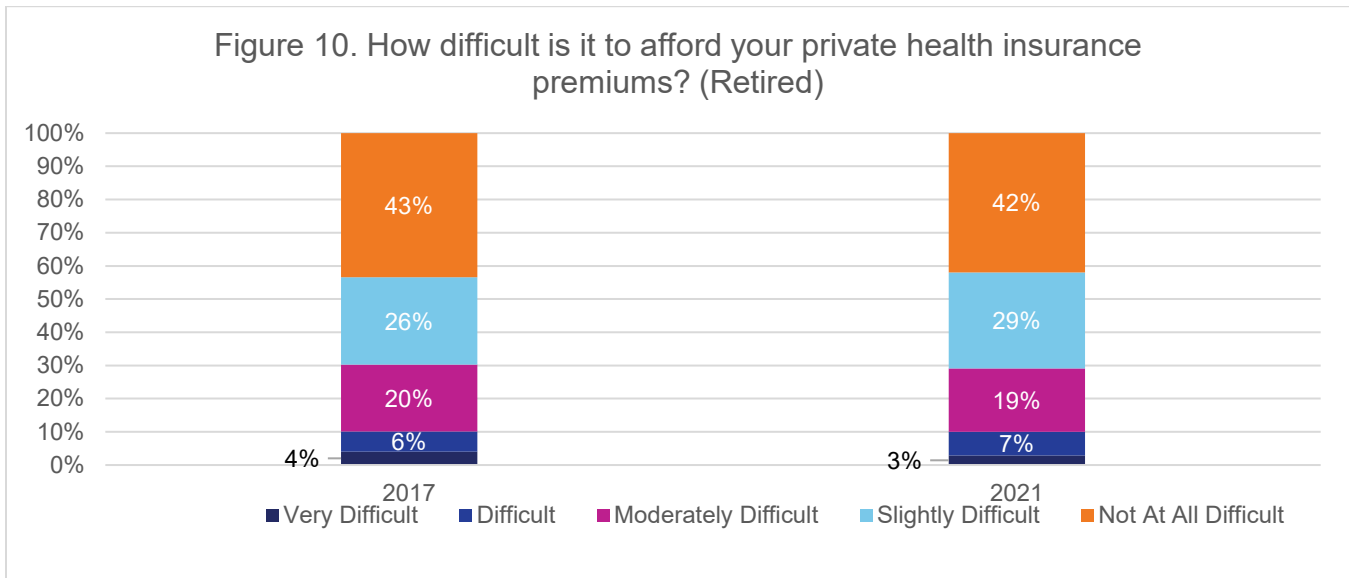


In 2021, 58% of active members indicated healthcare costs influenced or strongly influenced their level of confidence in their retirement. This is consistent with the 59% seen in 2017. However, 50% of retired members indicated the same in 2021, up from 44% in 2017.



These questions address the perception of the impact healthcare costs have on retirement. However, when asking retirees about the actual costs, 63% of retirees in 2017 and 66% in 2021 said they were paying the same or less than they expected for healthcare in retirement. For retirees who are paying for private health insurance premiums, in both 2017 and 2021, a little over 40% said paying those premiums was not at all difficult.

Figure 10. How difficult is it to afford your private health insurance premiums? (Retired)



Closing Remarks

Despite the worry healthcare costs in retirement can cause, CalSTRS K-12 members appear well covered by former employers until Medicare coverage begins. While active members and retired members alike perceive these costs impacting their retirement confidence, the data suggest that once retired, CalSTRS members mostly find these costs manageable. However, community college faculty appear to receive lower levels of employer-supported healthcare, which may suggest some vulnerability—but this is inconclusive given the limited data received.

To plan for healthcare expenses in retirement, CalSTRS members can discuss with their employer the support offered to retirees, the requirements for that support, and the cost for an employer-sponsored health plan in retirement. Members can also contact the Centers for Medicare and Medicaid Services to determine their Medicare premiums. This information will help them factor healthcare expenses into their monthly expenses in retirement.

¹ Consumer Expenditure Tables. Consumer Expenditure Surveys. United States Bureau of Labor and Statistics. <https://www.bls.gov/cex/tables.htm>

² Retirement Healthcare Costs Data Report (2021). Health View Services. <https://hvsfinancial.com/download-2021-retirement-healthcare-costs-data-report/>

³ Consumer Price Index: Monthly by Expenditure Detail from 2000. State of California Department of Finance. <https://www.dof.ca.gov/Forecasting/Economics/Indicators/Inflation/>

⁴ Employer Health Benefits 2021 Annual Survey. Kaiser Family Foundation. <https://files.kff.org/attachment/Report-Employer-Health-Benefits-2021-Annual-Survey.pdf>

⁵ California Department of Education: Certificated Salaries & Benefits <https://www.cde.ca.gov/ds/fd/cs/>

⁶ Employee Category Headcount Distribution by District: Report on Staffing for Fall 2020. California Community Colleges Chancellor’s Office. http://employeeedata.cccco.edu/headcount_by_district_20.pdf