The Heritage Foundation
Backgrounder UPDATE
214 Massachusetts Avenue, N.E. • Washington, D.C. 20002-4999 • (202) 546-4400 • http://www.heritage.org

Number
3/29/94 220

WHY MEMBERS OF CONGRESS AND FEDERAL WORKERS DON'T WANT THE CLINTON HEALTH PLAN

(Updating *Backgrounder* No. 953, "Why Federal Unions Want to Escape the Clinton Health Plan," August 4, 1993, and *Executive Memorandum* No. 369, "Why the Clinton Administration Will Be Exempt from the Clinton Health Plan," November 9, 1993.)

Ever since The Heritage Foundation called attention to attempts by leading congressional health reformers to exempt themselves and other federal workers from the terms of their own health care reform proposals, the question of congressional and federal coverage has emerged as a major issue in the national health care reform debate.[1]

The Clinton Administration, bowing to political pressure from both influential Members of Congress and powerful federal employee unions, has tried to have it both ways in the case of its own bill, the Health Security Act (H.R. 3600/S. 1757). The Administration tells the public that federal workers will be included just like everyone else, yet it is doing all it can to appease federal union demands that federal workers must be able to keep their current right to choose among a wide range of benefits, not just a few standardized plans.[2] For example, while all other Americans will be required by law to start enrolling in the Clinton plan's regional alliances, the large, mandatory government-sponsored health care purchasing cooperatives, federal workers and Members of Congress would be able to keep their health benefits plans until at least January 1998.[3] Few Washington insiders expect them to be included after that date. It seems that the health care reform that is good enough for all other Americans is not good enough for federal workers, including Members of Congress—until at the very least the rest of America first tests out the complicated new system.

It is understandable why Members of Congress and federal workers and their union representatives would want to escape the Clinton plan. They are able to enroll in the Federal Employee Health Benefits Program (FEHBP), a program covering over nine million federal workers and retirees, including Members of Congress and their staffs. These fortunate Americans can choose among almost 400 health care options, including 35 such health plans in the Washington, D.C., area alone. Plan options range from more expensive conventional fee-for-

1 See Robert E. Moffit, "Congress and the Taxpayers: A Double Standard on Health Care Reform?" Heritage Foundation *Issue Bulletin* No. 174, April 16, 1992.

2 For an account of federal union efforts to exclude federal workers and retirees from the Clinton health plan, see Robert E. Moffit, "Why Federal Unions Want to Escape the Clinton Health Plan," Heritage Foundation *Backgrounder* No. 953, August 4, 1993, and Stuart M. Butler, "Why the Clinton Administration Will Be Exempt from the Clinton Health Plan," Heritage Foundation *Executive Memorandum* No. 369, November 9, 1993.

3 For a detailed discussion of the Clinton plan, see Robert E. Moffit, "A Guide to the Clinton Health Plan," Heritage Foundation *Talking Points*, November 19, 1993.

service plans to health maintenance organizations (HMOs), from plans sponsored by traditional insurance companies to plans sponsored by unions and employee organizations.

Unlike the Clinton plan, federal workers are not today forced into a single, standardized comprehensive benefits package. Members of Congress and federal workers and their families currently can pick and choose from a variety of benefit options that suit them at prices and copayments they think are best for them. Compared with other government programs, and the Clinton plan, the amount of government regulation is slight. Historically, in the area of cost-containment, the FEHBP has outperformed employer-based health insurance in the private sector. This unique government program is characterized by two major market principles: consumer choice and competition.[4] Members of Congress have another perk—"free" taxpayer-subsidized, on-site Capitol Hill physicians and medical staff.[5] Representative Jim McDermott (D-WA), the leading House sponsor of a Canadian-style health care system, argues that an attending physician is important for Members of Congress to have continuity of care. "McDermott argues," says *Washington Post* reporter Kevin Merida, "that [the attending physician's] care should be free because it is in the best interest of voters to have healthy elected officials."[6] And Representative James Moran (D-VA), in a recent speech before the Federal Managers Association, announced his opposition to the Clinton health plan because it would abolish the FEHBP.[7]

The federal union leaders have made it clear that they want to maintain special treatment, and have so informed Congress and the Administration. And they insist on the White House keeping its promise to delay their enrollment in the Clinton helath plan until all other Americans are enrolled. John Sturdivant, President of the American Federation of Government Employees (AFGE) has reaffirmed, "I believe the phase-in is the agreement....The understanding is all the alliances would be up and phased in..." before there is any question of federal workers joining in.[8] Meanwhile, the Clinton Administration is simultaneously saying that: (a) its own health reform proposal is really based on the FEHBP (It is not[9]); and (b) that, however good the consumer-driven program might be for federal workers and their families, sound public policy nevertheless requires its future abolition.[10]

The Administration obviously is concerned that federal workers are less than enthusiastic about enrolling in its health plan. According to Mike Causey, the veteran reporter for *The Washington Post* who covers civil service matters, "Some agencies have sent employees thick brochures explaining the need for and benefits of health care reform."[11] The Administration insists that its plan is just as good as the FEHBP. But this does not impress many Members of Congress, federal union leaders, and the representatives for federal health care plans.[12]

---

4 For a detailed discussion of the FEHBP, see Robert E. Moffit, "Consumer Choice in Health: Learning from the Federal Employee Health Benefits Program," Heritage Foundation *Backgrounder* No. 878, November 9, 1992.

5 Beyond enrollment in the popular FEHBP, Members of Congress also enjoy their own attending physician, Rear Admiral Robert C.J. Krasner, M.D., and special access to elite hospital facilities, such as the National Naval Medical Center in Bethesda, Maryland, and the Walter Reed Army Medical Center in the District of Columbia. Many Members of Congress cherish this special access and the presence of an attending physician on Capitol Hill.

6 Kevin Merida, "Hill Health Care Gets a Closer Look," *The Washington Post*, March 21, 1994, p. A17.

7 Mike Causey, "Moran Assails Reinvention," *The Washington Post*, March 24, 1994, p. B2.

8 Quoted in "White House in Middle of Senate-Federal Employee Health Dispute," *Inside the White House*, Feb. 10, 1994, p. 27.

9 See Stuart M. Butler, "Why Americans Need to Know That Congress's Health Plan is Not Clinton's," Heritage Foundation *Backgrounder Update* No. 212, February 4, 1994.

10 Beyond the obvious need to escape political embarrassment, the reasons being advanced by the Clinton Administration for the abolition of the FEHBP range from the simply incredible to the merely comical. According to an unnamed Washington lobbyist, "The other reason, advanced by more skillful administration spin doctors, is that it'll isolate federal employees' health care from budget cuts—but if you believe that, you can get your dental care from the tooth fairy." Leigh Rivenbark, "Health Reform Limits Employee Choices," *The Federal Times*, October 4, 1993, p. 22.

11 Mike Causey, "Wolf's Warning," *The Washington Post*, March 2, 1994.

12 According to Representative Constance Morella (R-MD), who represents large numbers of federal workers, the Administration response is not very reassuring: "The broad brush answer I've gotten is 'They're going to love it, don't worry,'" Rivenbark, *op. cit.*

In recent hearings before the House Post Office and Civil Service Committee, the key House panel with jurisdiction over the federal workers' benefits program, some of the reasons why the federal workers should not come under the Clinton plan were clearly and sharply articulated. Among the reasons given:

1) **Enrolling the federal workers in the Clinton plan would be "premature."** Under the Clinton plan, ordinary Americans would be compelled to buy their health insurance through the Administration's regional alliances by 1997. It would be illegal for ordinary Americans to buy health insurance outside of these alliances. But some spokesmen on the FEHBP and its enrollees think that even delaying inclusion until January 1998 is still too soon. Explained John E. Ott, M.D., a spokesman for the Group Health Association of America and chief executive officer of the George Washington University Health Plan, a health plan that has been serving federal workers and their families since 1976:

> Repeal of the [FEHBP] program within such a short time frame does not allow the new system of alliances to become well established before federal employees are included. While many arguments can be made for the ultimate repeal of FEHBP or continued retention of its separate identity (in a status comparable to that of a corporate alliance or in some other form), it may be desirable to consider delaying major changes beyond 1997.[13]

Likewise, Kelbourne Ritter, Senior Vice President, Federal and State Government Accounts, of U.S. Healthcare, warned the panel:

> At the very least it would be wise to wait and see how a new system created by health reform works, before taking nearly 9 million enrollees from a cost efficient system and placing them into an unknown system, especially when a mistake will impact dreadfully on the federal budget.[14]

2) **Enrolling federal workers in the Clinton plan would be "disruptive."** Many ordinary Americans are quite satisfied with their own insurance plans and the quality of the current services they get from doctors, hospitals, pharmacists, and other health care providers under current insurance arrangements. The Clinton plan would disrupt all of these arrangements, introducing a great deal of confusion and uncertainty into their lives. It seems that federal workers and Members of Congress need to be spared such worries. U.S. Healthcare's Ritter told the Committee:

> No later than December 31, 1997, the Health Security Act would force most federal workers, retirees and their dependents to enroll into plans selected by regional health alliances, thereby completely disregarding the current, proven and tested system, and replacing it with one that is untried, untested and fraught with uncertainty.[15]

Likewise, Richard Miles, President of the Government Employees Hospital Association (GEHA), a nonprofit association of federal employees that serves approximately 300,000 federal workers nationwide, said:

---

13 See John E. Ott, M.D., Statement on FEHBP and HR 3600, "The Health Security Act" on behalf of the Group Health Association of America, Inc. before the Post Office and Civil Service Committee of the U.S. House of Representatives, February 23, 1994, pp. 4-5.

14 Kelbourne Ritter, Testimony on behalf of the American Managed Care and Review Association, presented to the Committee on Post Office and Civil Service, U.S. House of Representatives, February 24, 1994, p. 7.

15 *Ibid.*, p. 4

> Forcing nine million people out of the FEHB program and into untested alliances makes no sense when FEHB not only is successful but is a working laboratory for change and reform.[16]

Furthermore, Miles added:

> This change poses significant problems for GEHA, its members, federal employees and retirees. To be blunt, it puts us out of business and puts our membership at risk.[17]

Consider also the observation of Harry P. Cain, Senior Vice President of Blue Cross and Blue Shield:

> With respect to the FEHBP, establishing new entities for collecting premiums, enrolling individuals in the health plan of their choice, notifying health plans of changes in coverage, and distributing dollars to plans would simply be reinventing a rather complex engine. The unnecessary dislocation of 9 million people would be enormous in terms of costs and confusion.[18]

3) **Enrolling federal workers in the Clinton plan would be forcing them into a system that is heavily bureaucratic and tightly controlled by government regulation.** Under the Clinton plan, ordinary Americans will be required to support the operations of a huge bureaucracy and will be faced with unprecedented levels of government regulation over the financing and delivery of health care services. But this does not now apply to Members of Congress, congressional staff, and federal workers. According to Cain of Blue Cross:

> At this point, the administrative machinery necessary to operate FEHBP entails only simple payroll transactions by employing agencies, with centralized administration and guidance by the U.S. Office of Personnel Management, while the Treasury performs its customary investment and disbursing functions. The administrative challenges of regional alliances, handling thousands of small employers, and having to coordinate with all the other alliances to cope with subscribers who became ill while traveling "out of area" will really put the notion of simplicity to the test.[19]

Federal employees' health plans currently are exempted from both state taxation and state-mandated benefit laws and other state government regulations. But if federal workers end up in the Clinton plan, this will change. As Kelbourne Ritter of U.S. Healthcare noted, federal workers and their families will have to cope with new levels of state, as well as federal, regulation:

> The Health Security Act would also eliminate uniformity from state to state for federal employees, and each state would be permitted to impose other requirements so long as they are consistent with the Act. Therefore, each health plan, while mandated to provide a basic set of health care

---

16 Richard Miles, Testimony before the Committee on Post Office and Civil Service, U.S. House of Representatives, February 24, 1994, p. 8.

17 *Ibid.*, p. 2.

18 Harry P. Cain II, Testimony of the Blue Cross and Blue Shield Association on the Health Security Act, H.R. 3600, before the Committee on Post Office and Civil Service, United States House of Representatives, February 24, 1994, p. 5.

19 *Ibid.*, p. 10.

benefits, still would need to pursue state-by-state certification, and alliance-by-alliance contracts, in order to sell its product. This is costly and inefficient, and will result in reduced choices for federal employees.[20]

4) **Enrolling federal workers in the Clinton plan would mean that they would lose their personal advantages in controlling costs and pocketing the savings.** Ordinary Americans, especially those working in small firms, have seen severe health insurance cost increases over the past several years. In a reversal of these trends, widely celebrated in Washington, A. Foster Higgins & Company, a New York-based benefits consulting firm, recently reported that the total cost of private, employer-sponsored health insurance rose only 8 percent in 1993. Reports *Business & Health*, "By recalculating its results from previous years, however, Foster Higgins determined that the 8 percent increase in health benefits spending in 1993 is the lowest in nearly a decade."[21]

Competition and choice in the FEHBP has helped to control costs in the system for many years, and has enabled federal workers and their families, unlike workers and families in most private employer-based insurance, to benefit directly by pocketing the savings. As Harry Cain of Blue Cross and Blue Shield observed at the Committee hearing:

> For 1994, the FEHBP average overall premium increase is only 3 percent over 1993, even with several benefit improvements. FEHBP has controlled costs better than most private sector health plans for four consecutive years. During this time, premium increases for all FEHBP plans averaged only 6.5 percent per year.[22]

Richard Miles, President of the Government Employees Hospital Association, noted that this solid cost control performance, compared with private, employer-based insurance, has been a general pattern:

> [F]rom 1980 to 1992 the FEHB program has had a compound annual premium growth rate of less than 9 percent whereas the private sector has had growth rates of about 12 percent. In 1993, the rate increase for the program was about 3 percent and GEHA had no rate increase. The program includes price competition which causes plans to have strong cost controls.[23]

5) **Enrolling federal workers in the Clinton plan would mean that they would be forced into a system characterized by less choice and competition.** Because of the current tax treatment of health insurance, ordinary Americans normally get their health insurance through their place of employment, and often have little or no choice over different health insurance plans and prices and benefits. So, there is no genuine market competition for consumers dollars. Under the Clinton plan, "choice" would be a choice of plans approved by a state government bureaucracy with a standardized government benefit package. It would be illegal to buy insurance covering similar benefits outside of the government-sponsored "regional health alliances."

For federal workers and their families, this is likely to mean much less choice and competition, certainly less real market competition. Noted Cain, "More than 300 plans will be offered to many FEHBP enrollees in 1994. Every subscriber has at least as many, and perhaps many more, choices than would be provided under H.R. 3600."[24] Furthermore, "The health plans participating in the FEHBP have learned to

---

20 Ritter, *op. cit.*, p. 5.

21 See Maureen McKnight, "Health Care Costs Moderate in 1993," *Business & Health* Vol. 12, No. 3 (March 1994), p. 19.

22 Cain, *op. cit.*, p. 9.

23 Miles, *op. cit.*, p. 3

focus on quality of care and quality of service—because dissatisfied subscribers can and do 'vote with their feet'. They choose another plan."[25] Added Richard Miles of GEHA, "The secret of our success and that of the Federal Employee Health Benefits Plan is that we promote consumer choice and a competitive insurance market."[26]

CONCLUSION

It is little wonder that federal workers and their families, as well as Members of Congress and their staffs, are concerned about the future of their health benefits system. It could be improved, but it has nevertheless served federal workers and their families well for over 34 years. Because its central features of consumer choice and competition have worked well, its existence has become a serious political problem for the Clinton Administration and an embarrassment for those Members of Congress who want to retain a consumer choice of benefits for themselves yet deny it to other Americans. This has led some politicians and analysts to misrepresent its track record. And the program has become a target of "reforms" deliberately designed by liberal politicians and health policy analysts to emasculate its market features, particularly consumer choice and market competition.[27]

Government Employees Hospital Association President Richard Miles has posed the obvious question:

> It is ironic that the major reason for dismantling the FEHBP—and it is a political one—is that it would be "unfair" for federal employees to get a special "deal" with better coverage while the rest of America gets second-class coverage. The question should be turned around. If federal employees are getting good health care financing — and we believe they are — then shouldn't that be a model for national health care?[28]

For Members of Congress caught in the dilemma of trying to avoid the political repercussions of offending the nation's powerful federal employee unions and at the same time trying to be fair to ordinary American taxpayers, there is an equally obvious answer to the obvious question. It is to build and improve upon the central features of consumer choice of benefits and competition among plans that have worked well in the FEHBP and establish those market principles as the foundation for a comprehensive reform of America's health care system. Such a comprehensive health care reform has been developed by The Heritage Foundation. Legislation based on this work, the Consumer Choice Health Security Act (S. 1743 and H.R. 3698), has been introduced in the House by Representative Cliff Stearns (R-FL) and in the Senate by Senator Don Nickles (R-OK) and 24 other cosponsors, making it the leading alternative in the Senate to the Clinton plan.[29]

Under the Nickles-Stearns bill, all Americans would be able to obtain at least basic coverage, regardless of their place of work or even their status of employment. They, not their employer, would own the plan and choose the benefits. This would make health insurance fully portable, just like it is for federal employees who change jobs in the federal government or retire. A change in the federal tax code, giving individuals and families tax relief in the form of a tax credit or a voucher to help offset the costs of their health insurance or out-of-pocket costs, would make it financially possible for ordinary American families to pick the kind of insurance and medical services they want at prices they are prepared to pay, just like federal workers and their families do now. This would give all Americans a wide range of personal choice that is now confined to the President, the White House Staff, Members of Congress, and federal workers and retirees enrolled in the Federal Employee

---

24 Cain, *op. cit.*, p. 10.

25 *Ibid.*, p. 9.

26 Miles, *op. cit.*, p. 2.

27 For commentary on these misguided "reform" efforts, see "Open Season For America? A Symposium on the Federal Employee Health Benefits Program," *Heritage Lecture* No. 431, November 9, 1992, pp. 8-9.

28 Miles, *op. cit.*, p. 2.

29 For a discussion of the Nickles-Stearns bill, see Stuart M. Butler and Edmund F. Haislmaier, "The Consumer Choice Health Security Act (S. 1743, H.R. 3698)," Heritage Foundation *Issue Bulletin* No. 186, December 23, 1993.

ealth Benefits Program. Families also would receive tax relief for opening a medical savings account, a tax-e savings account from which families could pay routine medical bills.

Members of Congress decide that a government-run health system, with a government-chosen standardized efits package, government-sponsored purchasing cooperatives, government agencies deciding what treatnts or technologies are going to be available to Americans, and the other features of the Clinton plan, they the rest of the federal workforce should be the first to join that system—not the last. But since they like the HBP so much, for sound reason, they should build on the best features of their own system, improve upon it, d create a consumer-driven health care system for all Americans.

Robert E. Moffit
Deputy Director of Domestic Policy Studies