

TWO CHEERS FOR THE HOUSE MEDICARE PLAN

The House Medicare reform plan represents a bold step toward the structural changes needed in the program. With some modifications, legislation based on this plan could create a new Medicare program that moderates the growth in costs while giving America's elderly many new choices and much more control over their own health care.

The House plan, like legislation recently sponsored in the Senate by Judd Gregg (R-NH), would take some modest steps to reform traditional Medicare while giving seniors the alternative of taking a specified amount of financial assistance and applying it to the purchase of a private plan. Under this alternative, the elderly would be in the driver's seat: Plans would have to compete to be chosen. If a plan did not give good service and value for money, seniors could switch to another during an annual open season.

The House plan would set up a system somewhat like the Federal Employees Health Benefits Program. The FEHBP covers over 9 million federal workers, including Members of Congress, as well as dependents and retirees. It allows enrollees, once a year, to choose from a wide range of health plans which contain a variety of benefits. These plans compete vigorously to be chosen by enrollees. Since the government pays a percentage of the premiums for FEHBP plans, enrollees save money by picking wisely; and they receive plenty of information from consumer groups, as well as employee and retiree groups, to help them do so.

The House plan would allow the elderly to remain in traditional Medicare if they wish, but it would make important changes in this part of the program. First, it would maintain Part B premiums at 31.5 percent of total Part B costs, rather than allow them to fall under current law to 25 percent. Second, it would phase out the taxpayer subsidy of Part B premiums entirely for upper income seniors (over \$75,000 for singles, \$125,000 for couples). Third, it would permit the government to reward seniors who report waste, fraud, and abuse. And fourth, through a "lookback" provision, it would effectively put the traditional program on a fixed budget.

Reduced Subsidies These are welcome changes in the traditional Medicare program, but Congress should go further. Part B of Medicare, which covers principally physician services, is a heavily subsidized voluntary program unconnected to the Part A hospital program financed through payroll taxes. That subsidy should be cut even deeper than the House proposes. The typical enrollee should pay at least 50 percent of the program's cost (the level originally set in 1965), and the threshold for phasing out the subsidy entirely should be lower, perhaps \$50,000 for singles and \$100,000 for couples. Moreover, the plan would not raise the traditional program's deductibles, which have fallen sharply in real terms over the years. For Part B the deductible is just \$100, which encourages excessive use of medical care. This deductible should be at least doubled.

Choices for Seniors The heart of the House plan, however, is a set of provisions that would give seniors the right to pick a private health plan, including a catastrophic plan with a medical savings account (MSA), with the government making a contribution to that plan based on the enrollee's age and other basic risk factors. This option, to be called Medicare Plus, would create a structure much like the FEHBP. Like federal retirees, seniors choosing this option would know that private plans had to meet certain conditions to be permitted to market to the elderly. These conditions would include solvency requirements and consumer protection standards. And these plans could not turn down sicker applicants during the annual open season when plans are selected.

Still, some features of Medicare Plus do raise concerns. Examples:

- X Price Controls.** While the lookback provision would set a firm budget for the traditional program, the plan unfortunately would require the Secretary of Health and Human Services to use the failed approach of price controls to try to keep within that budget. It would be better to combine payment changes with increases in deductibles and copayments.
- X Standardized Benefits.** One requirement on private plans is that they must offer a benefit package at least equal to that of the traditional Medicare program. But this means that a senior normally would face higher costs if he wanted a plan with some benefits not now in Medicare, such as a drug benefit, because he could not substitute that new benefit for an existing one of less value to him. Under the FEHBP, federal workers and retirees have a range of alternative benefits beyond a very small core of required benefits. In restructuring Medicare, Congress should adopt a similar approach. Plans under Medicare Plus not only should be required to contain a small core of benefits (including catastrophic protection not now in the Medicare package), but also should be permitted to offer a wide range of optional additional benefits. This would allow the elderly to pick the packages that are best for them.
- X Rigid Copayments.** The House proposal appears to require Medicare Plus plans to contain deductibles and copayments no higher than the traditional Medicare program's. This would be a serious mistake and would be financially harmful to the elderly. Competing private plans should be allowed to offer different combinations of deductibles, copayments, and premium prices, as well as varieties of MSAs. Seniors, not Congress, should be allowed to decide which combination is the best value.
- X No Level Playing Field.** Another concern is that the playing field might not be level between private plans and traditional Medicare. If private plans are to be required to provide consumer information and be solvent, the traditional program should be required to meet the same standards and provide the same consumer information. Seniors should have all the information they need to choose wisely between traditional Medicare and Medicare Plus.

These and other problems need to be dealt with, but overall, the House plan indicates that Congress is at last prepared to make the changes needed to stabilize Medicare's finances so that it is still there when today's workers reach retirement. Moreover, by giving seniors the right to choose private plans in roughly the same way that federal workers and retirees routinely do, the proposal would introduce into Medicare the dynamics of the FEHBP: costs kept down by competing private plans that must give the best value for money to the patient.

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