

RUSH!

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GIVING SENIORS THE SAME HEALTH PLAN CONGRESS HAS

Senators John Breaux (D-LA) and Connie Mack (R-FL) have developed Medicare reform legislation within the Finance Committee that, if included in final Medicare provisions of the reconciliation bill, would improve the program dramatically while helping to slow the growth in costs. In a nutshell, the bill would begin to make available to the country's senior citizens a health program similar to the one now available to Members of Congress and 9 million other federal workers, retirees, and dependents.

The Breaux-Mack bill would create a demonstration program in ten high-cost areas and three rural areas. Within these areas, seniors and Medicare-eligible disabled Americans would be able to choose from a much wider range of plans than currently available under Medicare—much as federal workers do under the Federal Employees Health Benefits Program (FEHBP). The bill also would introduce many of the key features responsible for the FEHBP's success and improve on the FEHBP structure in several ways. Specifically, it would:

- 1. Open up many new plans under Medicare.** In the demonstration areas, health care plans—including plans offered through unions and associations such as churches or elderly organizations like the American Association of Retired Persons—could be offered in competition with current fee-for-service and health maintenance organization (HMO) options.
- 2. Allow the marketing of supplemental packages.** Plans could include supplemental packages beyond today's core package of benefits. Without curbing the right of plans to offer a range of supplementary services, the Secretary of Health and Human Services (HHS) would develop two benchmark supplemental packages, making apples-to-apples comparisons easier for many elderly. The bill would be better, however, if the required core package could be leaner than today's benefits, because that would allow seniors to substitute new services for some existing benefits at the same premium cost.
- 3. Allow HHS to negotiate premiums with plans.** Borrowing a successful feature of the FEHBP, plans would submit bids including benefits and proposed premiums, and HHS could negotiate refinements in pricing and services before the plans are offered. This would replace the rigid formula currently used to pay coordinated care plans under Medicare.
- 4. Create an HHS Office of Competition to operate the new system.** Medicare is run by the Health Care Financing Administration (HCFA), one of the most bureaucratic of all federal agencies. To spur competition, the bill creates a lean, non-HCFA office to run the new system of options. Staff, however, would be drawn from within HHS; it would be better to allow staff to be

detailed from the Office of Personnel Management (OPM), which runs the negotiation system for the FEHBP.

5. **Use a new payment system to give cost-saving incentives to seniors.** The FEHBP pays 75 percent of the premium of an enrollee's chosen plan, up to a maximum amount. Above that amount, the enrollee would pay the full cost. This gives FEHBP enrollees a strong incentive to choose the most cost-effective plan. The Breaux–Mack bill would incorporate a similar system into Medicare: The program would pay 90 percent of the chosen premium, up to a maximum of 90 percent of the weighted average of plans in the area or the average spent for fee-for-service coverage in the area, whichever is lower.
6. **Require HHS to provide beneficiaries with consumer information collected from plans.** The U.S. General Accounting Office has criticized the HCFA for collecting mountains of data but giving little usable information to seniors to help them make medical choices. The bill would require HHS to provide comparable information on competing plans, including patient satisfaction surveys and apples-to-apples premium information, to aid choices. This is very similar to the information routinely provided to federal workers in the FEHBP.

The Breaux–Mack bill is a demonstration program, not comprehensive Medicare reform; therefore, other reforms would be necessary in final legislation—and many of its provisions could be applied to the whole program. Congress should improve on the bill in certain ways, beyond the refinements discussed, and apply its logic more generally throughout Medicare. Among the steps Congress should take:

1. **Widen the Breaux–Mack demonstration areas.** Although the bill does not limit the number of Medicare beneficiaries who would be in the demonstration program, the FEHBP structure works for over 9 million people; the Medicare demonstration should be at least on that scale.
2. **Include wider variations of coverage, including medical savings accounts (MSAs).** In Medicare generally, as well as within the demonstration program, enrollees should be allowed to pick plans with wider variations of coverage, including MSAs.
3. **Create a semi-independent, congressionally appointed board to operate traditional fee-for-service Medicare in all parts of the country.** This would remove the management of this part of Medicare from the HCFA bureaucracy and give the traditional program more flexibility to modernize and compete with HMOs now in Medicare. The board also would have power to make variations in the benefits, including deductibles and copayments, subject to an up-or-down vote by Congress without amendment.
4. **Introduce negotiated payments for all HMOs in Medicare.** Today, managed care plans in Medicare are paid according to a rigid formula based on the cost of fee-for-service care in the area. Yet the managed care market typically is very different from fee-for-service, resulting in overpayments to many HMOs. Throughout the country, HHS should be permitted to negotiate premiums with Medicare HMOs, as the OPM does within the FEHBP.

Medicare requires fundamental reform if it is to offer enrollees a wide choice of modern health services. Congress is looking for ways to do this while curbing the explosive growth of program costs. For a model, lawmakers need look no further than the FEHBP, a program that has served Congress and the federal workforce well for over 30 years. The Breaux–Mack bill, by introducing the FEHBP's core elements into Medicare, would benefit both seniors and taxpayers.

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