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A Better Medicare

{This is a second in a series of RPC papers focusing on Medicare reform. This paper separates the myths from the facts in refuting recent Democratic attacks.}

Introduction

On April 11, 2003, Congress passed a budget resolution containing a 10-year $400 billion Medicare Reserve Fund to provide prescription drug coverage and to strengthen the Medicare program for the long-term. This isn't only laudable, it's imperative. As Medicare beneficiaries increase in numbers and in longevity, ensuring a solvent Medicare will only become more formidable. Now is the time to act.

Policymakers agree that Medicare's benefit package is outdated. The time has come for Medicare to offer prescription drug coverage similar to that provided by private health insurance. However, providing new prescription drug coverage in and of itself is not sufficient to address the critical policy issues facing Medicare. A look at the numbers bears this out: the Medicare program is expected to serve nearly 77 million beneficiaries in 2030, compared to nearly 41 million elderly and disabled persons today. These additional beneficiaries will dramatically increase Medicare spending and costs, placing significant pressure on the Medicare Hospital Insurance Trust Fund. If the program is to meet these increased health care demands, then Medicare must become more flexible and innovative.

President Bush's model for this strengthening of Medicare is the Federal Employees Health Benefits Program (FEHBP). The FEHBP provides health care coverage to nearly 9 million federal workers and their dependents, federal retirees, and past and present Members of Congress and their staffs.

Opponents to the President's plan claim Republicans want to "privatize" the Medicare program; eliminate physician choice; make Medicare more confusing; and provide insufficient funding for prescription drug coverage. These charges are false, and each is addressed below.

The Myths and the Facts

"Privatize" Medicare: Myth vs. Fact

Myth: Democrats claim that Republicans would "privatize" Medicare by forcing seniors into preferred provider organizations (PPOs) and health maintenance organizations (HMOs).

Facts: 1. No senior will be forced out of traditional Medicare, so it is simply untrue to assert that the existing system is being "privatized" or that seniors are being forced to abandon it. The only change to the traditional Medicare program under the proposed Republican plan is the addition of a robust prescription drug benefit.

2. The President and other Republicans want to create an option for seniors who might prefer to enroll in a private insurance PPO or HMO similar to those currently available to federal employees and annuitants across the nation, and to Members of Congress.

"Privatization" is meant by some Democrats to be pejorative, not descriptive. In fact, there already is private-sector involvement in the current *government-administered* Medicare program (i.e., all of the providers are privately employed and private contractors are used for much of that administration). Under the Republican proposal, private insurance companies would provide the benefits – just as they successfully do under the FEHBP. In addition, government supervision and ultimate government control would exist similar to the FEHBP. For example, under the federal employees' health program, the government maintains key oversight functions by conducting regular audits of benefits and insurance entities, and also negotiates benefits and rates annually.[1] For Medicare, Republicans propose the same level of federal oversight.

The 43-year-old FEHBP is a promising model because it offers such a wide choice of benefits. It includes 133 different health care plans.[2] Equally important to the breadth of health options is the program's broad geographic reach. The FEHBP is designed to provide health insurance to federal workers all across the country – and in settings both urban and rural.

Opponents to Medicare reform often claim that seniors and the disabled living in rural areas would have inadequate access to health plan coverage. However, according to the Office of Personnel Management (OPM), the agency responsible for administering the FEHBP program, rural beneficiaries have a wide dimension of choice. At a minimum, rural FEHBP enrollees have access to 12 health plans administered by six nationwide carriers. In Aroostook County, Maine – the most rural county in the state near the Canadian border – 1,300 federal workers and retirees

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[1]See, for details, "Audit Activities: Health and Life Insurance Carrier Audits," Office of Personnel Management, www.opm.gov.

[2]"Statement of Abby L. Block, Senior Advisor for Employee and Family Support Policy," Office of Personnel Management, Special Committee on Aging Hearing, May 6, 2003.

have enrolled in 10 different FEHBP health plans. In Pocahontas County, West Virginia, 139 federal workers and retirees have enrolled in nine health plans. And in Wyoming – the least populated state – federal workers and retirees are enrolled in no less than three plans in the most remote county.[3]

For a number of years, some Democratic Members of Congress have highlighted the FEHBP as a template for Medicare reform. They specifically cite its ample choice of health options and the plans' willingness to cover new medical treatments. These supporting statements are taken from the *Congressional Record*:

> "*Basically, building on the Federal Employees Benefits Plan, we are saying that . . . if it is good enough for [Senators, House Members and the 10 million Federal employees], it should also be good enough for our nation's seniors.*"
>
> – Senator Breaux (D-LA), *Congressional Record,* 11/9/99, p. S14380

> *"What I am most interested in is making sure older people have the kind of bargaining power necessary to drive down the costs of their medicine. It seems to me they can get that bargaining power through an approach based on choice, such as we, as Members of Congress, have through the Federal Employees Health Benefits system."*
>
> – Senator Wyden (D-OR), *Congressional Record,* 3/6/00, p. S1163

> *"Today I am introducing legislation to make available to all Americans the same range of private health insurance plans available to Members of Congress and other Federal employees through the Federal Employees Health Benefits Program."*
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> – Senator Durbin, (D-IL), *Congressional Record,* 11/19/02, p. S11576)

Given such statements of support by Democrats, why not move forward with a Medicare reform measure that promotes greater choice and opportunity for seniors, while also retaining the existing program for those who prefer it?

Losing vs. Choosing Your Own Doctor: Myth vs. Fact

Myth: Democrats claim physician choice will be eliminated.

Fact: The claim is false, both because the Republican proposal would preserve traditional Medicare, and because the Republican proposal also offers additional health care plans which retain the right to choose doctors.

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[3]"Enrollment in FEHBP Plans in Rural Areas," Analysis by Rural Policy Research Institute (RUPI) Center for Rural Health Policy Analysis, May 20, 2003.

The foundation for any Medicare reform legislation must be the freedom to choose physicians and benefits based on seniors' individual needs. This principle is core to Republican efforts.

The central feature of this principle is the option to enroll in a preferred provider organization (PPO). The PPO essentially is a "hybrid" between a fee-for-service plan (whereby insurance companies pay hospitals and doctors the fees they set), and a managed care plan (which manages patient care through contracts with certain providers willing to accept negotiated payment rates).[4] PPOs also contract with providers, but usually the number is greater than most comparable HMO networks. In fact, the reason PPOs are the most popular type of coverage in today's private health care market is because so many primary and speciality care doctors are available to the patient within the network.

A key aspect of PPOs is the right to receive services from any health care provider within that provider network, and furthermore the right to obtain care outside the network. In other words, the patient can go to any doctor of his or her choice, but if that doctor is not in the patient's PPO network, the patient generally will have to pay more. (The amount would be the difference between what the insurance company would pay doctors in its network and the amount charged by the patient's out-of-network doctor; this is sometimes referred to as "balanced billing," where the doctor bills the patient the "balance" between what insurance covers and what the patient's doctor charges.) It should be clear, however, that in most cases patients do not have leave the network to find the care they need.

It is revealing to see that, while Democrats charge that Republicans want to eliminate physician choice, they simultaneously acknowledge such broad selection as provided by the FEHBP. For instance, a recent Democratic Policy Committee document recognized that "PPOs . . . do not require that a primary care physician be responsible for all of the care a patient receives" and that "patients are free to choose doctors not in their PPO's network."[5]

More Confusion for Seniors: Myth vs. Fact

Myth: Democrats claim that private health plans will be more confusing than traditional Medicare.

Facts: 1. It is hard to be more confusing than the current system.

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[4] "The Language of Health Care Reform: Glossary of Terms and Definitions," The MEDSTAT Group, May 1994.

[5] "Republican Medicare 'Reforms' Won't Generate Savings; Medicare Costs Could Substantially Increase," Democratic Policy Committee, May 12, 2003.

2. It is true that more choice may confuse some, but no more so than today's array of supplemental coverage policies, e.g., Medigap, offered to beneficiaries to help provide services and benefits not covered by Medicare.

3. Private companies are good at making the choices understandable, and they have every incentive to do that, just as they do under the FEHBP.

These are some of the current complexities – and exorbitant costs – facing today's seniors under traditional Medicare: Medicare beneficiaries currently pay a deductible of $840 for hospital care annually and a $100-deductible for Medicare physician services. In addition, Medicare beneficiaries annually pay $210 in coinsurance, per day, for hospital inpatient care provided between the 61st and 90th day of service. For any inpatient care furnished between the 91st and 150th day of treatment, *beneficiaries pay $420 a day in coinsurance*. Beneficiaries also pay $105 in coinsurance, per day, for skilled nursing care provided between the 21st and 100th days of treatment.[6] These cost-sharing requirements are in addition to other costly copayments and deductibles imposed by supplemental policies for pharmaceutical drug benefits.

The Republican alternative option simplifies this patchwork of expenses. Under a PPO option, beneficiaries would pay one combined deductible for all health care services. They also would have reasonable cost-sharing requirements, as well as catastrophic coverage for acute hospital and skilled nursing care furnished on a long-term basis. In addition, Republicans propose providing drug discount cards to seniors, providing immediate savings from today's high out-of-pocket drug expenses. The discount cards are estimated to save between 10 percent and 25 percent on the cost of prescription drugs. Low-income seniors would receive additional assistance to help with their prescription needs.

Insufficient Funds for Prescription Drugs: Myth vs. Fact

Myth: Democrats claim that Republicans are unwilling to devote sufficient funds for prescription drug coverage.

Fact: On April 11, 2003, Congress passed a budget resolution providing a 10-year $400 billion Medicare Reserve Fund. This reserve fund follows President Bush's call in his FY2004 Budget Proposal for a prescription drug benefit and an improved Medicare program.

Only two years ago, some Democratic Senators claimed that $311 billion over 10 years would be enough to provide prescription drug coverage and enhanced Medicare benefits. In April 2001, Senator Kennedy stated, "The Democrat plan would provide drug coverage to all seniors

[6]Centers for Medicare and Medicaid Services, "Amounts for 2003," www.medicare.gov//Basics/Amounts2003.asp

through Medicare. The Democrat budget provides $311 billion to make prescription drugs affordable for all seniors. It is the only real way to solve the problem."[7]

During this year's budget resolution debate, Senators Graham and Stabenow offered an amendment increasing the Medicare Reserve Fund to $619 billion over 10 years. If $400 billion is not adequate today, then why was $311 billion adequate just two years ago? (In inflation-adjusted dollars, that $311 billion would be $323 billion today.)

Conclusion

As Congress considers Medicare reform, it should look at successful models like the FEHBP. The program's rich experience will ensure that the elderly have broad consumer choice and higher quality of benefits all while government oversight is maintained. The Republican goal is two-fold. First, provide beneficiaries with a choice of coverage options to best meet individual needs. Second, strengthen the program to preserve it for the future – to meet the needs of an elderly population that is both growing in number and in longevity. The political rhetoric must be separated from the facts if Congress is to achieve these goals.

[Please note: RPC will issue an additional paper that examines the Medicare program in-depth and explains why it cannot be sustained in its present form.]

[7] *Congressional Record*, April 6, 2001, S3688.