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The Health Security Plan

THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

An estimated 10 million people, including Federal employees, retirees and their dependents, have health insurance coverage through the Federal Employees Health Benefits Program (FEHBP). In many ways, FEHBP has served as a model for the Health Security plan. Under reform, all Americans, including federal employees and retirees, will enjoy a choice among high quality affordable health plans.

The current FEHBP program is not without the problems that plague even the best models. Over the past ten years, premium rates have increased just as they have for other purchasers of insurance. These increases have ranged as high as 26% in a single year. Because FEHBP plans offer differing levels of coverage, some plans have had to withdraw from the program because they have attracted too many older and sicker workers and could not offer competitive premiums.

The variation in benefits also causes difficulties to federal workers and early retirees who are forced to make uncomfortable tradeoffs when selecting among plans that differ in price, services, coverage and choice of providers. Many are confused by these differences; information on how satisfied they are with their health plans is unavailable.

Guarantees Comprehensive Benefits

- Under the Health Security plan federal employees and early retirees will join with the other members of the communities in which they live and choose from among the health plans offered by the regional health alliance in their area.

- Federal employees and retirees will be guaranteed the security of knowing that if they change jobs, lose their job or move they will still be covered.

- Those covered by FEHBP will continue to enjoy comprehensive health care since the benefits package provided in the Health Security Act are based on today's best plans, including those offered through FEHBP.

Helps Employees Make Informed Choices

- Federal employees and early retirees, not insurers, will still be in the driver's seat, but even better equipped to choose between plans on the basis of price and quality.

- A uniform comprehensive benefits and standard cost-sharing arrangement will end the confusion of choosing among health plans under FEHBP today.

- Simple, easy-to-understand and up-to-date information about quality and price will help individuals choose among plans.

Increases Government Contribution

- The Health Security plan will increase the Government's contribution for federal workers to 80% of the average premium, up from the average 75% it contributes today.

- The slower rate of growth of health care spending under the health Security plan will mean that health care premiums will not take an ever-increasing bite out of their paychecks and pensions.

Protects Federal Retirees

- Under the Health Security plan, early retirees -- like active employees -- will be able to choose from the health plans that will be offered in their area.

- For federal retirees covered by Medicare, the Office of Personnel Management (OPM) will administer a Medigap option to provide the additional protection they currently receive.

October 8, 1993

MEMORANDUM FOR IRA MAGAZINER

FROM: Judy Feder

SUBJECT: Federal Employee Health Benefits Plan

In reviewing the section of the plan on the Federal Employees Health Benefits Plan (FEHBP), I realized that several significant issues had not been addressed. This memorandum reviews those issues and presents my recommendations for dealing with them. [I have checked these ideas with OPM and they see no problem.] We need to come to agreement on more detailed specifications for what will happen to FEHBP as I am already getting inquiries from the Hill on FEHBP. I would like to delay talking to the relevant Congressional staff until we are in agreement on the operational details. If you agree with the recommendations below, we can proceed with those discussions.

Our core proposal is to end this program as currently structured and place employees and family members into regional health alliances. As alliances begin operations, enrollees will shift from FEHBP plans to plans contracting with alliances. This will be a particularly easy change for Federal employees, who are used to dealing with choices among a broad range of HMOs and fee-for-service plans. There will be some budgetary cost to the government, due to increasing the employer share from the current average of 72 percent to 80 percent. Increasing the employer share will be a major plus in describing the proposal's effects on employees.

There are, however, several groups that must be dealt with separately--employees abroad and retirees with Medicare, for example--and a number of potential points of criticism. The current law, Chapter 89 of Title V of the U.S. Code, will need to be modified, not repealed.

A. How will employees abroad be covered?

A dozen or more Federal agencies have employees abroad, ranging from diplomats to commercial and law enforcement officials. At present, these employees have the same plan choices, except HMOs, as those in the United States. For example, Blue Cross operates as a world-wide plan. In addition, there are special plans in the Canal Zone and in Guam, and a plan for those in the Foreign Service.

To cover these employees, a residual program should be maintained. This program can operate through the same kinds of

contracts as at present, e.g., through Blue Cross, Foreign Service, and others. OPM would arrange such contracts and conduct an annual Open Season. In order to avoid disruption in insurance arrangements, it would also be desirable to allow employees who regularly shift between domestic and foreign posts to retain this insurance while in the United States, rather than shift in and out of the regional alliance in their home state.

B. How will Postal Workers be covered?

One group of employees, postal workers, now gets an employer share as high as 92 percent of premium. This cost-sharing is a result of collective bargaining. In a recent arbitration agreement this was amended and it will gradually go down in future years. For the present, however, the proposed cost sharing would in many cases double the premium paid by postal workers. The sensible approach is to provide the Postal Service with the same option afforded to private employers: to pay more than 80 percent if it has agreed to do so through collective bargaining. Our proposal should specify that there will be no change from currently bargained benefits unless it is reached through bargaining.

C. How will annuitants be covered?

There are about 1.7 million federal annuitants. Of these about two-thirds (1) have Medicare coverage, and about one-third are (2) annuitants ineligible for Medicare, including (a) those aged 55-64 who are not yet old enough for Medicare and (b) annuitants over age 65 (most 75 or more) who retired before federal employees became Medicare eligible. Each of these groups have joined the same plans as employees, piggy-backing on that system. When it is replaced, alternative arrangements will be needed.

(1) Annuitants with Medicare. These persons most often sign up for Blue Cross standard option and get 100 percent wrap-around coverage, including drugs and travel abroad. They pay the same dollar amount as employees, which is a roughly comparable deal, taking into account the offsetting factors of higher costs with age and Medicare paying first. Like employees, they also help pay for annuitants without Medicare.

The best way to handle this group is to develop a separate Medigap system to be administered by OPM. The broad-based plans on which to piggy-back will no longer exist. Premiums under this new system should cost these employees about what they pay now for comparable coverage. This will probably mean cost sharing of about 50 percent (taking into account that they currently subsidize annuitants without Medicare).

(2) Annuitants ineligible for Medicare. These annuitants

have actuarial costs much higher than those of employees, but pay the same premium. They have the same plan choices. A large fraction of them are in HMOs. Unlike annuitants with Medicare, those enrolled in fee-for-service plans pay deductibles and coinsurance.

The best way to preserve the kinds of choices they now have is for them to obtain insurance through regional alliances. with OPM paying a premium contribution sufficient to hold them harmless, rather than the increased contribution which most employees will get (i.e., about 72 percent of the community rate, rather than 80 percent). I assume that OPM will continue to use pension deductions to pay premiums, with payments to alliances on behalf of the enrollee.

An alternative with roughly equal effects on costs and benefits would be to separate out the above age 65 group, enroll them in Medicare, and offer them Medigap plans with minimal subsidy. This is a technically feasible option, but one which would be complex, and considerably more disruptive than using the alliance structure. (Many of these annuitants are enrolled in HMOs which are not Medicare contractors but which will contract with alliances; none of them would welcome Medicare paperwork.) It would also leave OPM with three rather than two retirement groups for the indefinite future because it will be decades before the last of these annuitants die.

C. Explaining the Proposal

These approaches assure that the most significant concerns of Federal employees and annuitants will be met effectively and humanely, with no major cost shifting or surprises. There will, nonetheless, be some additional concerns which are unavoidable.

Any description which fails to clarify that each of the main groups, and employees abroad, will be fairly treated through either the health alliances or residual or new programs will create a major perception problem. Words like "abolish" or "terminate" will not be helpful if descriptions of the residual programs are not equally prominent. The remaining concerns are as follows:

1. Government Share. At present these disparate enrollment groups are lumped into a single payment system with an average government share of about 72 percent. This system includes many cross-subsidies among employees and annuitants. Under our proposal, some of these cross subsidies will be eliminated, but all groups will be held harmless. Perceptions of unfairness may arise because the apparent government share will range from 80 percent for employees to 72 percent to annuitants without Medicare to about 50 percent for annuitants with Medicare.

2. Retirement Eligibility. Federal employees must be enrolled in the FEHBP system for five continuous years before retirement to get lifetime coverage after retirement. Many employees sign up for this program only as retirement nears, because a spousal policy through a private employer is often a better deal during working years. After reform, any insurance coverage through an alliance will count towards meeting this test. This will eliminate some inequities.

3. Benefit coverage. Most employees will have benefits roughly comparable, or slightly better than those they have now. Our comprehensive option is very similar in general coverage to the most popular FEHBP plan, Blue Cross standard option, as well as to most other fee-for-service plan offerings. The other proposed option is very similar in general coverage parameters to most HMOs. Therefore, the overwhelming majority of employees will have coverage equal to, or very slightly better, than at present.

The one significant exception to this is dental coverage. The proposed options cover only preventive care for children. Most federal employees have preventive and minor restorative care, and a significant fraction, particularly in D.C. area HMOs, have substantial restorative coverage.

Most employees will improve their mental health coverage--going from 15 or 20 outpatient visits to 30 visits. However, those few who are now enrolled in the high-cost, 50-visit Blue Cross high option plan will lose 20 visits of coverage. These persons, however, will actually come out ahead, taking into account that they will save over $2,000 in premium cost.

4. Large Families. There is a change for employees with large families. At present they are lumped in with two-person families. Under the administration's proposal, one parent families with children wqill pay a lower rate than two parent families with children. This needs to be explicitly stated.

5. Insurance Fund Reserves. As the program phases down, some disposition of reserve funds will be needed. Much of the surplus reserves can and should be used up by slight reductions in premiums. The residual amounts will be distributed on the basis of 72 percent to the government and 28 percent to the individuals enrolled at termination.

6. Administration. After transition is completed, OPM will continue to perform functions such as contracting for coverage of employees abroad and for Medigap plans, determining eligibility of individuals for plans, arranging transfers of funds to alliances on behalf of annuitants, instructing agencies on how to transfer funds to alliances on behalf of employees, providing informational material to employees on their benefits, etc.