

Why Health Insurance That Works Still Fails To Catch On Broadly

Touted as Model for Reform, Federal Plan Hits Snags Itself, Sparks Resistance

If We Have It, You Should

By SHAILAGH MURRAY

Staff Reporter of THE WALL STREET JOURNAL

Is an old federal program the magic bullet for health-care coverage?

Democratic presidential candidate Bill Bradley thinks so, and so do conservative economists. Drug-company executives—the same ones who fear government price controls—believe it's the answer for modernizing Medicare. Some big employers also wouldn't mind trading their private-sector plans in for the government's.

But for all its fans, the Federal Employees Health Benefits Program just hasn't caught on outside federal precincts. Why that is so says a great deal about the marketplace and mindset.

For 40 years, FEHB ("feeb," as it is pronounced) has provided health care to millions of government workers and family members in a way that turns the private-sector approach on its head. Rather than buying insurance on behalf of its employees, it gives them what is essentially a voucher to purchase the plan of their choice. The program screens more than 300 plans nationwide, and in most regions employees can select from at least 10.

A Buyer's Market

To its many admirers, the allure of FEHB is how it transforms health-care coverage into a buyer's market and promotes consumer-friendly competition that isn't present in the private-sector system. Federal workers are avid comparison-shoppers at annual health-insurance fairs. Because they pay a portion of their own premium, they tend to be pragmatic in their selections: an inexpensive health-maintenance organization when they're young and healthy, a plan with good drug benefits after they retire and go on Medicare. If they run into hassles or poor service, they simply switch to another insurer.

"It shows you can have a free market in health care that can work." —Walter

ered its unofficial historian. "And you get better prices, service, benefits, everything." —

Model of the Moment

All this has made the federal program the model of the moment for health-care reform. Prominent members of Congress from both parties have endorsed it as a blueprint for fixing Medicare. Some politicians—including Ted Kennedy in the early 1990s—have proposed large-scale health-care reform based on it. Mr. Bradley is staking his presidential campaign on an ambitious health-care policy that would open the FEHB program to all adults, especially Medicaid recipients and uninsured people. Health-policy experts and economists would scrap private employer-based coverage altogether and replace it with a federal-style defined contribution. Even Vice President Al Gore, who is pummeling Mr. Bradley's health-care plan, had his own FEHB flirtation in 1994, when he told a crowd in Tennessee, "If we have it, you should have it."

The program first hit the national stage in the early 1990s as a moderate alternative to President Clinton's single-payer plan. Then, as now, health-care costs were skyrocketing and the uninsured pool was widening, and the two stalwarts of American health-care coverage—the private employer-based benefit system and Medicare—seemed too clumsy and rigid to fix the problems. Today, health-care coverage is one of the few basics in American life that hasn't improved in the new economy: Benefits are tethered to employers, millions of people work for companies that don't provide health insurance, and most people have no control over the type of coverage they have.

Mike McCord, a longtime Senate staffer, hears stories about the battles people must wage just to see a specialist, and his private-sector friends often complain about how shoddy their health coverage has become. But as Mr. McCord says, "I can't relate to any of that."

A Pre-Existing Condition

Mr. McCord attended his office's 1999 health fair on crutches. When he entered a Senate conference room during his lunch hour, a dozen or so insurance agents stood over stacks of enrollment packets, looking perky and solicitous as people made the rounds shopping for coverage. No one blinked when Mr. McCord hobbled up to the table, a preexisting condition if ever there was one.

The lanky aide has switched plans five times in 15 years and is in the market for new coverage because his old plan, NYL-Care, was bought by Aetna U.S. Health-care, and Aetna doesn't cover all the McCord family doctors. Private-sector employees have to live with this sort of inconvenience—they take whatever plan their company offers. Mr. McCord will spend the next several evenings comparing the doctors and benefits of at least five Washington-area plans.

For insurance companies, selling to federal employees has always been a higher art because they're dealing with individuals and not entire work forces. They can't turn anyone down. On the other hand, they can draw from a vast pool, currently nine

Please Turn to Page A12, Column 1

Why One Health Plan Fails to Catch On

Continued From First Page

million employees, dependents and retirees. The trick is to structure benefit packages with extreme precision to attract the widest possible mix of ages and conditions. "You don't want to appeal overly to groups looking for specific benefits" such as generous drug coverage, says James Barnett, counsel to the Mail Handlers' Benefits Plan, the second-largest plan in the program, after Blue Cross & Blue Shield.

On the surface, there is little to distinguish the federal program from the private-sector equivalent. Once federal workers select a plan, they pay their share—about a quarter of the total premium—through a payroll deduction. They don't process their own claims or fight claims disputes. Indeed, the government's exhaustive complaint-resolution process even gives patients a right to sue as a last resort.

Still, many prefer the devil they know. FEHB might well be a panacea, but for the continuing backlash against large-scale reform since the Clinton health-care plan failed. That helps explain why incremental health-care reform—which Mr. Gore is offering—is so popular these days.

"I think very few people would say, if we were writing on a blank slate, that the coverage model we have now makes sense," says Ron Pollack, head of Families USA, a leading health-care advocacy group. "But we're not writing on a blank slate. And you'd better make sure that what replaces it does not put people in a worse situation than today."

Moreover, FEHB isn't perfect. Rep. Jim McDermott of Washington state recalls the experience of a friend who works for the State Department in Washington. The man's wife had cancer and the recommended treatment wasn't covered under the husband's Blue Cross & Blue Shield federal policy for his region, though it was covered in other parts of the country.

"That's the story of FEHB," says Mr. McDermott, who has endorsed Mr. Bradley's health-care proposal but has no illusions about the federal program. "It sounds like a good idea. And members of Congress understand it, because we have it. But that . . . doesn't make it the answer for everything wrong with health care today."

The problems with health care are familiar ones: Costs are soaring, coverage is patchier than ever, and those who have it aren't getting what they expect—especially as premiums and co-payments rise and individuals pay more of their own medical expenses. Congress and state lawmakers are under pressure to give people the right to sue their health plans; to guarantee basic rights such as access to emergency-room care; to ensure the privacy of medical records; to control drug prices and add a drug benefit to Medicare. And then there is the record uninsured pool, which tops 43 million people, most of whom are low-wage workers.

PEHB has suffered much of the turmoil that has hit the private health market in recent years: rapid consolidation of health plans, rising costs and an aging work force. One pressing problem is that prescription

antibiotic that wasn't covered. A good drug benefit was her top priority when she hit a recent House health fair.

The average age of the many federal plans is well into the 50s, and the cost of providing tests and drugs for the elderly is a challenge. Why their premiums are way up nearly 9% this year—for the third year running. In addition, federal plans must fully insure many elderly retirees who were never eligible for Medicare (government workers didn't become eligible for Medicare until 1984).

Kenneth Thorpe, a health-policy professor at a former Clinton administration health official, says the White House looked at the federal program in the early 1990s, in the process of crafting the Clinton health plan, but concluded it had too many idiosyncrasies. For instance the Office of Personnel Management—highly influential in that it is the guarantor of an employee's insurance status in the federal government—says: "Insurance companies must sell plans to the government at the best price they're offering to a customer. You can take some of the basic tenets and apply those," says Prof. Thorpe, "but the FEHB program could never be expanded into the private sector, the way it's run by OPM."

More than 100 plans have left the federal program in recent years. Some local HMOs that couldn't muster the enrollment to justify the extra costs of offering a federal plan. Others, including a number of union plans and a plan that served members of Congress and their staff, have left because they offered generous benefits for too low a price.

Recently a list of the federal program have come to an unlikely conclusion: Less competition may be a good thing. Despite living by strict financial rules, the federal program and even customer-service calls, plans are obliged to follow few guidelines in actually administering health care. Janice Achar, director of the OPM, believes the government should raise the bar for entry into the federal program and mandate treatment standards. She argues that it will eliminate wasteful practices and ensure the same level of care for every employee.

The health-care legislation that Congress is considering, plus the new wave of cost increases, have sparked talk in the private sector of creating a federal-style health benefit. It would be a way to control the drug budget while shifting the responsibility to employees. Ultimately, the federal model could even work as a blueprint for a more flexible and portable benefit, which is regarded as an individual asset such as a 401(k) retirement plan.

As always with health-care reform, the struggle is to convince people who have coverage that change won't make matters worse. Xerox Corp. got into this jam in December when word spread of a speech at a Washington health-care conference by the company's vice president for benefits, Pa-

rox workers, a company spokeswoman now insists that there is no change on the horizon. "I think if we saw this as a way to offer employees more choice and flexibility, and that they would value it, then it would make some sense," says Sandy Mauceli. "But we're not going to toss something out there if the marketplace is not ready."

Mr. Bradley also is learning this lesson. His health plan, with its \$65 billion-a-year price tag, has proven an easy target for his opponent. Mr. Gore is especially disparaging of Mr. Bradley's use of "vouchers" to replace Medicaid, a political buzzword for "you're on your own."

For lawmakers, the most obvious candidate for a FEHB-style overhaul is Medicare. Democratic Sen. John Breaux of Louisiana, one of the leading hackers of the idea, says he expects the Senate to begin debate of a Medicare reform bill this year that would add a private-insurance option to Medicare modeled after the FEHB program. Numerous health-care-industry leaders support the idea, including Raymond V. Gilmartin, chairman of Merck & Co. He calls FEHB "the ideal way" to strengthen Medicare and to add a drug benefit. Mr. Gilmartin and other industry leaders are now in discussions with the White House to try to hash out a compromise with President Clinton, who would take a different approach to reforming Medicare and creating a drug benefit, one the drug industry fears would lead to price controls.

Stuart Butler is an economist with the conservative Heritage Foundation and one of the original champions of the federal program. He wrote his first paper about it in the 1970s. "Remember 20 years ago, when people were talking about creating a differential telephone system?" Mr. Butler says. "The argument was that long distance service was a natural monopoly and everything would unravel if it were dissolved. It's a conceptual obstacle. People look at the FEHB program, and they don't know what to say."