

KENNEDY'S BAIT AND SWITCH HEALTH REFORM

As the Clinton Plan continues to decline in popularity, new versions of it continually appear in different clothing. The latest, a 346-page variation introduced last week by Senator Edward M. Kennedy (D-MA), contains a powerful National Health Board, employer mandates, health alliances, and many other elements of the Clinton plan. But in a new twist, Senator Kennedy says that he wants also to open up the Federal Employees Health Benefits Program (FEHBP) to all Americans. The FEHBP is the program that covers Members of Congress and over nine million federal workers and retirees and their dependents.

Lawmakers and their constituents need to read the fine print in the Kennedy plan. It turns out that what the plan would do is transform today's successful FEHBP into a Clinton-style program before making it available. That bait and switch would be very bad news for federal workers, many of whom would be forced to pay more for additional coverage they do not want, as well as bad news for other Americans.

Today, the FEHBP is voluntary. It has no one-size-fits-all standardized health package (unlike the Clinton plan), so federal workers pick the benefits *they* want. It contains no premium caps or other price controls. And it is personal choice and intense competition among private insurance carriers, not government controls, that have kept premium increases during the last 15 years about one-third below the average of other insurance plans.

Under the Kennedy proposal, all this would change dramatically. Among the key changes Kennedy proposes:

- 1) **Today's federal workers, and private sector families joining the FEHBP, would have to accept a standardized benefit package.** Under the Kennedy proposal, federal workers no longer would be able to pick the benefits that are right for them. Instead, Congress would establish a standardized comprehensive benefits package, just like the Clinton plan, specifying in detail what treatments or medical procedures that federal workers will or will not receive in their health plan. Further adjustments could be made by a National Health Board, just like in the Clinton plan. This standard package would include, among many others, substance abuse services, and pregnancy-related and family planning services (including abortion). This means that many, if not most, federal workers would have to pay more for benefits and procedures they do not want.

Introducing a standardized package, set by Congress, also will no doubt lead to continued political pressure to include an even more generous, comprehensive package. In part this will happen because Congress will be lobbied by federal unions to allow federal workers now choosing comprehensive benefits to retain those benefits. Congress also will be lobbied by health care providers and their patients to include their services in the package. That would raise the cost of the program—to taxpayers as well as to many federal workers.

- 2) **Cost sharing and deductibles in the FEHBP, and in private insurance, would be fixed by the government.** Today, federal workers and their families can decide which combination of deductibles and premiums is right for their pocketbook. The Kennedy plan eliminates the freedom of choice for federal workers, and denies that freedom to any American joining the revamped FEHBP.

3) The Kennedy proposal would undermine the FEHBP's stability by raising the probability of severe adverse selection. Unlike most private employer-based health plans, the FEHBP is open to all federal retirees, including those not covered by Medicare. That has led to adverse selection of insurance. Because each FEHBP plan must, by law, charge retirees and active workers the same premium for their plan, adverse selection takes place when younger, healthier workers gravitate toward lower-priced plans, leaving older and sicker and more costly enrollees concentrated in progressively higher-cost plans.

While the level of adverse selection in the FEHBP today is not enough to cause more than headaches for insurers, under the Kennedy plan, adverse selection could wreck the program. The FEHBP would be open to all Americans working in firms with fewer than 1,000 employees. So firms with older and sicker workers would have a strong incentive to join the FEHBP, thereby saving money compared with their current insurance. But firms with generally younger, healthier employees would have much less incentive. Thus the FEHBP likely would attract more costly Americans as its new enrollees. "Officials of federal and postal employees unions," writes *Washington Post* reporter Stephen Barr, "have expressed concern about an influx of new enrollees, saying such growth would create management problems at FEHBP and might increase the costs of premiums." Since the taxpayers also contribute to the FEHBP by subsidizing the employee's premium, the taxpayer also would suffer increased costs.

So a close inspection of Senator Kennedy's proposal shows that he does not, in reality, want Americans to have the wide choice of benefits and insurance that he and other federal employees have today. Rather, the proposal means more government control, higher costs, and less choice for federal workers and their families.

The FEHBP is a solid system. But it is not perfect. Among the reforms it needs is a fundamental change in its rating system for insurance premiums. Insurers in the system should be able to charge different prices for, at the very least, enrollees of different ages. That reform would significantly reduce the danger of adverse selection that would accompany opening up today's FEHBP to ordinary Americans.

In principle, allowing ordinary Americans to buy insurance plans offered in the FEHBP is an excellent idea. But it should be the FEHBP federal workers know well, in which families can personally pick and choose the benefits packages they want and prices they wish to pay, and not yet another incarnation of the Clinton plan falsely flying under the flag of consumer choice.

Better still, of course, would be to permit every American to pick the plan—and benefits—they want from *any* source (including organizations sponsoring plans in the FEHBP) and to provide them, if necessary, with tax credits and vouchers to make that economically feasible. The Consumer Choice Health Security Act (S. 1743/H.R. 3698), introduced by Senator Don Nickles (R-OK) and Representative Cliff Stearns (R-FL) would do just that. It is that legislation, not the Kennedy proposal, that truly would give ordinary Americans the broad range of choice that right now only Members of Congress and federal workers enjoy.

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For further information:

Robert E. Moffit, "Why Members of Congress and Federal Workers Don't Want the Clinton Health Plan," Heritage Foundation *Background Update* No. 220, March 29, 1994.

Stuart M. Butler and Edmund F. Haislmaier, "The Consumer Choice Health Security Act," Heritage Foundation *Issue Bulletin* No. 186, December 23, 1993.

Robert E. Moffit, "Consumer Choice in Health: Learning from the Federal Employee Health Benefits Program," Heritage Foundation *Background Update* No. 878, February 6, 1992.