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**House Government Reform Committee Hearing  
The Federal Employees Health Benefit Plan (FEHBP)  
December 11, 2002**

The FEHBP hearing was presided over by **Rep. Dave Weldon (R-FL)**. Ranking member **Rep. Danny K. Davis (D-IL)** and **Del. Eleanor Holmes Norton (D-DC)** also attended the hearing. Chairman Weldon began the hearing by mentioning that FEHBP is one of the “most important programs that the subcommittee oversees”. He then went on to praise the Consumer-Driven Option Plan that the American Postal Workers Union (APWU) will utilize this coming year, and he also expressed his hopes that the OPM-approved Flexible Savings Account program will become available by summer 2003. He stressed that the 11% FEHBP 2003 premium increase is lower in comparison to the national 15% average health insurance premium increase. To conclude his opening statement, he said that, “It would be a tragedy if the most popular carrier [Blue Cross, Blue Shield] in the program, especially the one that so many of our retirees have chosen, were driven from the program by bureaucratic insistence on imposing a one-size-fits all accounting system that would provide not one whit of benefits for those who participate in the plan or the taxpayer. Therefore, I believe this next Congress should seriously consider a permanent statutory exemption.”

**1<sup>st</sup> Witness: Rep. Steny H. Hoyer (D-MD)**

Rep. Hoyer began his testimony by telling committee members about his own experience with the FEHBP. He only recently joined the FEHBP. For many years, he belonged to his late wife’s health insurance plan provided by Prince George’s County because it offered more benefits than the FEHBP did. He then divided his testimony into five categories: affordability of the FEHBP; H.R. 1307 (legislation introduced to amend chapter 89 of title 5, United States Code, to increase the Government contribution for Federal employee health insurance); premium conversion; flexible spending accounts; and consumer-driven plans.

Throughout his testimony, he continuously made reference to the fact that the federal government’s share of health premiums averaged only 72%-75%, which is much lower than the 80% share the private sector usually pays for its employees. He introduced H.R. 1307 to address the shortfall by raising the government’s share of its employees’ health insurance premiums to 80%. He also expressed his dismay that federal retirees have not been allowed to share in the premium conversion offered to current employees in 2000. He believes that retirees should be able to deduct their premium from pre-tax dollars.

Rep. Hoyer stated the he is in favor of Flexible Spending Accounts, but feels that FSAs would work even better if end-of-the-year balances in those accounts could roll over to the next year. He supports President Bush's proposal to allow up to \$500 in FSAs to roll over to the following year's FSA balance.

Rep. Hoyer concluded his testimony by expressing his concern about the new Consumer-Driven Plan being offered by APWU. He said that healthier people will mainly benefit by purchasing such plans (they spend less on health care), causing health insurance premiums to rise for those who need comprehensive plans. He is also opposed to placing a priority on Medical Savings Accounts, saying that MSAs would not help those individuals who can not buy health insurance now.

### **Question and Answer**

Following Rep. Hoyer's testimony, Chairman Weldon posed a few questions. He asked Rep. Hoyer if he thought that raising the government's share of health premium costs would encourage employees to NOT shop around for the best price. Rep. Hoyer responded by saying that raising the government's share of health premiums does relieve *some* of the premium burden from employees but that premiums would remain high enough to motivate employees to choose the best and most affordable option for themselves and their families. Chairman Weldon then asked Rep. Hoyer if he would be willing to work with him on the issue of "cafeteria" health plans. Rep. Hoyer explained that he is willing to review all options, but he does have reservations about "cafeteria" plans because older and less healthy employees would have fewer options, and the options that they would have would be considerably more expensive because the plans would contain more comprehensive coverage. Chairman Weldon expressed his agreement with Rep. Hoyer about the President's proposal to allow up to \$500 in Flexible Savings Accounts to roll over into the following year's balance.

After Chairman Weldon concluded his questioning, he yielded to Ranking Member Davis. Rep. Davis asked Rep. Hoyer if he felt that OPM had done a good enough job of negotiating with the health insurers. Rep. Hoyer answered by saying he doesn't think OPM has done the "best" job, but he does acknowledge the savings of 11% increases compared to 15-25% for the private sector. He believes employees are getting a good deal, but there is always room for improvement. Rep. Hoyer also expressed his concern about the high rate of retirements expected to occur over next 10 years. He explained that some of those retiring workers cannot be replaced by young workers; they will have to be replaced by mid-level staffers who are in their late thirties and forties. The mid-level staffers *will* take into consideration health and retirement benefits before they accept offers, and they will be much more likely to refuse jobs that do not offer affordable benefits. It may contribute to a human capital drain.

### **2<sup>nd</sup> Witness: Dan G. Blair, Deputy Director of the Office of Personnel Management**

Deputy Director Blair reviewed the rules that Director Kay Coles James implemented for the 2003 FEHBP contract process. He stressed that she implemented a "comprehensive outside audit

to review mandates affecting participating plans so that we can inform Congress and the FEHBP population about the costs of mandated health services.” He highlighted the contributing factors to premium increases: overall rate increases in the health care marketplace, the increasing utilization of medical services and pharmaceuticals amongst the elderly population, and the expected increase of younger workers in the federal employment sector in the coming years.

Deputy Director Blair explained OPM’s decision to allow APWU to offer a Consumer-Driven Option to their employees. OPM believes that these plans will force consumers to drive down costs by being more aware of their actual health care expenditures. He then addressed the issue of Flexible Savings Accounts. Bids for third party administrators are still arriving, and they hope accounts will be available by July. He briefly touched on the issue of Cost Accounting Standards; he succinctly stated that Director James felt that making an exception for Blue Cross, Blue Shield was the best option to prevent uncertainty for the plan’s enrollees.

Concluding his testimony, Deputy Director Blair told the committee members that OPM will increase its quality initiatives, improve its fraud and abuse program, and increase employee education about health plans.

### **Question and Answer**

Chairman Weldon asked Blair about the potential for “adverse selection” in Consumer-Driven Options. Blair stated that OPM is “very concerned” about the potential for adverse selection, but he emphasized the need to offer more choices anyway.

Ranking Member Davis questioned Blair about benefit reductions. Blair responded by saying that “across the board”, there will be no benefit reductions; however, some individual plans may be raising co-payments or may limit some services.

### **Panel**

**Following Blair’s testimony, the committee briefly recessed so that the next six panelists could coordinate. The panel included:**

- **Walton Francis, author and independent consultant**
- **Carroll E. Midgett, Chief Operating Manager of the APWU health plans**
- **Colleen M. Kelley, National President of the NTEU**
- **Charles L. Fallis, President of NARFE**
- **Bobby L. Harnage Sr., President, AFGE**
- **Greg Scandlen, Galen Institute**

### **Walton Francis, author and independent consultant**

Mr. Francis provided testimony in support of OPM, calling it a “neutral facilitator”; however, he did list a number of “defects” of OPM’s process for the FEHBP. He advocates the following reforms:

1. Adding mechanisms to control risk selection in the FEHBP
2. Premium redesign to reward frugal employees
3. Improving the coordination of Medicare and FEHBP
4. Eliminating arbitrary constraints on plan reimbursement for retirees on Medicare
5. Admitting new plans to the program
6. Reducing mandates in the FEHBP
7. Expanding the program to cover military worker's dependents
8. Marketing the FEHBP system to private and public employers and associations

Mr. Francis was especially candid about Medicare and the FEHBP. He said that Medicare "...remains frozen in the time warp of vintage 1960 insurance patterns (e.g., the nonsensical bifurcation between hospital and physician costs, and the failure to cover prescription drugs)."

### **Carroll E. Midgett, Chief Operating Manager of the APWU health plans**

As Chief Operating Officer of APWU, Ms. Midgett described the reasons why APWU decided to offer its employees the Consumer-Driven Option. She explained that the Personal Care Accounts option were especially "attractive" because it is a "...100% benefit almost entirely under the consumer's control..." She said the option was desirable because consumers would be forced to wisely choose their health care services; it would make them more aware of the costs associated with care.

### **Colleen M. Kelley, National President of the NTEU**

Ms. Kelley expressed her concern over premium increases *and* co-payment/deductible increases. She stated that 11 HMOs dropped out of the program for 2003. She referred to the Kaiser Family Foundation's 2002 Annual Survey of Employer Health Benefits, and its findings that a single person in private sector employment pays an average of \$38 a month towards health insurance premium, whereas, a single person employed by the federal government and who is enrolled in Blue Cross, Blue Shield pays an average of \$98.93 a month. NTEU is supportive of bill H.R. 1307, which would increase the government's share of premiums from 72% to 80%. NTEU expressed its gratitude that Premium Conversion was adopted in 2002, and it hopes that Flexible Savings Accounts will include the President's proposal. Ms. Kelley emphasized that one of the largest factors contributing to increases in premiums is the rising costs of prescription drugs, and she called reference to Pfizer, Merck, and Parke-Davis's refusal to sell drugs to Special Agents Mutual Benefit Association (SAMBA) when it tried to purchase drugs from FSS.

### **Charles L. Fallis, President of NARFE**

Mr. Fallis drew attention to the rising costs of prescription drugs—and the rising revenues of pharmaceutical companies—and the utilization of hospitals to provide care. NARFE supports Premium Conversion as a way for employees to save money, and it also supported SAMBA's thwarted pharmaceutical efforts. NARFE believes that "cafeteria" plans would ultimately result in higher uninsurance rates for employees because these plans would use only the simple inflation method for contribution balances, and not medical inflation. Medical inflation is much

higher than simple inflation. NARFE is opposed to Medicare-FEHBP coordinated plans that shift costs to enrollees by lessening the overall government contribution. Mr. Fallis stated, “One of the chief advantages of a large, employer-sponsored group health insurance program, like the FEHBP, is that the risk of health costs are spread across a diverse community. Segregating retirees from that community would destroy such risk sharing and significantly increase premiums. We are also concerned that coverage under a separate annuitant health plan would be inferior to benefits available to all FEHBP enrollees.” Mr. Fallis concluded his remarks by stressing NARFE’s opposition to MSAs and HRAs. He called these “every man for himself schemes.”

### **Bobby L. Harnage Sr., President, AFGE**

Mr. Harnage began his testimony by noting that 250,000 federal employees who are eligible to enroll in health plans remain uninsured. He said these employees cite the “prohibitive costs” of joining health plans, and he feels that FEHBP has not succeeded in producing universal coverage for its federal employees. AFGE is “strongly opposed” to OPM’s decision to exempt permanent carriers from the Cost Accounting Standards, and AFGE notes that Blue Cross, Blue Shield is the “one particular carrier” that is opposed to CAS. AFGE believes that Personal Care Accounts (PCAs) will be “highly destructive”. Mr. Harnage testified, “With the introduction of PCAs, FEHBP’s problems with risk segmentation will become worse because substantial numbers of young, healthy people with low medical costs will choose to use PCAs. This will leave people who are older, less healthy—and have higher medical costs—in conventional, low deductible health insurance plans, and cause their premiums to rise by more than they otherwise would.”

### **Greg Scandlen, Galen Institute**

Mr. Scandlen provided the committee and the panel with a list of what FEHBP can learn from the private sector’s experience with health insurance. He discussed the elements of the Consumer-Driven Option and “defined contribution” health care, and he referred to Medical Savings Accounts as a way to give back consumers the control they feel they have lost through managed care. He expressed the opinion that the FEHBP should allow private indemnity carriers that do NOT operate in all states to be allowed to join FEHBP. Currently, the FEHBP requires private indemnity plans to be active in all states, yet many plans are only active in specific geographic areas; HMOs are exempt from this requirement. He also stated that HRA contributions should be differential, if adopted, due to the varying amounts individuals spend on health care. It does not make sense to give everyone the same amount of money for HRAs when certain people spend more and others spend much less on health care.

### **Question and Answer**

With only ten minutes left before the next hearing was scheduled to begin, Chairman Weldon asked only one main question; he asked members of the panel what they felt should be the highest priority for change in the FEHBP. Mr. Francis responded that he thinks giving employees more control over their health insurance choices should be the number one priority. He then stated that removing the Medicare penalty should be the next priority. Ms. Kelley of

NTEU answered the question by stressing that rates have to be tied to *medical* inflation, not simple inflation, when OPM negotiates premiums.

Ranking member Rep. Davis asked the next question of panel. He asked members of the panel if they thought co-payments might have more influence than overall health insurance premiums when consumers make insurance choices. Mr. Francis answered in the affirmative. He gave the example that if people had to pay \$200 for every MRI, then they might only opt to have one MRI done, instead of two or three. He explained that co-payments are immediate expenses, and people are more likely to make more affordable choices if they shared a higher percentage of the immediate cost. Other members of the panel asserted that out-of-pocket expenses should not be increased simply to make consumers more cost-conscious when choosing plans. They want to decrease out-of-pocket expenses because they feel that co-payments are already too high and punitive for some individuals.

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