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FEHBP May Be Health Care's Answer, But For Now It Only Raises Questions Guesses In Lieu Of Details Does existing model work and will Reid craft plan as de facto public option?

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Senate Majority Leader Harry Reid's proposal to scrap the public option has only raised more questions about what would replace it, especially regarding the federally administered insurance market.

All anyone outside Reid's circle knows is that the Office of Personnel Management, which runs the Federal Employee Health Benefits Plan, would negotiate with nonprofit insurers to offer policies to individuals and small businesses.

Key Senate moderates like Joe Lieberman, I-Conn., and Blanche Lincoln, D-Ark., support FEHBP. But even people on the same side in the health debate differ over its effectiveness.

"It's a defined contribution system and it's a light regulatory regime," said Bob Moffit, director of the Center for Health Policy Studies at the conservative Heritage Foundation and a former OPM employee. "There is a good relationship between OPM and the insurance plans."

But Michael Tanner, senior fellow at the libertarian Cato Institute, said, "FEHBP is not a cheap insurance plan."

Tanner notes that FEHBP premiums are expected to rise 7.9% this year and 8.8% next. The Congressional Budget Office predicts private plan premiums will rise 5.5% to 6.25% over the next few years.

Moffit claims that those are projections and that the FEHBP historically outperforms private, employer-based insurance. Over the last decade, FEHBP plan premiums rose 7.7% annually vs. 8.7% for employer-based insurance, Kaiser Family Foundation data show.

"FEHBP has been around for almost 50 years, and it's an accidental program," said author and health economist Walt Francis.

Francis said bureaucrats initially wanted a Medicare-like program, but many federal employees already had private insurance either via unions or group health plans. A compromise was struck that many different plans would participate and compete for federal workers.

Nationwide about 250 private insurers offer plans via FEHBP. Most federal employees choose from about two dozen plans. The government pays 75% of the premium up to a fixed dollar amount.

Sleep Easy?

OPM's main job, Moffit says, is to be an umpire: negotiate rates and make sure plans follow the rules and offer reasonable premiums.

Francis thinks the Senate plan could work.

"If there are at least a couple plans and they are made available to everyone on the exchange -- OPM could do this in their sleep," he said. "They negotiate with 250 plans now, they can do a few more. Can they keep the risk pools separate? Sure, that's just bookkeeping."

But ex-OPM chief Linda Springer suggested OPM lacks the "capacity, the staff or the mission" to administer a new program and that "ultimately, it would break the system," according to the New York Post.

Stealth Public Option

Democratic health proposals also would create insurance exchanges. It's not clear how much the new OPM market would differ.

But Moffit thinks Reid envisions a radically new mission.

"The Senate plan would have the OPM sign up some nonprofits that would be responsive to the OPM and would compete against private plans," he said. "So the OPM would no longer be just an umpire, but an actual sponsor of a couple of health plans."

He also wondered if the OPM would be able to set the premiums.

"If so, OPM could, under pressure from the White House, set premiums lower than what you'd get in the market," he said. "This then becomes the engine of crowding out private, employer-based insurance. Millions of Americans would lose their coverage and be transitioned into these private plans that are sponsored by OPM. This is just another version of a public option."

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