critical condition

THE HEALTH-CARE BLOG

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No 'Moderate Compromise' [Michael Tanner]

Senate Majority Leader Harry Reid (D-NV) has announced that he has reached a super secret compromise on how to deal with the so-called public option for health reform. While Reid said the agreement was too important to actually tell anyone what is in it, most of the details have been leaked to the press.

Rather than set-up a completely government-run insurance plan to compete with private insurance, Congress would establish a program similar to the Federal Employees Health Benefit Program (FEHBP), which currently covers government workers, including members of Congress. The FEHBP offers a variety of private insurance plans under a program managed by the U.S. Office of Personnel Management (OPM). Each year OPM uses the federal procurement process to solicit bids from insurance companies to be one of the plans offered. Premiums can vary, but participating plans operate under stringent rules. As a model, the FEHBP is apparently acceptable to moderate Democrats because the insurance plans are private rather than government entities, while liberals like it because it is government regulated and managed.

In addition, the compromise plan would expand Medicare, allowing workers ages 55 to 65 to "buy in" to the program, and may also expand Medicaid.

A few reasons to believe this is yet another truly bad idea:

1. In choosing the FEHBP for a model, Democrats have actually chosen an insurance plan whose **costs are rising faster than average**. **FEHBP premiums are expected to rise 7.9 percent this year and 8.8 percent in 2010**. By comparison, the Congressional Budget Office predicts that on average, premiums will increase by 5.5 to 6.2 percent annually over the next few years. In fact, FEHBP premiums are rising so fast that nearly 100,000 federal employees have opted out of the program.
2. FEHBP members are also finding their choices cut back. **Next year, 32 insurance plans will either drop out of the program or reduce their participation**. Some 61,000 workers will lose their current coverage.
3. But former OPM director Linda Springer doubts that the agency has the "capacity, the staff, or the mission," to be able to manage the new program. Taking on management of the new program could overburden OPM. "Ultimate, it would break the system."

4. **Medicare is currently $50-100 trillion in debt**, depending on which accounting measure you use. Allowing younger workers to join the program is the equivalent of crowding a few more passengers onto the Titanic.
5. At the same time, Medicare under reimburses physicians, especially in rural areas. **Expanding Medicare enrollment will both threaten the continued viability of rural hospitals and other providers**, and also result in increased cost-shifting, driving up premiums for private insurance.
6. **Medicaid is equally a budget-buster.** The program now costs more than $330 billion per year, a cost that grew at a rate of roughly 10.7 percent annually. The program spends money by the bushel, yet under-reimburses providers even worse than Medicare.
7. Ultimately this so-called compromise would expand government health care programs and further squeeze private insurance, **resulting in increased costs, result in higher insurance premiums, and provide a lower-quality of care.**

No wonder Senator Reid wants to keep it a secret.

— Michael Tanner is a senior fellow at the Cato Institute. (This was cross-posted on Cato's health-care blog.)

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