

Escalating health premiums

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By Richard Miniter

"I am shocked," said Rep. Dan Mica, Florida Republican, as the congressional hearing room suddenly fell silent. House Civil Service Subcommittee Chairman Mica, who called a hearing to investigate the large, unexpected increases in health insurance premiums for the nation's 9 million federal workers and retirees, just learned that the increase was going to be more than 15 percent - almost double what the executive branch had recently announced.

"Shocked," he said again for emphasis. Of course, that means the tab for taxpayers, which pay for three-quarters of the federal health care costs, is going to climb to new heights. Less than one week earlier, the Office of Personnel Management (OPM), which oversees the federal health insurance program, had surprised Capitol Hill with an 8.5 percent increase - one of the highest increases in the past 10 years. This increase follows two consecutive years of price declines. Now Congress was getting another rude surprise. "This will have some impact of the [federal] budget agreement," Mr. Mica warned.

What Mr. Mica wasn't told is that federal workers and taxpayers will pay even more if lobbyists from the American Medical Association and the American Hospital Association get their way. In a series of closed door meetings, AMA representative Curtis Roony is urging Congress to reverse longstanding federal directives requiring insurance carriers to get the "lowest price available for medical goods and services." This directive has been a part of the annual "call letter," an Office of Personnel Management document which sets the terms and conditions for health insurance companies participation in the Federal Employee Health Benefit Plan for the next year. If Congress scraps the "lowest price" directive, as lobbyists are urging, health care prices could bust the balanced budget agreement.

Here's how the cascade of higher prices will smash through the spending ceiling set by Congress in its historic balanced budget agreement: Without federal pressure for price discipline, insurance companies will demand fewer volume discounts from hospitals. So hospitals get higher prices for the same services, which means thicker profits for them. Insurance companies will also make more money, because they can pass the higher costs to taxpayers. As part of an agreement between the government's health plan and insurance companies, the federal government guarantees insurance companies a profit roughly equal to 1 percent of their total federal health insurance premiums per year. The higher the total premiums, the fatter the allowed profit.

This is exactly the kind of maneuvering by "private sector entities seeking to gain a competitive advantage" through regulation that BlueCross BlueShield vice president Stephen W. Gammarino warned against in recent testimony before the Civil Service subcommittee.

Meanwhile federal workers, retirees, and, indirectly, taxpayers will pay an additional \$50 million per year for this lobbyist treaty, according to a recent Office of Personnel Management estimate.

What's the rationale for dumping the "lowest cost" directive? AMA lobbyists and others contend that the insurance companies have been too zealous in bargaining with hospitals and doctors. In other words, the doctors and hospitals haven't been making enough money.

Strangely enough, this argument is now winning favor on Capitol Hill. Some proposed solutions only aggravate the problem. Rep. Dan Burton, Indiana Republican, chairman of the House Committee on Government Reform and Oversight, wants to require that every insurance company inform every policyholder and every participating doctor and hospital about each and every discount available. (Insurance companies negotiate discounts with hospitals in exchange for listing the hospital in their directories which are mailed to patients.)

Mr. Burton's staff believes that some of the higher health insurance costs could be trimmed if doctors and patients knew more about available discounts. Perhaps. But the paperwork burden placed on carriers, which qualifies as higher overhead costs under Federal Employees Health Benefit Plan rules, can be passed onto federal workers and taxpayers. Isn't there a better way?

"Our goal should be to strengthen market forces and consumer choice in order to keep premiums affordable," said Mr. Mica. The best way to make the subcommittee chairman's words a reality is to stick the "lowest price" directive, which encourages carriers to compete in the open market to lower costs.

Ignoring the discounts already available to insurance carriers might be a lobbyist's dream, but it's a nightmare for federal employees who are already facing higher medical bills and taxpayers who don't want to bust the balanced budget.

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