Bush Plan to Privatize Medicare:

Limiting Patient Choice of Doctors in Iowa

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Major Findings

The long-term goal of the Bush administration and its allies in Congress is to turn Medicare over to private insurance companies. The problem they face is that seniors and people with disabilities overwhelmingly prefer the "traditional" Medicare program; they are not enthusiastic about joining private insurance plans.

Beneficiaries today have the option of enrolling in HMOs that contract with Medicare, but only 11 percent do. In a proposal outlined in March 2003, the Bush administration made it clear that it intends to entice many more beneficiaries into joining private insurance preferred provider organization (PPO) and HMO plans by making significant coverage for prescription drugs available only to those who leave the traditional program and enroll in these plans. The Bush plan will not offer much prescription drug coverage to those who stay in the traditional Medicare program. Most beneficiaries in traditional Medicare would receive coverage only once they had spent thousands of dollars out-of-pocket on their medicines.

The goal of this study is to examine what the effect would be on beneficiaries' choice of doctor if they were encouraged to leave the traditional Medicare program and join private PPO plans. It examines PPOs, because it is generally accepted that HMOs limit choice of doctor. However, the Bush administration has claimed that enrollees in PPOs would be able to "choose any doctor." PPOs negotiate on behalf of insurance companies with a limited number of doctors in a geographic area who are willing to offer their services at a reduced price in exchange for the plan steering patients to them as a "preferred provider."

In order to make a comparison of the breadth of the network of doctors participating in Medicare with the breadth of the network of doctors participating in private PPO plans that is generalizable to the entire state of Iowa, the study compares the number of doctors participating in 3 urban and 20 randomly selected non-urban counties in Iowa. In the three urban counties it compares the number of cardiac and oncology specialists participating in Medicare with 7 PPO plans that are part of the Federal Employees Health Benefits Program (FEHBP). In the 20 randomly selected non-urban counties it also analyzes the number of generalists participating in Medicare and the PPO plans.

In nearly every county, with respect to all specialists studied, the number of doctors accepting payment from Medicare was significantly greater than the number that would accept payment from any of the private PPO plans that participate in FEHBP. PPOs offer coverage for additional doctors that do not participate in their networks, but enrollees must pay more to see out-of-network doctors and could end up paying more than they would to see the same doctor if they had stayed in the traditional Medicare program.

The following are the reports major findings:

Generalists

- In the 20 non-urban Iowa counties studied, there were more than twice as many generalist physicians participating in the Medicare program (579) compared with the number participating in Blue Cross and Blue Shield standard option (265), the private plan with the broadest network of providers. This means that there were more than twice as many generalists available to Iowa patients under Medicare as compared to Blue Cross and Blue Shield. (See Appendix A)

- After Blue Cross and Blue Shield, the other 6 PPO plans in non-urban counties all have fewer than 15 percent of the generalists that participate in Medicare. For beneficiaries concerned about being able to continue seeing their doctors this indicates that the other smaller plans may not be a serious option for them.

Cardiovascular Disease Specialists

- For the 20 non-urban counties, the study found that Medicare had 81 cardiac specialists participating. The private plan with the widest network after Medicare, Blue Cross and Blue Shield standard option, had only 48 participating cardiac specialists – 41 percent fewer than Medicare. (See Appendix A)

- For enrollees in any of the 6 smaller plans in non-urban areas, their choices of participating cardiac specialists would be even more limited. The best of the second tier plans, Mail Handlers, has 24 specialists – 70 percent fewer than participate with Medicare.

- In the 3 urban counties studied, Black Hawk (Waterloo), Polk (Des Moines) and Woodbury (Sioux City), at least 19 percent of beneficiaries switching out of traditional Medicare would find that their cardiologist does not participate with their plan and they could be forced to pay more to continue seeing their doctor than they had paid when they were in traditional Medicare. (See Appendix B)

Oncologists

- For the 20 non-urban counties, the study found that there were 11 participating oncologists in Medicare. The private plans with the widest network after Medicare, Mail Handlers and the National Association of Letter Carriers, each had 6 participating oncologists – 44 percent fewer than Medicare. (See Appendix A)

- In the urban counties studied, Black Hawk (Waterloo), Polk (Des Moines) and Woodbury (Sioux City), there was one county (Black Hawk) where there were more oncologists participating in a private plan, one county (Woodbury) in which there were an equal number participating in Medicare as in the private plan with the most providers, and one county

(Polk) in which there were fewer oncologists participating in the private plan with the broadest network. (See Appendix B)

Narrow provider networks in private plans mean additional costs for beneficiaries

- While PPOs do offer some coverage for seeing doctors not in their plan networks, enrollees can face significant additional costs for doing so. In the end, it is likely that they will be forced to pay more than they would have paid if they had remained in traditional Medicare to see the same doctor. First, they can face coinsurance rates greater than the 20 percent required under Medicare. Additionally, their coinsurance might be based on a higher allowed payment amount than Medicare's approved fees. Finally, a FEHBP enrollee could be billed for the balance between their plan's payment limit and a non-PPO physician's charge, a practice often referred to as "balanced billing." It is the practice of balanced billing that could add the most to patients' costs.

  For example, if a Medicare beneficiary in the traditional program were to be seen by a doctor and Medicare specifies that the charge for that visit is $100, the beneficiary would be responsible for $20, 20 percent of the doctor's fee. If a beneficiary were to be seen by a doctor who participates with their PPO they could be responsible for the same $20 if their PPO had negotiated the same $100 fee arrangement as Medicare with that doctor. However, if a beneficiary enrolled in a PPO were to see a non-participating doctor, then that doctor may charge $150 for the same visit. And the PPO may "recognize" only $100 of that bill. Also, the PPO is likely to pay a lower percentage of that recognized charge, perhaps only 70 percent, than they paid for an in-network doctor. Thus, the total out-of-pocket cost to an enrollee for the visit to a non-network doctor could be $80, instead of $20: $30 for coinsurance (30 percent of the $100 PPO charge), and an additional $50 to make up the difference between the PPOs "recognized" charge of $100 and the $150 the doctor expects to be paid.

Background

The Bush administration, Senate Majority Leader Bill Frist (R-Tenn.), and their allies in Congress are pushing for dramatic changes to Medicare. They would like to see the program, which covers 40 million seniors and people with disabilities, provide coverage through private insurance plans, rather than the federal government. Currently, nearly 9 out of 10 Medicare beneficiaries are in "traditional" Medicare, which is run by the government and provides coverage for beneficiaries to see virtually any provider in the country. Proponents of "privatizing" Medicare argue that their proposed reforms will give beneficiaries more "choice." As this report shows, for Iowa Medicare beneficiaries turning the program over to private insurers is likely to lead to less choice of doctor.

Choice of Doctor Is Important to Seniors

Seniors place a high value on the ability to see the doctor of their choice. They are reluctant to participate in programs that reduce their choice of providers. Since 1985, Medicare beneficiaries have had the opportunity to enroll in HMOs that are paid a set amount to cover their health care costs. The result has been that even when HMOs have offered more generous benefits, such as some prescription drug coverage, Medicare beneficiaries have stayed in the traditional program, which, unlike HMOs, gives them the ability to see the doctor of their choice. In 2003, 61 percent of Medicare beneficiaries have access to an HMO[1] that contracts with Medicare, but only 11 percent of beneficiaries have enrolled in one.[2]

Luring Seniors into Private Plans with the Carrot of Prescription Drug Benefits

The Bush administration and Senator Frist plan to use two approaches to overcome beneficiaries' objections to private plans. First, they plan to offer coverage for prescription drugs as a carrot to lure seniors out of the traditional Medicare program and into private plans. Second, they plan to greatly expand the PPO program, because PPOs offer more choice of doctor than HMOs. In essence they would create two classes of Medicare beneficiaries. Those who are willing to sign up for coverage through private plans, either HMOs or PPOs, would be entitled to more generous coverage, including coverage for prescription drugs, than those who elect to remain in the traditional Medicare program.

Supporters of privatization believe that if insurance companies offer beneficiaries the opportunity to enroll in PPOs, then more beneficiaries will join a private plan.[3] But as this report shows, while PPOs offer more choice of doctor than HMOs they offer less choice than traditional Medicare.

Federal Employees Health Benefits Program as a Model for Reforming Medicare

The Federal Employees Health Benefits Program (FEHBP) is often referred to by Senator Frist and the Bush administration as their model for reforming the Medicare program.[4] Under the FEHBP, private insurance companies compete with each other to offer coverage to 8.6 million federal employees and their dependents. The Office of Personnel Management (OPM), which

administers the program, solicits bids from private companies interested in offering health care coverage to federal workers and retirees and makes that information available to enrollees.

Except in 7 states where there are no HMOs available, FEHBP enrollees in general can elect to receive their health insurance coverage from either an HMO or a PPO. The PPO plans generally offer some coverage for enrollees to see any provider. However, enrollees' out-of-pocket costs are higher if they see a provider that does not participate with their plan. The Bush administration's document describing its framework for Medicare reform fails to discuss the additional costs associated with seeing an out-of-network doctor in a PPO. Instead, the document describes the PPO plans participating in FEHBP as offering enrollees the ability to "choose any doctor."[5] For those unable to afford the additional costs of seeing an out-of-network doctor this is clearly untrue.

There are 7 PPO plans that claim to offer coverage to FEHBP enrollees nationwide.[6] In reality the three largest PPO plans, those offered by Blue Cross and Blue Shield, the Government Employees Hospital Association (GEHA) and Mail Handlers, cover 65 percent of all FEHBP enrollees, and make up 90 percent of those enrolled in PPO plans through FEHBP. The largest plan, Blue Cross and Blue Shield, covers 49 percent of all enrollees – far more than any other plan. It also generally offers the broadest network of providers of any of the FEHBP plans. Many of the other plans offer spotty coverage.

Survey Methodology

In order to establish whether there would be a more limited selection of doctors if the Medicare program were turned over to private insurers, this study compared the number of generalists and doctors in two specialties that accept Medicare patients with the number that accept patients through private PPO plans that participate in FEHBP. The two specialties chosen were Cardiology and Oncology. The category of generalists included family practitioners, general practitioners, and specialists in internal medicine.

Twenty (all non-urban) of Iowa's 99 counties were selected at random, providing results that are generalizable to the entire state. The study also examined the comparative availability of Cardiologists and Oncologists in three additional counties with larger metropolitan centers – Black Hawk (Waterloo), Polk County (Des Moines), and Woodbury (Sioux City). The initial random selection of counties yielded no counties with populations over 100,000. It was then decided to study Polk County and two more urban counties chosen at random from all Iowa counties with populations over 100,000. In the urban counties the study does not compare the availability of generalists, because the numbers involved were too large to permit timely analysis.

In this study we looked only at doctors offering care through one of the 7 PPO plans that are open to all federal employees and retirees in FEHBP. We did not look at coverage offered by PPO plans that are restricted to employees and retirees from particular agencies. Also, since the Bush administration acknowledges that HMOs limit enrollees' choice of doctor, the study does not examine the breadth of HMO networks. Instead, it looks at the PPOs, in which the administration claims enrollees can "choose any doctor."

The names of doctors participating in Medicare by specialty and county were obtained from www.medicare.gov. The names of doctors participating in FEHBP plans were obtained from individual plan web sites, which can be accessed on the web at http://fehb.opm.gov/03/spmt/plansearch.aspx.

Response to Likely Objection to Public Citizen Findings

The proponents of turning Medicare over to private insurers are likely to respond to the analysis presented here by arguing that more doctors would accept FEHBP-like plans than currently do if all Medicare beneficiaries were to get their coverage through these plans. That may be true. However, it is quite likely that fewer doctors will participate in private plans, which divide up the Medicare population, than participate today in the traditional Medicare program. The reason that so many providers participate in Medicare is because of the program's market clout, which makes it difficult not to participate. That would be less true if the Medicare population were broken up into smaller groups enrolled in separate private insurance plans.

Policy Implications of Public Citizen Findings

Prescription drug coverage should be made available through the traditional Medicare program rather than be used as a carrot to induce beneficiaries to join private insurance plans. Many of the Iowa doctors that Medicare beneficiaries rely on do not participate with FEHBP's PPO plans. Therefore, the administration's proposal would force many beneficiaries to choose between paying more, perhaps substantially more, to see the doctor of their choice and getting significant drug coverage. Seniors should not be forced to make this choice.

Public Citizen Study Results Are Confirmed By Other Research

- **The Congressional Research Service (CRS) confirms the results of Public Citizen's study.** The CRS, Congress' source of nonpartisan, objective analysis and research on all legislative issues, finds a more narrow network of doctors participate in FEHBP's private plans than participate in Medicare. CRS also finds that enrollees in a FEHBP plan can be forced to pay more to see the doctor of their choice than under the traditional Medicare program. In a 2002 report CRS wrote that:

  "Some providers (including both hospitals and physicians) that furnish specialized care do not participate in PPOs because they do not compete for patients on the basis of price. However, participation in Medicare is virtually universal among providers of covered health services, and Medicare's payment systems limit payments from Medicare as well as from beneficiaries, even for specialized services. Thus, when certain specialized care is needed or a specialized facility is used, Medicare beneficiaries may pay less than a FEHBP enrollee without Medicare would pay for the same care."[7]

- **Narrow networks in private plans force enrollees to seek higher cost out-of-network care from 7 to 31 percent of the time.** The Office of Personnel Management, which runs the FEHBP program, reports that enrollees in Blue Cross and Blue Shield -- the most heavily enrolled program -- seek out-of-network outpatient care 7 percent of the time.[8] Enrollees in

the Mail Handlers PPO seek out-of-network care for all services 31 percent of the time. The Congressional Research Service has found that enrollees who seek care out-of-network often will not know until they are billed by the doctor what their costs will be for seeing their provider of choice.[9]

- **Limitations in the network of participating doctors in private plans in comparison with Medicare result from different approaches to controlling costs.** As this Public Citizen analysis of Iowa data shows, fewer doctors participate in FEHBP PPO plans than in traditional Medicare. This is because of the way PPOs operate. They selectively contract with certain providers that agree to charge plans lower fees in exchange for being included in the plan's list of preferred providers. The payoff to providers for agreeing to accept lower rates is that they are more likely to be sought out by enrollees in the plans than doctors not on the list. Patients are generally forced to pay more if they choose to see a doctor who is not a preferred provider. In contrast to PPOs, Medicare holds down program costs by paying a set amount for care by any provider willing to accept Medicare rates. Because of the market clout that comes with covering 40 million beneficiaries, despite the fact that Medicare generally pays less than private insurers, providers are unable to refuse to accept Medicare patients. According to the Medicare Payment Advisory Commission, 96 percent of doctors that are accepting new patients accept new Medicare patients.[10]

Conclusion

The effects of a dramatic transformation of the Medicare program are difficult to predict. Certainly, if Medicare were transformed into a FEHBP-like structure it would not be a carbon copy of that system. Nevertheless, from this comparative analysis of FEHBP and Medicare it is possible to make some judgments about the likely outcomes of such a transformation. For Iowa Medicare beneficiaries lured into joining a PPO with the promise of coverage for their prescription drugs, many would find that their doctors do not participate with their PPO and that in order to continue seeing their doctor they would have to pay more, in some cases significantly more. Under the Bush administration's Medicare reform proposal, those unable to afford the cost of seeing their doctor as an out-of-network provider would be forced to choose between giving up what may be a long-term relationship with that doctor by staying in a private plan and returning to the traditional Medicare program, which would make them ineligible for significant drug coverage. Seniors should not be forced to make this choice.

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[1] M+C Changes in Access, Benefits, and Premiums 2001 to 2002, Centers for Medicare and Medicaid Services, available on CMS website.
[2]U.S. Department of Health and Human Services, FY 2004 Budget in Brief.
[3] See "21st Century Medicare: More Choices – Better Benefits: A Framework to Modernize and Improve Medicare," available online at www.whitehouse.gov. Emily Heil, "Frist Predicts Passage of Medicare Reform Legislation," *Congress Daily*, April 28, 2003.
[4] See "21st Century Medicare: More Choices – Better Benefits."
[5] Ibid.
[6] Carolyn Merck, "Health Insurance for Federal Employees and Retirees," Congressional Research Service, January 2, 2002, p. 5.
[7] Ibid, p. 38.
[8] Abby Block, OPM "Purchasing Healthcare Services in a Competitive Environment" Questions for the Record, April 29, 2003.

[9] Carolyn Merck, "Health Insurance for Federal Employees and Retirees," Congressional Research Service, January 2, 2002, p. 12.
[10] Medicare Payment Advisory Commission, "Report to the Congress," March 2003, p. 157.

Appendix A:

Number of Doctors Participating in Medicare and FEHBP PPO Plans in 20 Randomly Selected Iowa Counties

	MEDICARE	BCBS	GEHA	MAIL HANDLERS	ALLIANCE	APWU	NALC	PBP
GENERALISTS								
ADAIR	8	6	0	0	1	0	1	2
BENTON	14	11	8	0	5	5	0	8
BUENA VISTA	51	21	0	2	1	2	2	0
CEDAR	26	14	2	4	7	1	2	1
CLAY	35	15	0	0	0	0	0	1
DAVIS	10	4	3	3	0	2	3	0
DUBUQUE	77	63	0	25	2	26	25	0
FREMONT	6	3	2	0	3	0	0	1
HANCOCK	31	5	0	0	0	0	0	0
HUMBOLDT	17	6	0	0	0	0	0	0
JEFFERSON	40	13	1	0	1	0	0	0
LEE	49	22	2	10	14	9	10	0
MADISON	44	8	3	5	7	8	5	0
MITCHELL	26	3	0	0	0	0	0	0
O'BRIEN	26	11	7	9	0	9	9	0
POCAHONTAS	32	4	0	0	0	0	0	0
SAC	6	10	0	2	0	3	2	0
TAMA	13	13	2	7	1	7	7	5
WARREN	32	21	9	15	12	13	14	13
WINNESHIEK	36	12	11	1	0	1	1	0
Total	**579**	**265**	**50**	**83**	**54**	**86**	**81**	**31**
CARDIOVASCULAR								
ADAIR	4	0	0	0	0	0	0	0
BENTON	0	0	0	0	0	0	0	0
BUENA VISTA	13	7	0	0	0	0	0	0
CEDAR	0	0	0	1	12	1	1	0
CLAY	14	13	0	0	0	0	0	0
DAVIS	5	0	0	10	0	0	10	0
DUBUQUE	5	5	0	3	0	3	3	0
FREMONT	3	3	4	2	2	1	2	0
HANCOCK	8	2	0	0	0	0	0	0
HUMBOLDT	0	0	0	0	0	0	0	0
JEFFERSON	0	0	0	0	0	0	0	0
LEE	0	0	0	2	0	0	2	0
MADISON	4	0	0	5	0	0	5	0

	MEDICARE	BCBS	GEHA	MAIL HANDLERS	ALLIANCE	APWU	NALC	PBP
MITCHELL	0	0	0	0	0	0	0	0
O'BRIEN	10	7	0	0	0	0	0	0
POCAHONTAS	3	4	0	1	1	0	0	0
SAC	7	5	0	0	0	0	0	0
TAMA	0	0	0	0	0	0	0	0
WARREN	4	0	0	0	0	0	0	0
WINNESHIEK	1	2	2	0	0	0	0	0
Total	**81**	**48**	**6**	**24**	**15**	**5**	**23**	**0**
ONCOLOGY								
ADAIR	2	0	0	0	0	0	0	0
BENTON	0	0	0	0	0	0	0	0
BUENA VISTA	0	0	0	0	0	0	0	0
CEDAR	0	0	0	0	0	0	0	0
CLAY	1	0	0	0	0	0	0	0
DAVIS	0	0	0	0	0	0	0	0
DUBUQUE	7	3	1	3	0	3	3	0
FREMONT	0	0	0	0	0	0	0	0
HANCOCK	0	0	0	0	0	0	0	0
HUMBOLDT	0	0	0	0	0	0	0	0
JEFFERSON	0	0	0	1	0	0	1	0
LEE	0	0	0	2	0	0	2	0
MADISON	0	0	0	0	0	0	0	0
MITCHELL	0	0	0	0	0	0	0	0
O'BRIEN	0	0	0	0	0	0	0	0
POCAHONTAS	0	0	0	0	0	0	0	0
SAC	0	0	0	0	0	0	0	0
TAMA	0	0	0	0	0	0	0	0
WARREN	0	0	0	0	0	0	0	0
WINNESHIEK	1	1	1	0	0	0	0	0
Total	**11**	**4**	**2**	**6**	**0**	**3**	**6**	**0**

BCBS: Blue Cross and Blue Shield
GEHA: Government Employees Hospital Association
Alliance: Alliance Health Plan
APWU: American Postal Workers' Union
NALC: National Association of Letter Carriers
PBP: Postmasters Benefits Plan

Appendix B:

Number of Doctors Participating in Medicare and FEHBP PPO Plans in 3 Urban Iowa Counties

	MEDICARE	BCBS	GEHA	MAIL HANDLERS	ALLIANCE	APWU	NALC	PBP
CARDIOVASCULAR								
BLACK HAWK	10	7	7	5	6	5	5	0
POLK	66	56	51	51	52	48	49	6
WOODBURY	20	15	0	13	0	14	13	0
Total	**96**	**78**	**58**	**69**	**58**	**67**	**67**	**6**
ONCOLOGY								
BLACK HAWK	4	4	4	7	5	7	7	2
POLK	28	14	17	19	18	22	18	4
WOODBURY	8	5	7	8	0	8	8	0
Total	**40**	**23**	**28**	**34**	**23**	**37**	**33**	**6**