

ISSUE BRIEF

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Sensible Medicare and Federal Employees Health Benefits Reform for All Annuitants

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Representatives Kevin Brady (R-TX) and Greg Walden (R-OR), chairs of the House Ways and Means and the Energy and Commerce Committees, respectively, articulated recently a positive message about the need to expand personal freedom in American health care: “Washington will no longer force Americans to purchase expensive, inadequate plans they don’t need and cannot afford.”¹

However, a pending postal reform bill, the Postal Service Reform Act of 2017 (H.R. 756), would force a whole class of seniors to do just that.

The Postal Reform Bill

H.R. 756 would force postal annuitants to buy Medicare insurance they neither need nor want. Recent analyses have shown that would create the following major problems:²

- **Transfer** about \$50 billion from Medicare to reduce Postal Service unfunded liabilities for future costs—a reduction that would lower rates for postal shippers and customers at the expense of taxpayers and Medicare solvency.
- **Raise** Medicare costs even higher through a “wraparound” benefit providing free and unlimited

ed medical care for postal annuitants, at an average cost of about \$4,000 per person per year.

- **Mandate** purchase of Medicare Part B insurance by annuitants who already have better Federal Employees Health Benefits Program (FEHBP) coverage and who neither want nor can afford to pay two insurance premiums instead of one. This coverage would be useless to veterans who use the FEHBP in combination with Veterans Affairs (VA) care to cover their costs, as well as to annuitants living abroad (where Medicare pays no bills).
- **Penalize** refusal to pay two premiums with the loss of all health insurance.
- **Force** the potential loss of all HMO options for both postal and non-postal enrollees, both annuitants and current employees, in as many as 35 states, through creation of a separate postal pool with minimum plan enrollment requirements.

The Postal Service does need to address a serious retiree health care prefunding obligation imposed by Congress over a decade ago. The problem is the dysfunctional interface between the FEHBP and Medicare. The problem burdens both postal and non-postal annuitants. But the problem can be resolved to the advantage of Medicare and taxpayers, annuitants, and the Postal Service, without forcing seniors into unwanted and unneeded insurance purchase.

This paper, in its entirety, can be found at <http://report.heritage.org/ib4665>

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The Heart of the Problem

The FEHBP and Medicare programs were enacted separately—the former in 1960 and the latter in 1965—with no provision in either to accommodate for the other. The Office of Personnel Management (OPM), the agency that administers the FEHBP, then made a fateful decision to encourage FEHBP plans to offer wraparound benefits for annuitants with Parts A (hospital) or B (physician) of Medicare. Under this scheme, adopted by almost all of the national FEHBP plans but not by many local plans, annuitants who enrolled in Part A would not have to pay any cost sharing for hospital stays and those enrolled in Part B would not have to pay any cost sharing for physician and related costs. Because Medicare is “primary” for age 65 annuitants, this meant that the great majority of medical costs for these annuitants would be paid by Medicare rather than by FEHBP plans. The entire pool of FEHBP enrollees thus reaped these large savings.

This arrangement not only imposed direct costs on Medicare and its payers, but also raised health care utilization for unnecessary “free” care. The bill is staggering—about \$4,000 a year per affected annuitant, and over \$5 billion a year for all FEHB annuitants enrolled in both Parts A and B.³

Approximately three-fourths of all FEHBP age 65 annuitants—both postal and non-postal—currently sign up for Part B. (Part A is essentially mandatory and presents no post-retirement premium cost.) Medicare Part B is expensive, currently costing about \$1,600 a year to new enrollees. It can be a significant burden for an aged couple on a fixed federal pension. Taking into account wraparound benefits, the average net cost of Part B is about half its premium.

Since the creation of the Medicare Advantage (MA) program in 2003, the OPM has also allowed annuitants with both Parts A and B of Medicare to “suspend” FEHBP enrollment and enroll in an MA plan. MA plans are largely offered by the same carriers who market plans in the FEHBP, and offer similar benefits. Being enrolled in an MA plan allows annuitants to pay only one program’s premiums rather than premiums for both. However, this option is little known and little used.

The Solution to the Problem

A simple reform approach to Medicare/FEHBP coordination is to offer all age 65 (and older) federal annuitants—both postal and non-postal—the Open Season option of enrolling in an MA plan, suspending FEHBP enrollment, and receiving an annual tax-free \$1,500 contribution towards a Health Savings Account (HSA).

Medicare would be changed to create a “Creditable Coverage” provision allowing penalty-free enrollment in Part B by persons who have been enrolled in a health plan as good or better, similar to a provision that already applies to enrollment in Part D. The prohibition on HSA contributions by anyone enrolled in any health plan that is not a “high-deductible” plan would be modified to create an exception for persons enrolled in Medicare. The FEHBP would be modified to pay for the HSA contribution and to allow annuitant spouses to enroll in self-only FEHBP plans if only one spouse was old enough to elect Medicare Advantage.

Savings. Current enrollees in both Medicare Parts A and B selecting this option would save about \$2,000 a year in FEHBP premium cost, and gain \$1,500 for the HSA, but lose about \$800 in wrap-

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1. Kevin Brady and Greg Walden, “The Health Bill You’ve Waited For,” *The Wall Street Journal*, March 7, 2017, <https://www.wsj.com/articles/the-health-bill-youve-waited-for-1488847444> (accessed March 14, 2017).
 2. The current bill is essentially unchanged from the Postal Service Reform Act of 2016 (H.R. 5714). See Walton Francis, “Postal Health Benefits and the FEHBP: The Urgent Case for Getting Reform Right,” Heritage Foundation *Backgrounder* No. 3155, September 14, 2016, <http://www.heritage.org/health-care-reform/report/postal-service-health-benefits-and-the-fehbp-the-urgent-case-getting>, and “Postal Service Health Benefits and Prescription Drugs for the Elderly in the FEHBP: Compounding the Problem,” Heritage Foundation *Issue Brief* No. 4627, November 16, 2016, <http://thf-reports.s3.amazonaws.com/2016/IB4627.pdf>.
 3. See Christopher Hogan, “Exploring the Effects of Secondary Coverage on Medical Spending for the Elderly,” Direct Research LLC *Report for the Medicare Payment Advisory Commission*, August 2014, http://www.medpac.gov/docs/default-source/contractor-reports/august2014_secondaryinsurance_contractor.pdf?sfvrsn=0 (accessed March 9, 2017); U.S. Government Accountability Office, “Medicare Supplemental Coverage: Medigap and Other Factors Are Associated with Higher Estimated Health Care Expenditures,” September 2013, <http://www.gao.gov/assets/660/657956.pdf> (accessed March 9, 2017); and Ezra Golberstein, Kayo Walsh, Yulei He, and Michael Chernew, “Supplemental Coverage Associated with More Rapid Spending Growth for Medicare Beneficiaries,” *Health Affairs*, Vol. 32, No. 5 (May 2013), pp. 873-881, <http://content.healthaffairs.org/content/32/5/873.full.pdf> (accessed March 13, 2017).
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around benefits, for a net gain of \$2,700 a year. Medicare would save about \$4,000 a year in wasteful overutilization costs. The FEHBP program would save about \$6,000 a year in total premium costs (the three-fourths of the premium paid by the government), less the \$1,500 subsidy for the HSA contribution, for a net saving of \$4,500. The FEHBP savings from postal annuitants would reduce future Postal Service liabilities.

Annuitants who previously chose to skip Part B enrollment could enroll without penalty. Medicare costs would increase by about \$6,000 annually because it would become the primary insurer. The FEHBP would realize savings roughly equaling the increased costs to Medicare. In order to increase incentives to enrollees, and reduce the effect on Medicare, for current (not future) annuitants in this situation, the FEHBP would increase the HSA amount to \$2,000 and pay an extra \$3,000 directly to Medicare using Medicare's Employer Group Waiver Plan authority, leaving the FEHBP with \$1,000 in savings (again reducing future Postal Service liabilities).

How many individuals select this option would depend on the exact amounts chosen for HSA subsidies, and other design and implementation details. But one could reasonably assume election by half or more of all age 65 annuitants, with or without Part B. (About 1.4 million annuitants and spouses are covered by Parts A and B, and about 0.4 million by Part A only). These billions of dollars in annual FEHBP savings would solve the Postal Service's unfunded liability problem without draconian penalties on annuitants or other adverse effects.

Other Reform Options

The Medicare Part B premium could be subsidized in the same \$1,500 amount, rather than create an HSA account, or a mix provided. A prohibition could be put in place against wraparound for all future retirees, "grandfathering" current enrollees.⁴ A similar reform could be offered to current and future enrollees in TRICARE For Life, the military retiree program in which all enrollees are already required to enroll in Part B. This reform would produce additional billions of dollars in annual savings to Medicare, as would provisions encouraging similar actions by those either in private employer wrap-around plans, Medigap plans, or both.

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4. Options are explored in the concluding chapter of Walton Francis, *Putting Medicare Consumers in Charge: Lessons from the FEHBP* (Washington, DC: AEI Press, 2009). See also, U.S. Congressional Budget Office, *Budget Options, Volume I: Health Care*, December 2008, "Option 94," pp. 171-172, <https://www.cbo.gov/publication/41747> (accessed March 9, 2017).