

## AVOIDING THE PITFALLS IN MEDICARE REFORM

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Medicare helps to pay for the essential health care of more than 40 million elderly and disabled Americans, but it is a program in trouble. Benefits have not kept pace with the best in health care, and the program will not be able to meet the demands of aging baby boomers who will begin enrolling in 2011.

Congress soon will take actions that could improve and strengthen Medicare to meet the needs of current beneficiaries and coming generations. The best approach is reform modeled after the Federal Employees Health Benefits Program (FEHBP). In such a program, prescription drug coverage would be integrated into the benefit structure offered by private, competing health plans. Beneficiaries would be able to join one plan and pay one premium for comprehensive coverage rather than obtaining supplemental coverage outside Medicare, as many do today.

Other approaches also will be considered, including a number of proposals to create a stand-alone drug benefit. Although a drug benefit integrated into a broader package of benefits is preferable, a carefully designed free-standing benefit also can be effective.

The following 10 principles can guide policymakers, helping them to avoid the pitfalls in Medicare reform.

**Target the help.** Help should be provided to those who need it most. Medicare beneficiaries with low incomes and no other prescription drug coverage should be offered the largest subsidies for the new benefit. All beneficiaries should be protected from catastrophic health expenses.

**Better incentives.** Seniors should have incentives to spend wisely, and plans should have incentives to provide the best value in health care. Deductibles and co-payments should be simplified. Beneficiaries should have a range of plan choices,

and seniors who enroll in less expensive plans should be offered more benefits or lower premiums.

**Avoid crowd-out.** A new drug benefit should not displace the coverage that nearly three-fourths of seniors already have.

**Avoid micromanagement.** Medicare is overburdened with laws and regulations that do not reflect changing conditions in the health sector. As a result, seniors do not have benefits they need, and health plans and providers have been driven away from the program. A reformed Medicare should have the authority to resolve problems as they emerge—while those problems are still manageable—rather than waiting for Congress to take legislative action.

**New agency.** A new agency outside the Centers for Medicare and Medicaid Services that understands private sector competition and negotiation (such as the Office of Personnel Management) should be charged with running the new program.

**Consumer choice.** Consumers should have a wide choice of health plans rather than just the lowest bidder. A Defense Department-style procurement process – sometimes labeled “competitive bidding” – would offer Medicare contracts to only a few selected plans. Such an approach would undermine broader program reform based upon real choice and competition.

**Negotiation, not controls.** Price controls and restrictions on the use of services reduce patient access to care and dampen the incentive to develop new, more effective pharmaceuticals and other medical devices and services. Tough-minded negotiations and pressure from a competitive market place can effectively control program costs.

**Avoid risk selection.** The FEHBP offers a model for avoiding the potentially destabilizing effects of risk selection when there is a choice of health plans. Substantial premium subsidies, risk-adjusted payments, and strong oversight to protect consumers would be effective tools in an updated Medicare program.

**Private catastrophic coverage.** Catastrophic coverage, as well as other benefits, should be delivered through private plans that are held accountable for managing costs and maintaining access to high quality services. Government-run catastrophic coverage is an open invitation to extend Medicare’s administered pricing structure to virtually all of the drugs consumed by seniors. Experience with traditional Medicare shows that such price controls inevitably lead to restrictions on access to treatments and can adversely affect the health of beneficiaries.

**Foundation for reform.** Any new legislation should build a foundation for overall reform of the program that emphasizes consumer choice and competition among health plans. A stand-alone drug benefit should incorporate the management principles of FEHBP as a first step in creating a sustainable Medicare that better meets the needs of beneficiaries.