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Report to Congressional Requesters

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U.S. EMPLOYEES HEALTH BENEFITS

Rebate for Duplicate Medicare Coverage

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Congressional Requesters:[1]

In response to your October 6, 1988, request, this report provides information on duplication of benefits provided under the Federal Employees Health Benefits Program (FEHBP) and the Medicare Catastrophic Coverage Act of 1988. It also assesses whether the FEHBP rebate amount for duplicate coverage is set at an appropriate amount for 1989.

The Medicare Catastrophic Coverage Act of 1988 (P.L. 100-360) extends catastrophic insurance protection to about 33 million elderly and disabled beneficiaries, including Medicare-eligible federal retirees. Many of these federal retirees are also enrolled in FEHBP. To finance the cost of the new catastrophic benefits, additional Medicare premiums were imposed. Because federal retirees already pay premiums to have many of these medical costs covered under FEHBP, the Office of Personnel Management (OPM) was directed to reduce FEHBP premiums to prevent federal retirees from paying twice for the same benefits.

We found that, with the principal exception of additional skilled nursing facility (SNF) benefits, the Catastrophic Act provides few new benefits for Medicare participants also covered by FEHBP. We also found that OPM's $37.20 per year FEHBP rebate for 1989 appears to be reasonable.

Background: FEHBP, Medicare, and the Catastrophic Coverage Act

FEHBP is the largest employer-sponsored health benefit program in the United States. Active federal civilian employees, federal retirees with 5 consecutive years of FEHBP coverage immediately preceding retirement, and their dependents are eligible to participate. The program currently provides health insurance to about 4.0 million enrollees (plus dependents), including about 1.6 million retirees. OPM is responsible for the overall administration of FEHBP. In 1988, over 430 insurance carriers participated, offering 460 health benefit options.

The Medicare program, authorized by title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.), pays much of the health care costs of eligible persons 65 or over and certain disabled persons. It is administered by the Health Care Financing Administration (HCFA), within the Department of Health and Human Services. The program consists of two parts:

[1] The requesters of this study are listed in appendix I.

Part A—Hospital Insurance Benefits for the Aged and Disabled—helps pay for medically necessary care in a Medicare-approved hospital, SNF, and hospice. It also pays for certain home health care. In fiscal year 1989, part A covers an estimated 33.1 million enrollees, with benefits expected to total about $54.6 billion.

Part B—Supplementary Medical Insurance Benefits for the Aged and Disabled—helps pay for medically necessary physicians' services, outpatient hospital services, home health care, and other medical services and supplies. In fiscal year 1989, part B, a voluntary program, covers an estimated 32.5 million enrollees, with benefits expected to total about $38.7 billion.

Medicare pays its benefits first, and the FEHBP plan, as the secondary payer, pays the remaining covered expenses for services covered under both plans for FEHBP retirees who are also eligible for Medicare (but not for those who are still working for the federal government themselves or have coverage through a working spouse).

Enacted on July 1, 1988, the Medicare Catastrophic Coverage Act of 1988 protects Medicare beneficiaries against the costs associated with a catastrophic illness. The act provides for expanded inpatient hospital and SNF benefits effective January 1, 1989, and expanded physician and certain prescription drug benefits effective January 1, 1990. Prescription drug benefits will be further expanded on January 1, 1991.

Section 111 of the act imposes a supplemental Medicare premium on individuals with more than 6 full months of Medicare eligibility during the year. In 1989, the rate is $22.50 for each $150 of income tax liability, with an annual maximum premium of $800 per person ($1,600 per couple, if both spouses are Medicare-eligible). In addition, under section 211 of the act, the Medicare part B premium is increased by $4.00 per month to $31.90 per month.

Objectives, Scope, and Methodology

We were asked to

- compare the Medicare catastrophic coverage under Public Law 100-360 with the benefits of the FEHBP plans in which most federal retirees participate and
- assess whether the rebate to Medicare-eligible FEHBP retirees is set at the appropriate level.

We focused on the calendar year 1989 plan benefits and rebate amount.

To compare duplicate catastrophic benefit coverage, we first used OPM's FEHBP enrollment statistics to identify the six carriers with the most federal retirees. The six carriers—Blue Cross/Blue Shield, Aetna, National Association of Letter Carriers, Government Employees Hospital Association, American Postal Workers Union, and Mail Handlers—covered over 80 percent of the FEHBP-covered retirees. We compared Medicare catastrophic coverage with the benefit schedules for each of these six carriers.

To assess whether the rebate to federal retirees for duplication of Medicare and FEHBP catastrophic coverage is appropriately set, we reviewed an actuarial study[2] on the rebate amount prepared under contract to OPM. We discussed the methodology and data used with OPM's Director of the Office of Actuaries and verified with a HCFA actuary that the actuarial data used by OPM in its calculations were accurate for the total Medicare population. We compared HCFA's estimate of the value of the Medicare catastrophic benefits for 1989 with OPM's proposed rebate. We also verified the OPM calculations.

Our work was performed between October 1988 and February 1989.

Catastrophic Coverage Duplicates Inpatient Hospital but Not Skilled Nursing Facility Coverage

For the six FEHBP plans we reviewed, the expanded Medicare coverage for 1989 duplicates benefits already provided under FEHBP plans, except for expanded SNF, hospice, and blood transfusion coverage. FEHBP plans waived both inpatient deductibles[3] and copayments[4] for inpatient hospital stays for those with Medicare coverage. Thus, an inpatient hospital stay resulted in no cost to such enrollees, and the coverage under the Catastrophic Act adds no new protection. However, because Medicare, as the primary payer, now pays for this coverage, the law requires FEHBP payments to be correspondingly reduced. The Medicare catastrophic coverage does extend SNF coverage, while the FEHBP plans we reviewed provide no SNF benefits.

[2]An actuarial study of health benefits attempts to value a set of benefits for a specific population based on expected cost and utilization patterns.

[3]"Deductible" is the amount that the beneficiary (or insured person) must pay before the health plan pays any benefits. A deductible may apply per calendar year or per admission.

[4]"Coinsurance" is the fixed percentage or amount of covered medical charges above the deductible amount that the beneficiary (or insured person) must pay.

1989 Changes in Inpatient Hospital Benefits Duplicate Current FEHBP Coverage

For 1989, most of the expanded benefits under the Catastrophic Act are for inpatient hospital benefits[5] under Medicare part A. New hospital benefits include the following:

Limitation to One Hospital Deductible Per Calendar Year

Without passage of the Catastrophic Act, the Medicare beneficiary would have paid a deductible of $560 in 1989 for each spell of illness that resulted in hospitalization. Under the act, the beneficiary's out-of-pocket costs are limited to a single deductible of $560 per year for inpatient hospital services.[6]

No Hospital Coinsurance

Under the Catastrophic Act there will be no coinsurance associated with hospital stays. Previously, the beneficiary paid no coinsurance for the first 60 days for each spell of illness, but then paid coinsurance equal to 25 percent of the hospital deductible for days 61 to 90. During 1988, only about 22 percent of Medicare beneficiaries were hospitalized, and less than 3 percent of the covered days involved coinsurance.

No Limit on Hospital Days Covered

The Catastrophic Act provides unlimited hospitalization coverage. Before the act, each beneficiary was allowed a lifetime maximum of 60 reserve days, which could be used to extend Medicare coverage beyond 90 days for any spell of illness.[7] During 1988, less than 1 percent of the hospital days covered by Medicare involved use of the lifetime reserve days.

This expansion of inpatient hospital benefits does not reduce the out-of-pocket cost for FEHBP enrollees also covered by Medicare. Even before the Medicare benefits were expanded, these enrollees did not pay inpatient deductibles or coinsurance. Their FEHBP plans paid these Medicare inpatient deductibles and coinsurance and also waived any FEHBP inpatient hospital deductibles and coinsurance.

[5]The 190-day lifetime limit on inpatient psychiatric hospital services under Medicare remains unchanged.

[6]The deductible, which is readjusted annually, is $560 in 1989.

[7]The coinsurance rate for reserve days was equal to 50 percent of the hospital deductible.

Benefit Expansion: SNF Care

Skilled nursing facility care is the principal area where the Catastrophic Act clearly expands benefits for Medicare beneficiaries participating in FEHBP plans. SNFs provide skilled nursing and rehabilitative services to patients on a daily basis under the orders of a physician. Beginning on January 1, 1989, Medicare provides for 150 days of care per calendar year in a Medicare-certified SNF. The beneficiary admitted to a SNF is responsible for copayments ($25.50 per day in 1989) for the first 8 days of care each year. Medicare pays all other allowable charges for up to 150 days of covered care per year, even if the patient is discharged and readmitted more than once during a calendar year.[8]

Coverage for skilled nursing care is expanded for Medicare recipients, but none of the major FEHBP plans we examined provided any SNF benefits. HCFA estimated the average cost of these expanded nursing care benefits at $12 per year for Medicare participants.

There are some additional benefits under the act for hospice care and blood transfusions that the Congressional Budget Office estimates will cost on average less than $1 for Medicare beneficiaries. The average cost of all new unduplicated benefits for FEHBP participants would thus be about $13 annually.

FEHBP Premium Rebate Appears Reasonable

Section 422 of the Catastrophic Act requires OPM, in consultation with the FEHBP carriers, to reduce the FEHBP premium rates in order to account for duplication of benefits that result from the Catastrophic Act. This duplication of benefits results from the improved hospital benefits described above. Valuing this duplication, therefore, requires estimating the percentage of the Medicare beneficiaries who would be expected to have either lengthy hospital stays within a spell of illness or multiple spells of illness requiring inpatient hospital services.

To qualify for the reduced FEHBP premiums, the FEHBP annuitant would have to be enrolled in both parts A and B of Medicare. For federal annuitants dually covered by FEHBP and Medicare parts A and B, OPM proposed a rebate of $37.20 annually, or $3.10 monthly, for duplicated catastrophic benefits. The rebate will take the form of a reduction in the

[8]Before January 1, 1989, Medicare part A helped pay for the first 100 days of SNF care in each spell of illness, after a 3-day prior hospitalization. Medicare paid in full for the 1st to the 20th day. Beginning with the 21st day the beneficiary had to pay coinsurance ($67.50 per day in 1988) through the 100th day. The beneficiary was responsible for all expenses starting with the 101st day.

FEHBP premiums deducted from the annuitant's monthly retirement payment.[9] Rebates will begin with the annuity payment dated February 1, 1989, which pays the annuity for January 1989.

OPM initially estimated a rebate amount of $43.20 annually, or $3.60 per month. However, this estimate was based on the assumption that 10 percent of the covered hospitalizations represent second or subsequent spells of illness requiring a hospital stay. Since elimination of the $560 deductible for each spell of illness requiring hospital stays beyond the first covered hospitalization is one of the costliest components of the Catastrophic Act, the rebate amount is quite sensitive to the rate of multiple hospitalizations or spells of illness.

OPM revised its rebate estimate to reflect more recent HCFA data, which indicate that the rate of multiple hospitalizations has been declining sharply since introduction of the Medicare Prospective Payment System in October 1983. OPM revised the rebate estimate using a 6-percent rate of multiple hospitalization. This revised estimate resulted in a reduction of the rebate amount from $3.60 to $3.10 per month.

OPM also sent its provisional $3.60-per-month estimate of duplicated benefits to all FEHBP carriers for comment. Five carriers responded to OPM's request for comment as to whether the proposed rebate amount was appropriate.[10] All five estimated a rebate amount lower than OPM's initially proposed $3.60 rebate. Only one of these carriers proposed a rebate that was higher than OPM's revised $3.10 amount.

OPM contracted with a consulting firm to assess the carriers' comments and to make an independent study of the rebate amount.[11] Based on its review of carrier comments and revised hospitalization rates, the firm recommended the rebate that OPM later adopted—$37.20, or $3.10 per month. We believe that the amount of the proposed rebate is reasonable.

[9]OPM had difficulty identifying all annuitants eligible for the rebate because its FEHBP data base does not contain data on Medicare eligibility. OPM elected to identify those eligible for the rebate by requiring annuitants to apply for the rebate by returning a form mailed to annuitants. OPM officials expect to verify the responses by matching FEHBP and Medicare enrollment data, but had not initiated verification as of February 1989.

[10]Aetna, CNA Insurance Company, the Government Employees Hospital Association, the National Association of Letter Carriers, and Oxford Health Plans all provided estimates of the cost of duplicate coverage. Blue Cross and Blue Shield, Prudential, and Kaiser Permanente did not estimate duplicated benefits, but did indicate that they would be willing to accept OPM's proposed rebate.

[11]U.S. Office of Personnel Management, Calculation of Offset Premium Due to Medicare Catastrophic Legislation, a report prepared by TPF&C, a Towers Perrin Company, for OPM, July 1988.

HCFA also developed an estimate of the costs of the Catastrophic Act. Based on HCFA's $65-per-year estimate of the 1989 national average cost of catastrophic coverage changes, the rebate amount for duplicated coverage would be as high as $52 per year, or $4.25 per month, per enrollee.[12] However, HCFA's preliminary estimates were based on a much higher 14-percent rate of multiple spells of illness requiring hospitalization. Reduction in this rate closer to the 6-percent level reflecting recent experience would make the HCFA estimate much closer to OPM's $3.10-per-month rebate amount.

All of these estimates are based on hospital utilization rates for the entire Medicare population. HCFA and OPM actuaries, however, note that Medicare averages may overstate utilization by FEHBP annuitants. They believe FEHBP annuitants are healthier than the general Medicare population, resulting in lower utilization than the Medicare average. Therefore, if FEHBP annuitant utilization data had been available for use in these calculations, the rebate amount could have been lower than $3.10 per month.

As you requested, we did not obtain written agency comments on a draft of this report. However, we discussed its contents with OPM officials and incorporated their comments where appropriate. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to the Director of OPM and other interested parties. The major contributors to this report are listed in appendix II.

Janet L. Shikles

Janet L. Shikles
Director, Public and
National Health Issues

[12]Federal Register, December 6, 1988. HCFA estimated that for 1989 the average annual actuarial value for Medicare benefits added by the Catastrophic Act is $65. HCFA also estimated that without the act, the per-beneficiary cost of the Medicare program would have been $3,026. Therefore, for 1989, the value of the benefits added by the act is about a 2-percent addition to the Medicare program in total.

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