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VETERANS' HEALTH CARE

Potential Effects of Health Financing Reforms on Demand for VA Services

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SUMMARY

At the request of Senator Frank Murkowski, GAO reported in June 1992 on the potential effects of employer-mandated health insurance and universal health insurance on demand for Department of Veterans Affairs (VA) supported health care.

Demand for VA inpatient services, as measured by days-of-care provided to veterans, could drop by about 18 percent if employers nationwide were mandated to either provide health insurance for their workers or pay a tax that would be used to obtain the coverage. Under a nationwide universal health plan, the impact could be even greater--demand for VA inpatient care could drop by about 47 percent.

GAO's estimates are based on its analysis of VA's 1987 Survey of Veterans. These estimates were developed based on expected changes in behavior of veterans who had no public or private health insurance if they obtained health insurance under a reformed health care system. We assumed that veterans with no public or private health insurance would, over time, change their use of VA services to mirror that of insured veterans. Many factors, such as the types of services covered and the extent of cost sharing, will affect future use of VA services by such veterans.

These factors may also affect future use of VA care by the approximately 60 percent of VA patients who have public or private health insurance. For example, if a universal coverage plan offers more comprehensive services with less cost sharing than Medicare, some Medicare eligible veterans currently using VA might shift to private sector hospitals. On the other hand, if the universal coverage plan is less comprehensive or provides greater cost sharing than private health insurance plans, more veterans who currently rely on private sector facilities might seek VA services.

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the potential effects of health financing reforms on the Department of Veterans Affairs (VA) health care system. Our testimony will focus primarily on our June 1992 report on the potential effects of employer-mandated and universal health insurance proposals on demand for services under the VA health care system.¹ In addition, we will discuss the potential effects of eligibility reform on demand for VA services.

Mr. Chairman, we believe that reforms to the nation's health care system and VA eligibility could have a profound effect on demand for VA health care services. However, the ultimate impact of such reforms cannot be reliably predicted until the nature and extent of the reforms are determined. As a result, we believe that the VA health care system should be included in the discussions of fundamental reform of the American health care system and are pleased that VA is represented on the President's task force on health reform. We also believe, however, that the uncertainties surrounding the future demand for veterans health care services create a more immediate concern: if VA continues to build hospitals based on current demand, the hospitals could have significant excess capacity before they even open.

BACKGROUND

VA administers the nation's largest health care network with 171 hospitals, 126 nursing homes, and hundreds of outpatient clinics. About 10 percent of the nation's 27 million veterans use VA health care services.

When VA was established in 1930, private and public health insurance were virtually nonexistent. The first Blue Cross and Blue Shield plans emerged in the 1930s, followed quickly by commercial, for-profit, health insurance. By 1991, over 180 million Americans were covered by private health insurance. In 1965, the Congress established the two largest public health insurance programs: Medicare serving about 34 million elderly and disabled Americans and Medicaid serving about 28 million low-income Americans.

Because of the growth of public and private health benefits programs, many veterans now have coverage under multiple programs. In 1987, almost 80 percent of all veterans were covered by private health insurance. In fact, veterans were slightly more likely to have private insurance than nonveterans. Similarly, about 30 percent of veterans are over age 65 and eligible for Medicare.

¹VA Health Care: Alternative Health Insurance Reduces Demand for VA Care (GAO/HRD-92-79, June 30, 1992).

While most veterans now have alternate sources of payment for health care services, there are, nonetheless, many veterans without health insurance or without adequate resources to pay the copayments and deductibles required under their private or public insurance. These veterans are the ones most likely to use VA services. For example, about 40 percent of veterans using VA inpatient hospital care have no public or private insurance and about 40 percent have incomes of less than \$10,000.² VA is justifiably proud that its resources are focused heavily on serving those veterans who have limited options for meeting their health care needs. VA's success in targeting its resources to veterans without other sources of payment, however, also forms the basis for concern that many of those same veterans, if given other options, might choose to obtain future care in the private sector.

SCOPE AND METHODOLOGY

Before I discuss the results of our analysis, I would like to spend a few moments describing how we developed our estimates of the number of veterans who, if given other options, might choose to leave the VA system for care in the private sector. Our estimates are based on analyses of VA's 1987 Survey of Veterans. VA designed the survey in conjunction with the Bureau of the Census to assess the status and well being of veterans across the nation. The approximately 11,000 veterans sampled were selected from households sampled in Census' broader Current Population Survey.

The Survey of Veterans contains information on the number of veterans, their employment status, their health insurance coverage, and their use of VA medical facilities. We used these data to calculate (1) the rate at which veterans with and without private health insurance use VA health care, (2) the number of veterans who would likely obtain alternate health coverage under employer mandates and universal coverage, and (3) the change in overall use of VA facilities as veterans who obtain alternate health coverage reduce their use of VA-sponsored health care.

ALTERNATE INSURANCE DECREASES DEMAND FOR VA SERVICES

Any health care reform program that would expand insurance coverage among veterans could substantially reduce demand for VA-sponsored care. For example, we estimate that demand for VA inpatient services, as measured by days of care provided to veterans, could drop by about 18 percent if employers nationwide were mandated to either provide health insurance for their workers or pay a tax that would be used to obtain the coverage. Similarly, demand for outpatient services could drop by about 9 percent.

²Survey of Medical System Users, VA, February 1990.

Our estimates are based on the premise that veterans obtaining alternate health insurance under employer mandates would, over time, reduce their use of VA health care to the lower rates that characterize veterans who now have private health insurance. For example, veterans without private coverage were eight times more likely to use VA inpatient care than veterans with private health insurance. Although several factors, such as the differences in the income of the employed-insured and employed-uninsured, could reduce the effect of employer mandates, we believe that there would be significant decreases in demand for VA care if employer mandates were implemented.

Under a nationwide universal coverage plan, we estimate that the effect could be even greater--demand for VA inpatient care could drop by about 47 percent. Likewise, use of VA outpatient care could drop by about 41 percent. Under a universal health insurance plan, veterans who would not be covered by employer mandates, including the uninsured, retired, and part-time workers, would gain coverage.

Because veterans with private insurance tend to use VA care at a lower rate than veterans with public insurance--that is, Medicare or Medicaid--the decrease in demand for VA services might vary depending on whether the universal plan adopted resembled a private or public plan. In either case, we believe the decrease would be substantial.

Many factors could affect the extent to which a universal plan affects demand for VA services. For example, the more comprehensive the package of benefits included, the greater the likely decrease in demand for VA services. On the other hand, if the universal coverage plan includes substantial beneficiary cost sharing, demand for VA services could decrease less.

VA USAGE BY CURRENTLY INSURED VETERANS COULD ALSO CHANGE

Our June 1992 report focused only on the potential change in behavior of those uninsured veterans currently using VA services. But health reforms could also change the usage patterns of those veterans already covered by private or public insurance. For example, if the reformed health care system replaces veterans' private health insurance with benefits that are less comprehensive or require greater cost sharing, veterans who currently use their private insurance to obtain care in the private sector might increasingly seek care from VA. On the other hand, if the reformed health system provides Medicare-eligible veterans more comprehensive benefits or less cost sharing than they now have, we could see a further decrease in use of VA services. Two of the gaps in Medicare coverage that have been mentioned as potential benefits under the reformed system are prescription drugs and long-term nursing home care. The differences between the coverages and

cost sharing provided under the current Medicare program and a reformed health care system are important because over half of the veterans who use VA inpatient services are eligible for Medicare.

One significant change has already occurred that could affect future demand for VA care by such Medicare-eligible veterans. Although most provisions of the Medicare Catastrophic Coverage Act of 1988 were repealed, a provision remains that requires state Medicaid programs to pay the Medicare premiums, coinsurance, and deductibles of certain low-income elderly.³ The provisions are being phased in and will be fully implemented in 1995. Because low-income veterans are more likely to seek VA services, the availability of cost-free care from private sector physicians and facilities through combined Medicare and Medicaid coverage could, over time, reduce elderly veterans' demand for VA care.

EFFECTS ON DEMAND FOR NURSING
HOME CARE WOULD ALSO VARY

To this point, we have focused mainly on the effects health reforms could have on demand for acute care services. We would like to turn now to the potential effects of health reform on demand for VA-supported nursing home care.

Even if future employer-mandated health insurance provides coverage for nursing home care, the mandates are not likely to have a significant effect on the demand for VA-supported nursing home care. This is because most VA nursing home care is provided to elderly veterans who are retired and would not be affected by employer mandates. In addition, the limited nature of nursing home coverage under most employer-provided health insurance means that many veterans needing such care would likely continue to seek it from VA.

Universal coverage could, however, have a more significant effect on the demand for VA nursing home care to the extent that the universal coverage plan provides coverage of long-term care services. Most health care programs, other than VA and Medicaid, currently provide limited coverage of long-term nursing home care. If the reformed health care system includes long-term nursing home coverage, it could lead to a decline in demand for VA-supported care. The extent of the decline in demand for VA care would likely

³The provisions apply to qualified Medicare beneficiaries that is, aged and disabled persons who are receiving Medicare, whose family incomes are below 100 percent of the federal poverty level (\$6,970 for a single person), and whose resources do not exceed twice the allowable amount under the federal Supplemental Security Income program. These provisions were expanded to cover Medicare beneficiaries with incomes of up to 120 percent of the federal poverty level by the Omnibus Budget Reconciliation Act of 1990.

depend largely on the extent of cost sharing imposed under any new program. This is important because there is limited beneficiary cost sharing for VA-supported nursing home care, other than that provided in state veterans homes.⁴

REFORM OF VA ELIGIBILITY COULD
AFFECT FUTURE DEMAND FOR VA SERVICES

Just as reform of the nation's health care system could affect demand for VA health care services, so too could reform of the VA eligibility system itself. This issue is likely to be the subject of extensive congressional debate before this and other committees in the coming year. The decisions made on eligibility reform, like the decisions on how to reform the nation's health care system, could have a significant effect on future demand for VA health care services. Let me explain.

VA's Commission on the Future Structure of Veterans Health Care recommended major reform of VA eligibility in its November 1991 report to the Secretary. The Commission noted that eligibility rules are complex and confusing. VA eligibility differs for hospital care, outpatient care, and long-term care, and varies according to the veteran's status and type of care needed. As a result, a veteran eligible for hospital care may not be eligible for outpatient care other than to prepare for or as a followup to hospital care. Similarly, a veteran may be able to obtain outpatient care for a service-connected disability but not for nonservice-connected conditions. This, incidentally, may be one of the factors contributing to veterans' decisions to use private sector rather than VA health care facilities.

In March 1992, the Deputy Secretary of Veterans Affairs established a task force to develop proposals for eligibility reform. The task force developed four alternative proposals for reforming VA health care eligibility. The task force predicts widely varying VA work loads depending on which, if any, of the proposals is adopted. For example, the predicted number of inpatient hospital patients treated ranges from 1 million to about 3 million; the predicted number of outpatient visits ranges from 24 million to 57 million; and the average daily census of long-term care patients ranges from 70 thousand to 593 thousand.

Our point in mentioning these numbers is not to comment on the merits of the various eligibility reform options. Rather, we want to emphasize the uncertainty that surrounds the future structure of the VA system. As with the issue of reforming the nation's health financing system in general, until the Congress reaches decisions on eligibility reforms, accurately predicting how many VA hospital

⁴VA Health Care: Offsetting Long-Term Care Costs by Adopting State Copayment Practices (GAO/HRD-92-96, Aug. 12, 1992).

and nursing home beds will be needed in the future or, for that matter, how large outpatient clinics should be is nearly impossible.

In summary, Mr. Chairman, the net effects of reforms to the nation's health care financing system and VA eligibility on future demand for VA health care will not be known for some time. This uncertainty leads us to believe that the Congress, at least in the short-run, should limit construction of additional VA capacity until health reforms take shape and the effects on future demand for VA services can be more accurately predicted.

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This concludes my prepared statement. We will be happy to answer any questions that you or other Members of the Committee may have.

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