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The Federal Employee Health Benefits Plan: Why it won't work as a national model for reform

Some advocates of health care reform cite “the health plan that members of Congress have” as a model or template for the nation. Yet this plan, known as the Federal Employee Health Benefits Plan (FEHBP), is actually a mix of private health insurance plans that carry the same problems of private plans generally: administrative waste, restrictions on health care providers, inequities and inadequate cost controls. FEHBP will not work as a health care reform model for the nation.

What is FEHBP?

- FEHBP is a private insurance program that the federal government offers to its employees, including the President and members of Congress.
- An example of “managed competition,” FEHBP is a system of over 100 competing private health plans offered by private insurance companies or employee associations such as labor unions. The majority of enrollment, however, is concentrated in just a few plans.
- Like almost all private insurance plans today, the plans offered under FEHBP stipulate (i) which physicians you can see, (ii) which drugs your physician can prescribe, (iii) whether you can see a specialist, and (iv) whether and where you can be hospitalized. You can be turned down for treatment.
- Although FEHBP contracts only with health benefit carriers that offer a complete line of medical services, such as doctor's office visits, hospitalization, emergency care, prescription drug coverage, and treatment of mental conditions and substance abuse, there is no standard prescribed minimum benefit package and benefits vary from plan to plan.
- The government pays a significant portion of each employee’s insurance premium, covering either 72 percent of the average FEHBP plan premium, weighted by enrollment, or 75 percent of the premium for the plan chosen, whichever is less. The enrollee pays the difference. This is a better deal than many non-government employees get; in 2008, nearly half of employer-insured individuals paid more than 25 percent of the total premium for family coverage.¹

Why is FEBHP a bad model for national health reform?

- **FEHBP will not provide health insurance for all.**
 - FEHBP does not even cover all government employees. 100,000 federal employees eligible for FEHBP are not covered by the program, many because they cannot afford their portion of the premiums.
 - FEHBP plans are likely to be even less affordable if they are offered to the general population. This is because federal employees are younger, healthier, and more securely employed than the average person in the population, making them less expensive to insure.
 - If FEHBP were offered through private employers it is unlikely that most could afford to pay as much of the premium cost as the federal government. These additional premium costs will be passed on to employees, making the plans less affordable.
 - If FEBHP were offered to the general population, it is likely that premiums would be substantially higher, benefits would be skimpier, and fewer insurance companies would choose to participate. Even if government subsidies were offered to individuals to help them purchase health insurance plans through FEBHP, it is likely that significant numbers of Americans would still be unable to afford the premium payments.
- **FEHBP will not protect insured Americans against financial ruin if they get sick.**
 - FEHBP insurance plans contain significant cost sharing in the form of deductibles, co-pays and co-insurance. Some FEHBP plans are high-deductible plans that place individuals at significant financial risk if they get sick.
 - About half of personal bankruptcies are due in part to medical bills and two thirds of these bankrupted individuals had health insurance when they became ill.² The private insurance plans in FEBHP expose patients to the same financial risks as private insurance plans available outside of FEBHP.
- **The “consumer choice” offered by FEHBP is illusory.**
 - As with all private insurance options, choice within FEHBP is limited to health insurance, not health care – the insurance companies determine what health care is allowable.
 - Over time there have been fewer and fewer health insurance plan choices offered in FEHBP, as is the trend with other employer-based insurance. This trend will worsen if FEHBP is offered to everyone, as insurers will be less likely to participate once the desirable risk pool of federal employees is broadened to include the sicker general population.

- **FEHBP will not control rising health care costs.**
 - Health insurance premiums under FEHBP rose 8 percent in 2009; those for the 60 percent of federal workers enrolled in Blue Cross and Blue Shield plans rose 13 percent.
 - In general, FEHBP experiences minimally lower premium growth rate per enrollee than private health insurance overall, but significantly higher growth than Medicare.
 - The administrative costs of FEBHP as a percentage of total claims have been far higher than traditional Medicare.³
 - If FEHBP were made more widely available, it could result in selection problems. People who could find affordable insurance in the commercial market would select those options, leaving the more expensive population to opt for FEHBP, thereby making the program more expensive.

Is there an alternative to this model?

Yes. There is a bill in Congress, **the United States National Health Insurance Act, H.R. 676** (also known as “The Expanded and Improved Medicare for All Act”), that would implement single-payer financing of health care while maintaining our private delivery system. A single-payer program would eliminate the private insurers as payers for health care and use the administrative savings to provide comprehensive coverage for all. Features of the single-payer plan include:

- **Comprehensive coverage for all**, including doctor, hospital, long-term, mental health, dental and vision care as well as prescription drugs and medical supplies.
- **No premiums, co-payments, or deductibles** that inhibit access to care and unfairly burden the poor.
- **Free choice of doctor and hospital** and an end to insurance company and HMO dictates over patient care.
- **Pays for itself** by eliminating wasteful private insurance administration and profit. A progressive tax would replace what is currently paid out-of-pocket.
- **Controls costs so benefits are sustainable** through negotiated physician fees, global budgets for hospitals and bulk purchasing of prescription drugs and medical supplies.

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1. Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2008, The Kaiser Family Foundation and Health Research & Educational Trust. September 2008.
 2. Himmelstein D, Warren E, et al. Illness and injury as contributors to bankruptcy. *Health Affairs* 2005;Web Exclusive: 63-73.
 3. Davis K, Cooper BS, Capasso R. The Federal Employee Health Benefits Program: A Model for Workers, not Medicare. *The Commonwealth Fund*, November 2003.