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Insurers Object to New Provision in Medicare Law

By ROBERT PEAR

WASHINGTON, Aug. 20 - A major obstacle to the success of the new Medicare law has emerged in recent weeks: private insurers have told the Bush administration that they will not expand their role in Medicare if they have to serve large multistate regions, as the White House wants.

Congress sharply increased payments to private health plans last year in the hope that they would serve many more Medicare beneficiaries.

But the Blue Cross and Blue Shield plans, the backbone of the nation's private health insurance system, and other insurers said it was not feasible for them to establish networks of doctors and hospitals spanning large regions like New England or the Midwest.

They want the government to designate 50 regions, one for each state. That is the preference stated emphatically, in separate letters to the Bush administration, by the Blue Cross and Blue Shield Association and by America's Health Insurance Plans, the chief lobby for the health insurance industry.

A White House document describing [President Bush's](#) ideas for overhauling Medicare in March 2003 proposed "large multistate regions," and it included a map showing 10 sample regions.

Large regions will force health plans to serve rural areas that they have historically shunned, administration officials say. Under this logic, if a health plan wanted lucrative Medicare business in Chicago and its suburbs, it would have to serve rural Illinois and Iowa and perhaps Nebraska as well.

But Alissa Fox, policy director for the Blue Cross and Blue Shield Association, said, "The only way to assure vibrant competition and expand choices for beneficiaries is to establish 50 state-based regions."

If the administration insists on multistate regions, Ms. Fox said, "it will be virtually impossible for most private plans to be ready for 2006," when drug benefits and new insurance options are supposed to become available. The level of financial risk increases with the size of a region, she said, so insurers will need more capital and larger reserves to operate in a multistate region.

Diana C. Dennett, executive vice president of America's Health Insurance Plans, said her group also "strongly supports establishment of 50 regions."

Private plans will be discouraged from participating in Medicare if they have to get insurance licenses and sign contracts with doctors and hospitals in nearby states where they have never done business, Ms. Dennett said.

"In many rural areas," she said, "providers are unwilling to contract with Medicare managed care plans," even at the rates paid by the traditional fee-for-service Medicare program.

Several private plans are available to Medicare beneficiaries in the Boston area, for example. But, health policy experts say, those plans do not have contracts with doctors and hospitals in remote parts of New England.

The new Medicare law envisions a huge role for private plans, starting in 2006. If beneficiaries stay in traditional Medicare, they can get subsidized drug coverage by buying private insurance policies that cover prescription drugs and nothing else. Alternatively, they can join a preferred provider organization or a health maintenance organization that covers drugs along with doctors' services and hospital care.

The government must decide by Jan. 1 how to define the regions. Insurers say the configuration of regions will have a major effect on whether they participate.

John C. Rother, policy director of AARP, the advocacy group for older Americans, said the debate over regional boundaries highlighted "a clash between economic theory and the tradition of state-based insurance." Some economists say large regions will maximize competition among health plans, driving costs down. Insurers disagree.

Under the law, prescription drug plans and preferred provider organizations must charge the same premiums to all beneficiaries in a region. One purpose of this requirement is to prevent insurers from discriminating against sicker patients. But insurers say it is unrealistic because costs vary widely in large multistate regions.

Michael B. Unhjem, president of Blue Cross Blue Shield of North Dakota, said he would be interested in offering a managed care plan to Medicare beneficiaries in his state, where medical costs are relatively low. But he said it would be extremely difficult to create and sell "a uniform product with no variance in premium throughout a region" that includes higher-cost states.

"P.P.O.'s are usually configured to serve local or state regions, not multistate areas," said Mr. Unhjem, whose company has 80 percent of the market for private health insurance in North Dakota.

Three Blue Cross and Blue Shield plans serve different parts of New York State. Deborah L. Bohren, senior vice president of Empire Blue Cross Blue Shield, which serves 28 of the state's 62 counties, said her company could conceivably form a joint venture with the other plans to serve the entire state. But she said she saw no way the company could care for Medicare beneficiaries in other states.

The new law is intended to reverse the decline in the number of Medicare beneficiaries enrolled in private plans. From a peak of 6.3 million, or 16 percent of beneficiaries, in late 1999, the number fell to 4.6 million, or 11 percent, at the end of 2003. With the new law, the Bush administration predicts that 33 percent of beneficiaries will be in private plans by 2009.

Medicare officials and their advisers, from RTI International, a nonprofit research group based in North Carolina, are resisting the idea of single-state regions. In general, they say, a region needs at least 200,000 Medicare beneficiaries to support a preferred provider organization, and 11 states do not meet that test: Alaska, Delaware, Hawaii, Idaho, Montana, New Hampshire, North Dakota, Rhode Island, South Dakota, Vermont and Wyoming.

Richard L. Boals, president of Blue Cross Blue Shield of Arizona, said his company wanted to offer a preferred provider plan to Medicare beneficiaries, but could not do so if it had to serve people in other states.

"It would simply be too cumbersome to operate a Medicare P.P.O. across state lines," Mr. Boals said, noting that his company did business only in Arizona.

UnitedHealth Group is one of the few health plans with a nationwide network of doctors and hospitals. But Mark F. Lindsay, a spokesman for the company, said it had not expressed a preference for large multistate regions.

Thomas A. Scully, former administrator of the federal Centers for Medicare and Medicaid Services, said Medicare patients would benefit from having "the largest possible regions" because they would then have more health plans from which to choose.

"If you want multiple competing plans," Mr. Scully said, "you need multistate regions."