THE FAILURE OF THE FEHBP DEMONSTRATION PROJECT: ANOTHER BROKEN PROMISE?

HEARING

BEFORE THE

SUBCOMMITTEE ON THE CIVIL SERVICE

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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THE FAILURE OF THE FEHBP DEMONSTRATION PROJECT: ANOTHER BROKEN PROMISE?

WEDNESDAY, APRIL 12, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:14 p.m., in room 2203, Rayburn House Office Building, Hon. Joe Scarborough (chairman of the subcommittee) presiding.

Present: Representatives Scarborough, Miller, Mica, Morella, and Norton.

Staff present: Garry Ewing, staff director; Jennifer Hemingway, professional staff member; Bethany Jenkins, clerk; and Tania Shand, minority professional staff member.

Mr. SCARBOROUGH. I would like to call this meeting of the House Civil Service Subcommittee to order. Good afternoon. I would like to welcome all of you here.

Today, the subcommittee is going to scrutinize the administration's implementation of the demonstration project established in last year's Defense authorization bill to allow Medicare-eligible military retirees and certain others to enroll in the Federal Employees' Health Benefits Program.

The purpose of this project is to test the FEHBP as an option of providing military retirees and others quality, affordable health care.

When I assumed the chairmanship of this subcommittee, I stated that one of my highest priorities would be to improve the health care available to families to the men and women who serve or have served our Nation as part of the armed forces. Military retirees who are eligible for Medicare are particularly ill-served by the current military health care system. The overwhelming majority of them are locked out of TRICARE and the dwindling number of military treatment facilities that are still left where they can go. They are the only retired Federal employees who are expelled from their employer's health benefits program after a lifetime of dedicated service. Members of Congress are not. You can bet your life on that. Nor are retired civilian employees.

Congress hears almost daily from military retirees and active duty personnel about their difficulties with this system and with TRICARE. For this reason, our subcommittee has carefully mon-

itored the implementation of this demonstration project, including a hearing that we held last year on June 30, 1999.

The previous hearing focused on whether, as implemented, the demonstration project would fairly test the effectiveness of allowing the military community to access FEHBP. At the June 30th hearing, Admiral Carrato told this subcommittee that 85 percent of the eligible beneficiaries in the test sites would enroll. In fact, that was the Department of Defense's justification for severely limiting the total number of eligibles in test sites.

I remember back a year ago, understanding that the admiral was only doing his job and only bringing the message to us that the DOD wanted him to bring to us, but I remember a year ago saying there was no way we would get anywhere close to 85 percent, that there was no way we would get close to 50 percent, and, in fact, that we would probably be lucky to get into double digits.

Well, I think other members of this subcommittee agreed with me and the witnesses at the hearing. They were also very skeptical of that estimate, and, as it turns out a year later, for very good reason.

The actual numbers are in, and with enrollment at roughly 4 percent of those eligible actually enrolled. This abysmal number is in stark contrast to the size predicted by both the Congress and the administration, and it would have even been worse if DOD and OPM had not extended their enrollment system.

Remember, I remained terribly concerned that the Department of Defense's decision to artificially limit the total number of eligible beneficiaries in the test sites has contributed to the dramatically depressed enrollment in this demonstration project.

In addition, this subcommittee has been advised of a number of other deficiencies in the implementation of this demonstration project. These include unsatisfactory marketing to potential participants and an information center that could not answer the key questions that enrollees had and poorly planned health fairs.

Consistent with my and this subcommittee's overall legislative priorities, I believe we have to keep our ongoing commitment to promote the health care needs of America's men and women in uniforms.

The FEHBP demonstration project is a critical component of Congress' efforts to improve health care for our military retirees and their families, and I just hope that the Department of Defense will use this opportunity to show us that this truly was a good faith effort on their part to provide military retirees the choice of the FEHBP as an option to meet retirees' health care needs.

The questions that I want and that I think we need answered today are as follows.

Has FEHBP been given a fair test? If not, why?

What should Congress do in light of the results of this year's open season?

After all the testimony today, I certainly hope we will come to a better understanding of how we, as a committee, and we, as a Congress, can prevent such an abysmal failure over the next 12 months.

[The prepared statement of Hon. Joe Scarborough follows:]

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OPENING STATEMENT
CHAIRMAN JOE SCARBOROUGH
SUBCOMMITTEE ON CIVIL SERVICE

APRIL 12, 2000
"THE FAILURE OF THE FEHBP DEMONSTRATION PROJECT: ANOTHER BROKEN PROMISE?"

Today, the subcommittee will scrutinize the Administration's implementation of the demonstration project established in last year's defense authorization bill to allow Medicare-eligible military retirees and certain others to enroll in the Federal Employees Health Benefits Program (FEHBP). The purpose of this project is to test the FEHBP as an option for providing military retirees and others with high-quality, affordable health benefits.

When I assumed the chairmanship of this subcommittee, I stated one of my highest priorities would be to improve the health care available to the families of the men and women who serve, or have served, our nation as part of the armed forces. Military retirees who are eligible for Medicare are particularly ill-served by the current military health care system. The vast majority of them are locked out of TRICARE and the dwindling number of military treatment facilities. They are the **only** retired federal employees who are expelled from their employer's health benefits program after a lifetime of dedicated service. Members of Congress are not. Nor are retired civilian employees. Congress hears almost daily from military retirees and active duty personnel about their difficulties with TRICARE. For this reason, the subcommittee has carefully monitored implementation of this demonstration project, including a hearing held by this subcommittee, June 30, 1999.

The previous hearing focused on whether, as implemented, the demonstration project would fairly test the effectiveness of allowing the military community access to the FEHBP. At the June 30 hearing, Admiral Carrato, you told this subcommittee that 85% of the eligible beneficiaries in the test sites would enroll. In fact, that was the Department of Defense's justification for severely limiting the total number of eligibles in the test sites. I and other Members of this subcommittee, as well as other witnesses at the hearing, were very skeptical of your estimate. The actual numbers are in, with

enrollment at roughly 3% of those eligible actually enrolled. This abysmal number is in stark contrast to the size anticipated by both the Congress and the Administration, and it would have been even worse if DoD and OPM had not extended the enrollment season.

I remain concerned that the Department of Defense's decision to artificially limit the total number of eligible beneficiaries in the test sites has contributed to the dramatically depressed enrollment in the demonstration. In addition, the subcommittee has been advised of a number of other deficiencies in the implementation of the demonstration project. These include unsatisfactory marketing to potential participants, an information center that could not answer key question that enrollees had, and poorly planned health fairs.

Consistent with my overall legislative priorities, we must keep our ongoing commitment to promote the health care needs of America's men and women in uniform. The FEHBP demonstration project is a critical component of Congress' efforts to improve health care for our military retirees and their families. I hope the Department of Defense will use this opportunity to show us this truly was a good faith effort on their part to provide military retirees the choice of the FEHBP as an option to meet their health care needs.

These are the questions that I want answered today:

1. Has the FEHBP been given a fair test?
2. If not, why not?
3. What should Congress do in light of the results of this year's open season?

Mr. SCARBOROUGH. With that, I would like to recognize the gentleman from Florida, former chairman of this subcommittee, John Mica.

Mr. Mica.

Mr. MICA. Thank you, Mr. Chairman.

I didn't conceive, in my worst possible dreams, that the administration could screw up a demonstration project for the intent of this subcommittee, but I think they have managed to accomplish that.

When we first launched this venture to provide FEHBP access to our dependents, retirees, and other families that didn't have access. We knew that there were gaps out in the service areas, and it doesn't take a rocket scientist to see that, because of base closures, because of shut-downs in DOD health care facilities and other changes in the structure of health care delivery by the Government, that there were people left out across the country in gaps.

We proposed coverage and access to FEHBP on a broad basis. Of course, we were fought on that, and what we got as a result was a narrow demonstration project that maybe was destined to fail because it really didn't address the audience and those in need that we intended to serve.

I am most disappointed in the way this whole demonstration project has been handled, most disappointed in the limited scope of making this available to many who are still in need. It is almost without a week or without time that I run into military dependents and others who do not have service or find service through TRICARE—or, as they term it, "try to get care," sadly.

We have launched a demonstration project that has not been successful and really didn't encompass the original intent of our desire to see that all of our personnel, retired and others, and their dependents, have access to health care on an affordable basis.

So I hope this hearing will help us get back on track. I look forward to working with the subcommittee and the chairman in that regard.

Thank you.

I yield back.

Mr. SCARBOROUGH. Thank you.

Mr. Miller.

Mr. MILLER. I just wanted to thank you for having the hearing. I was here last year for the hearing. I am very disappointed and hope to find out some answers. I appreciate it, and I am just waiting as we are looking forward to hearing the straight talker come forward.

Mr. SCARBOROUGH. All right. Thank you.

Our first panel—two of which are going to be arriving shortly—is comprised of Charlie Norwood, Jim Moran, and Randy "Duke" Cunningham, three Congressmen who have, obviously, been very, very interested in this issue for some time.

Representative Norwood represents Georgia's 10th District. He has dedicated much of his time and effort and energy this session to improving military health care, and, most importantly, introduced H.R. 3573, the Keep our Promises to Military Retirees Act, with Representative Childs. I am proud to be a cosponsor of that.

Congressman Norwood, we are proud to have you here.

STATEMENTS OF HON. CHARLIE NORWOOD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA; AND HON. JIM MORAN, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

Mr. NORWOOD. Thank you very much, Mr. Chairman.

I am proud that you are a cosponsor, as all but one of the members of your subcommittee, and as are 277 Members of Congress in a very bipartisan way.

I thank you and the members of your subcommittee for the opportunity to testify today, frankly on an issue that is very near and dear to my heart, the health of our Nation's veterans, and military retirees, in particular.

I represent, Mr. Chairman, a District much like yours. It has a very high concentration of military retirees and a very rich history of military service. Many of these men and women aren't just constituents. Many of these men and women I have known for years and are close friends, and I think I am very in touch with what is happening with their health care, and, in particular, what is happening in their health care around Eisenhower Army Hospital.

As a Vietnam veteran, I have seen first-hand the sacrifices that our men and women in uniform make on a daily basis in order to keep this country safe and free.

I appreciate the opportunity today to discuss the progress of the Federal Employees Health Benefits Program demonstration project, Mr. Chairman, but I have to disclose a bias up front on this issue. I don't very much like demonstration projects. It has been my experience that Congress only passes demonstration projects when we want to appease groups that we would like to help but just simply don't have the backbone to do so. The FEHBP demonstration project epitomizes that lack of backbone.

We all know that the military health care system is in shambles, and if you are connected to it in any way and don't know that, shame on you. TRICARE is the worst HMO in the country. Many military retirees have little or no access to health care, and senior retirees are getting kicked out of the system altogether when they turn 65. So the question is: what do we do?

Well, we pass an extremely limited and poorly planned demonstration project and hope that this problem will just go away. Mr. Chairman, this problem is not going to just go away. That is why I have introduced legislation supported by 275 other Members that would expand the FEHBP option to all military retirees, not just those in places like Puerto Rico, New Orleans, and Humboldt County, CA.

Grassroots military retirees from all across this Nation support this common-sense legislation because it addresses their concerns in a fair and equitable manner.

I would like to send a message today to our visitors from the Department of Defense. You all know, I hope, that I am as staunch a defender of the military as there is in this Congress. I will fight tooth and nail every day to ensure that we have the best-trained, most well-equipped military in the world. Our men and women in uniform certainly deserve nothing less, not to mention the security of this country. But we in Congress need your help in addressing the vital issue of health care for retirees.

I hear over and over again the red herring thrown up that expanding the choice of FEHBP to all retirees would somehow hurt military readiness, but I will tell you what hurts military readiness: the fact that many retirees are reluctant now to encourage new recruits to enter the military in the first place, because they feel like they have been shafted by their Nation.

In the military academies, much deference is given to the legacies, the sons and daughters of academy graduates, and the one reason for that is common sense to realize that those who come from families with rich and honorable military traditions generally make very good soldiers, sailors, airmen, and Marines.

But how much do we hurt the military readiness when those graduates are reluctant to encourage their sons and daughters to enter the military, as I hear is so often the case these days? How much is the retention rate being hurt by the fact that those now in the military see every day that the promises made to their predecessors are broken on a consistent basis?

Again, I will do everything I can to help our Defense Department, but I want to ask their help today. When I look at the egregious mismanagement of a simple demonstration project that contributed greatly to its failure, I can only wonder, Mr. Chairman, whether or not it was, in fact, deliberate incompetence. To what end, I can only speculate, but I suspect that some turf war is being played out at the expense of the health and well-being of the men and women who sacrificed nearly their entire adult lives for the freedom and security that we all enjoy today.

We need to end these shenanigans and work together to do what is right for the military retirees of this Nation.

Mr. Chairman, I want to commend you and your dedication to this issue. Your passion for veterans' health care is, frankly, second to none in Congress. I look forward to working with all of this subcommittee as we continue to address this issue.

Every Congressperson simply needs to ask themselves a simple question: would you trade your FEHBP health care plan for TRICARE? And, if we think TRICARE is so great, if it is so adequate for the men and women who serve this Nation, then I suggest we also offer it to ourselves and see if we really think that is the kind of health care that we need.

Now, I didn't come up and Ronnie Shows didn't come up with this solution. It is important to note this was worked out talking to the men and women who are retirees. What they need to hear from us is they need a signal that this country does care about their services. They need to know that we are going to keep our word.

Make no mistake about it, we gave them our word. I don't care what anybody comes to this table and says, the Federal Government, through its recruitment team in the military, sold this to our military retirees that, "If you will just come serve with us as a career, we may get you killed, we will certainly send you all over the Nation and all over the world and your family life won't be very good, we are not going to pay you much, and we will even, if you live through it, give you a small retirement, and," we said, "We will give you very good health care when you retire."

It is time this country stood up and kept its word to what I consider the patriots of America.

I thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you, Mr. Norwood.

I appreciate, again, your leadership. You are right, a promise was made and a promise has been broken, and I think the fact that the Secretary of Defense is now saying that publicly, that every member of the Joint Chief's staff is saying that I think gives us an opening. We are not fighting. We are certainly not fighting the men and women that run our military and the Pentagon. I think we need to get moving.

Thank you for your help on that.

Congressman Moran, thank you.

Mr. MORAN. Thank you, Chairman Scarborough. It is nice to see you and Mr. Mica and Mr. Miller, and I thank you for your abiding interest in this issue.

Good testimony, Charlie.

Mr. NORWOOD. Thank you.

Mr. MORAN. Boy, that was compelling.

As you know from previous appearances before this committee, I have worked with many of you to establish the Federal Employees Health Benefits Plan as a demonstration program for military retirees over the age of 65. I would rather it not be a demonstration program, unless it is a universal demonstration program. We ought to just do it. But we are trying to at least get our foot in the door with a demonstration project.

The measure received overwhelming response—292 cosponsors. If that isn't overwhelming response, I don't know what is. It certainly illustrated the commitment of the Members of Congress to provide for the health care needs of our military retirees.

With approximately 1.4 million Medicare-eligible military retirees in the country, we cannot ignore the health care needs of this population. It is irresponsible, from a public policy standpoint, but also from a moral standpoint.

I don't need to remind any of you—and Mr. Norwood said it far more eloquently than I can—of the sacrifices that military retirees have made to their country. They saved our country. This is the base. We have climbed on their shoulders. They gave us democracy and free enterprise.

But, as they face escalating costs and challenges in getting health care coverage, we shouldn't turn our backs on them, and that is exactly what we are doing.

In the past year, there has been a groundswell of support in all of our Congressional Districts for improving health care coverage for the military retirees. The Military Coalition of Service Retirement Organizations has done a terrific job. All of the organizations have done a terrific job in terms of developing grassroots support.

I am supportive of wider efforts to strengthen health care coverage for all military retirees, but we also need to achieve that balance between maximizing the best health care benefit for retirees that we can while balancing the financial costs that are incurred by covering a very fast-growing population of retirees.

There is no question that the number of people are increasing dramatically, so we have got to make sure that when we make a

commitment we can follow through on the commitment, that we are going to have the money available.

Because the FEHBP plan has such a proven record of success among civilian employees and retirees, it is a logical choice to extend it as an option to military retirees. Many of us have large number of constituents who are military retirees, and we are familiar with the enormous difficulties that those retirees are experiencing in accessing affordable health care, especially when they need it the most.

In the past few Congresses, a number of us have sponsored legislation to grant Medicare-eligible military retirees the option of participating in FEHBP, and that was what H.R. 205 did. Once they became eligible for Medicare, they were being denied access to the military health care system and shut out of military medical treatment facilities because they were placed last on the priority list for receiving care, so we created a system where military retirees, once they reach the point in life where they need health care the most are given the least from their former employer. It is the only large organization in the country, maybe in the world, that does not provide health insurance upon retirement if they had it while they were employed.

So our legislation ensures that retirees, whether they have served their Nation in the armed forces or as a civilian employee, they are treated with the same dignity and have an equal opportunity to have participated in the FEHBP.

As many of you know, we have an extraordinary rate of satisfaction with FEHBP. DOD cannot be the only organization that kicks its people out of its health insurance program once they need it the most. They don't do it with civilian employees, and so they shouldn't do it with military employees, enlisted employees.

Let me skip some of this stuff. I have got too much down here.

What we are trying to do is to ensure that we have an option, in addition to Medicare subvention, it doesn't subvent Medicare subvention. These are complementary approaches, but I don't think Medicare subvention, alone, is going to address the need. The majority of Medicare-eligible military retirees don't live within catchment areas surrounding a medical treatment facility. I don't bill Medicare subvention, alone, will make available more resources to ensure that all who need care can be accommodated.

FEHBP is nationwide and can ensure this, and DOD can also benefit from this legislation because it has the ability to bill third-party insurers for the direct care it provides to cover the retirees in military medical treatment facilities.

In order to achieve a worthwhile demonstration program, OPM and DOD have to ensure that enrollment is at least 66,000 beneficiaries. I thought that was too much. But when we hear it is only 1,800 people, employees, that is a laugh. It is comical to think that they would think that that is an adequate demonstration. The main reason is that no one in their right mind is going to leave their insurance program, enroll in FEHBP, if they can't be sure that after 2 years they are not going to get cutoff. That doesn't make sense. Military retirees are not crazy. They understand. They are responsible. They can read. And they certainly are not going to

leave their family without health insurance if a demonstration program sunsets, so we need to address that.

The limited scope of the demonstration project, even if it gets up to 3,000 enrollees, is not adequate. It doesn't give us a fair demonstration. We can't use the results. OPM and DOD have to improve their marketing and educational efforts to achieve a full participation rate authorized by law; 66,000 was minimal. At least get it up to 66,000.

We have sent a letter to DOD, which I am going to include for the record, to Dr. Bailey, who is the Assistant Secretary for Health Affairs, detailing our concerns with the implementation of the demonstration. We highlighted the insufficient marketing of the demonstration, including inadequate mailings and educational information provided to eligible retirees, and the reasons why we think that we had an unacceptably low response rate.

I commend the Department of Defense for adding two additional test sites to the FEHBP demonstrationsite, but I have got to say I am disappointed. These two sites, even though one of them is in Georgia and another is in Iowa, they don't necessarily represent a large enough geographic area with a sufficient number of participants. We need larger areas to be tested.

The DOD needs to get out to town hall meetings, needs more effective oversight. They need to be able to cross State lines to reach their participation rates. They need to do much more. Basically, they need to get serious about this demonstration program.

Mr. Chairman, our Nation's leading military service organizations have endorsed this bill. They recognize that allowing the Medicare-eligible military retirees to join the FEHBP is a fair and efficient means by which we can live up to our prior promises. I hope you will agree—and I trust that you will—that this approach represents part of a solution to a serious health care problem, that the demonstration project is a critical first step in providing our Nation's military retirees with high-quality, reasonably priced health care.

I appreciate your consideration, and we look forward to working with the subcommittee, as well as OPM and DOD and the executive branch, to ensure a full and fair test of the FEHBP demonstration, and we will include this letter for the record, because the letter, since it was written with the help of staff, was far more articulate than I can be, and so we will put that in for the record, as well, Mr. Chairman.

Thank you for your attention, and the members of the panel.

Mr. SCARBOROUGH. And thank you for your very articulate testimony.

[The prepared statement of Hon. Jim Moran follows:]

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Statement of Representative James P. Moran Before the Subcommittee on Civil Service of the House Government Reform Committee

April 12, 2000

Mr. Chairman, I want to thank you and Ranking Member Cummings for holding today's hearing and again allowing me the opportunity to testify on the FEHBP Demonstration Project for Military Retirees.

As you know from my previous appearances before this Subcommittee, I have worked with many of you to establish the Federal Employees Health Benefit Plan demonstration for military retirees over the age of 65. This measure received overwhelming bipartisan support in the House, drawing 292 cosponsors, and illustrated the strong interest among Members in seeing this demonstration project move forward.

With approximately 1.4 million Medicare-eligible military retirees in this country, we simply cannot ignore the health care needs of this important population. I do not need to remind any of you of the sacrifices which the military retirees of this generation have made to their country. As these retirees face the escalating costs and challenges to getting health care coverage, we should not turn our backs on these individuals who stood by their country in difficult times.

In the past year, there has been a groundswell of support in all of our districts for improving health care coverage for military retirees. While I am supportive of wider efforts to strengthen health care coverage for military retirees, I think we need to consider how to maximize the best health care benefit for our military retirees while balancing the financial costs incurred with covering a growing population of aging retirees. Because the FEHBP plan has a proven track record of success among civilian employees and retirees, it is a

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logical choice to extend to military retirees. Having a large number of constituents who are military retirees, I am familiar with the enormous difficulties that many retirees experience in accessing affordable health care, especially at a time when they need it most.

In the past few Congresses, I have also sponsored legislation to grant Medicare eligible military retirees the option of participating in the Federal Employees Health Benefits Program. Joined by my friend and colleague Congressman Randy "Duke" Cunningham, I introduced the Health Care Commitment Act, H.R. 205, because I am deeply concerned that military retirees, particularly once they become eligible for Medicare, are being denied access to the military health care system. They are also effectively shut out of military medical treatment facilities because they are placed last on the priority list for receiving care. We have created a system whereby military retirees, once they reach the point in life where they need health care the most, are given the least from their former employer. My legislation ensures that all federal retirees, whether they served their nation as a member of the armed forces or as a civilian employee, are treated with the same dignity and have an equal opportunity to participate in the Federal Employees Health Benefits Program.

The Department of Defense is the only large federal employer in this nation that kicks its retirees out of its health insurance programs. But it does not need to be. Civilian employees in the same Department of Defense, and throughout the government, are given the opportunity to participate in one of the finest health insurance programs in the country. The Federal Employees Health Program is an established health insurance program that enables employees to choose from a range of health insurance packages. Federal retirees, unlike their counterparts who served in the military, are not dropped from their insurance plans when they turn 65 and are not placed at the bottom or priority lists. Instead they are treated with the respect and dignity that they deserve.

The Health Care Commitment Act will ensure that all Medicare-eligible military retirees are provided access to quality health care. It is important to remember that this legislation does not conflict with Medicare subvention.

Medicare subvention is a system through which the Department of Defense can bill HCFA for the direct care it provides Medicare-eligible retirees. I support Medicare subvention, but I do not think that Medicare-subvention alone will address the needs of this population. The majority of Medicare-eligible military retirees do not live within the "catchment" areas surrounding a medical treatment facility. I do not believe Medicare-subvention alone will make available more resources to ensure that all who need care can be accommodated. The FEHBP is a nation-wide program with fee for service plans and HMOs available in every market. The Department of Defense can also benefit from this legislation because it has the ability to bill third party insurers for the direct care it provides to covered retirees in medical treatment facilities.

In order to achieve a worthwhile FEHBP demonstration involving military retirees, the Defense Department and the Office of Personnel Management must ensure that enrollment is closer to 66,000 beneficiaries and drawn from a larger mix of sites than the eight locations selected earlier this year. Furthermore, military retirees must be given ample information on the demonstration program and opportunities to enroll in it. If not, this demonstration will be too small in scale to yield enough data to properly analyze and assess the program. Without a similar structure and incentives as the civilian FEHBP program, the FEHBP demonstration will not offer military retirees the benefits and incentives to participate. I am hopeful that the Department and this Subcommittee can effectively address these issues and move forward with the demonstration.

However, I remain concerned that the limited scope of the FEHBP demonstration, with fewer than 3,000 enrollees, could preclude an accurate demonstration of the effectiveness of the FEHBP program for military retirees. I urge the Subcommittee to ensure that a full and fair demonstration is conducted that can lead to a nation-wide program.

Mr. Chairman, I hope that your Subcommittee will examine how DOD and OPM can improve their marketing and educational efforts in order to achieve the full participation rate authorized under law. In January, Congressman Cunningham and I sent a letter to the Department of Defense, which I would like

to include for the record, detailing our concerns with their implementation of the FEHBP demonstration. Among the areas highlighted in our letter was DOD's insufficient marketing of the demonstration, including inadequate mailings and educational information provided to eligible retirees, that contributed to an unacceptably low response rate at the eight sites.

I commend the Department of Defense for its decision to add two additional test sites to the FEHBP demonstration. However, I am disappointed that these two sites, in Georgia and Iowa, represent large geographic areas with few eligible participants. The randomness of these site selections makes it difficult, if not impossible, to conduct a meaningful test of the FEHBP-65 program. Even if these sites are expanded to include more zip codes to reach a sufficient number of eligible retirees, how will the Department conduct town hall meetings and effective oversight for these sites? Will these sites be permitted to cross state lines to reach their participation rates? Unless the Department of Defense expands the FEHBP-65 demonstration to a larger cross-section of suitable sites and puts forth the necessary marketing and educational efforts to recruit eligible military retirees, we will not be able to determine the true interest among military retirees for FEHBP coverage or the actual costs of the program to the government.

Mr. Chairman, our nation's leading military service organizations have endorsed the Health Care Commitment Act. They recognize that allowing the Medicare-eligible military retirees to join the FEHBP is a fair and efficient means through which we can live up to our prior promises. I hope you will also agree that this approach represents a solution to a serious health care problem and that the demonstration project is a critical first step to providing our nation's military retirees with high-quality, reasonably priced health care.

I appreciate your consideration of my testimony and look forward to working with the Subcommittee, OPM and the Department of Defense to ensure a full and fair test of the FEHBP demonstration.

Mr. SCARBOROUGH. I think I know the answer to this question, obviously, from your testimony, but I am going to ask both of you to just give me briefly your insights on what has gone wrong with the way DOD and OPM has implemented this program. Of course, Representative Moran, you started that. Obviously, they were predicting 85 percent, they only came up 81 percent short at 4 percent. What caused that gap and what can we do to improve it over the next year?

Mr. MORAN. Obviously, lack of marketing effort, lack of information, and lack of reasonableness. They are not going to join it if they can't be confident that it is going to be sustained. They are not going to put their families in the lurch losing their health insurance.

I am amazed we only have 2,000 to 3,000 enrollees. Charlie, being a doctor, I think can add additional perspective.

Mr. SCARBOROUGH. Let me ask you briefly, what can this program do to ensure sustainability to somebody coming in—you talked about it. Obviously, military retirees aren't crazy, aren't dumb. They know that it doesn't make sense for them to get a new program when the carpet can be yanked out from underneath them 2 years from now.

Mr. MORAN. DOD will own this program, and understand it needs to be done. It will get it done. The Defense Department can get done whatever it wants to get done. I think the issue is whether or not it wants to do this right, adequately, and in a way that will prove that we were right—that this program works and should complement the existing level of military health insurance.

Mr. NORWOOD. Mr. Chairman, I think we ought to be of as much help to DOD as we can, and, in doing so, in this dadgummed demonstration project, and pass 3573. Then you will find that many, many military retirees will use this as an option because there is stability to it once you pass that language.

It is of great interest to me that when CBO scored our bill they scored it at $9 billion the first year. Now, that will be on a declining amount, because we are losing 1,000 veterans a day, but they scored it at $9 billion based on a 50 percent participation. In other words, 50 percent of the retirees would choose to go into FEHBP rather than using TRICARE.

Now, my gut tells me that is probably a little high, but somebody has it wrong when we have a demonstration project with 4 percent or less joining up, and CBO is, on the other hand, saying at least 50 percent are going to sign up on the FEHBP plan once we codify it into law and give them the stability they need.

I agree with Congressman Moran. Why in the world would somebody sign up when they don't know for sure what is going to happen at the end of the project 2 or 3 years later.

What made that even worse, the information system available to them was just absolutely confusing to people who would call to try to find out. In other words, they were of no help.

That is why we have got such a mess with the demonstration project now, Mr. Chairman.

Mr. SCARBOROUGH. What is the fastest, quickest way—and I am going to lob this off to you first, Mr. Norwood, and then, Mr. Moran, let you answer it—what is the best way for us to assure

that we can keep the promise to the men and women in uniform and their dependents to give them the health care that they deserve?

Mr. NORWOOD. Well, I and the other veterans and retirees across this country think that the fastest, surest way is to end this demonstration project and go to the floor and pass 3573. Bingo.

Mr. SCARBOROUGH. You see this demonstration project as a detriment to that effort?

Mr. NORWOOD. Well, it is being used by those, whoever they may be, wherever they may be, who don't want to keep our promises, to talk negatively about us going into FEHBP. But I will just tell you honestly, I would like to know the civilian employees that would rather go into TRICARE rather than FEHBP.

Mr. SCARBOROUGH. Right.

Mr. NORWOOD. You find me a few.

Mr. SCARBOROUGH. All Members of Congress, as you said.

Mr. NORWOOD. Well, I can guarantee you Members of Congress won't want to do that.

Mr. SCARBOROUGH. Right.

Do you know how many men and women who served in World War II are dying daily?

Mr. NORWOOD. Yes. We are losing 1,000 a day.

Mr. SCARBOROUGH. 1,000 a day. So if we go another year with the failed demonstration project that only pulls in 4 percent, 5 percent, 10 percent, that means we are going to lose almost half a million by the time we come back next year.

Mr. NORWOOD. And if you will listen, Mr. Chairman, once a week I go to the floor and talk about one of those families personally that has, in fact, run into a great deal of problem with their health care as they go into their latter years and having so many health care problems. In fact, many of the cases I bring up personally are people who have died simply because they did not get proper health care.

Mr. SCARBOROUGH. In our field hearing in Florida a week or two ago, it was the belief of Congressman Cummings, myself, and many that testified that the Federal Government is just simply doing a slow roll. It is cheaper to just sit back, with all these people dying, than to provide them health care in their final years. Do you all agree with that?

Mr. NORWOOD. Yes. Yes. If you wait long enough, the patient will die and you don't have to pay for the care.

Mr. SCARBOROUGH. Congressman Moran.

Mr. MORAN. We are sort of doing that on the notch issue. I hope we don't do it on the issue of military retirees.

I agree with Mr. Norwood. H.R. 3573 is a better bill. I would rather just do it. But I also have to say, you know, we need to pass this supplemental that included $4 billion for military health care, that the Senate shouldn't be messing around with it.

We are not going to have the money in the 2001 budget. It is not in the budget resolution. We are not going to have that latitude within the Defense appropriations bill to do it in 2001.

We can't just pass the legislation. We have got to be prepared to fund it.

Mr. SCARBOROUGH. Right.

Mr. MORAN. And it is going to be substantial. We are talking about $9 billion a year. That is why DOD has been reticent to do it. But I think it is the right thing to do. I think we ought to do it.

Mr. SCARBOROUGH. Does that price go down over time, again, with a lot of these veterans getting older and older and passing on?

Mr. NORWOOD. Yes, Mr. Chairman. It will decline.

Mr. SCARBOROUGH. Significantly.

Mr. NORWOOD. That price goes away at some point.

Mr. SCARBOROUGH. So it is not a $9 billion this year and then going up. It actually will go down.

Mr. NORWOOD. One of the few things I have ever known in Congress that was passed that the cost would go down.

Mr. SCARBOROUGH. Yes.

Mr. MORAN. The only caveat—and I don't disagree with Mr. Norwood—is that we will still have military retirees coming into the system every year, and we want to maintain our military force. I don't think that it is too much now. It is at a minimal level, as far as I am concerned. But the cost of medical care also is going to go up. That is a variable, and we just have to be prepared to meet the cost as it is incurred.

Mr. SCARBOROUGH. Last question I want to ask you all—and if you want to comment on that, you can—the last question that I have for you pertains to the alternative that is coming up in the Senate that the majority leader supports, and that is Senator—I think it is Senator Warner's bill, which is a compromise on yours.

What are the positives or negatives on that bill?

Mr. NORWOOD. Mr. Chairman, I don't pay a lot of attention to what they do in the Senate, but my understanding is that it is too little too late. It is just simply not adequate enough to get to the problem.

Congressman Moran is right—more people will be coming into the system. But what we all need to keep in mind is that our bill addresses retirees differently who were part of the military pre-1956 versus those post-1956, and that we do more for those pre-1956. In other words, we pay their entire cost, as was promised.

In 1956, Congress basically says, "OK, we will furnish you your health care, but it is based on a space-available basis," and on that basis those that are post-1956 have to pay part of their health care, just like we do.

I don't really like that very much. I don't think that was the trade, but that is how the bill ended up.

So yes, more will be coming on, but this has a declining cost to it all the way out.

Mr. SCARBOROUGH. Thank you.

I would like to now recognize the gentlelady from the District of Columbia, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. I have no questions for my colleagues here, because I could not agree more with what I was able to hear of their testimony. I apologize I didn't hear it all. I will be far more interested in the response of our third panel with the OMB and the TRICARE management people, because this is mystifying to me and it demands an explanation, and I think the Members have raised just the right questions.

Thank you.

Mr. SCARBOROUGH. Thank you.

I would like to recognize now the Congresslady from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman. I appreciate your having this hearing.

I think it is important for us to recognize whether the demonstration programs we establish do work, and I thank my colleagues for being here to indicate what the intention was and their feeling of dissatisfaction with what we had.

It appears to me that there was a concern about the fact that the number was a demonstration program but a limited number fell far, far under that number, and that education was necessary, further information and marketing, and so, again, I look forward to hearing why, how, and what we can do in the future.

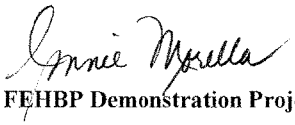
I thank you for being here.

I ask unanimous consent that an opening statement be put in that record.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Without objection, thank you.

[The prepared statement of Hon. Constance A. Morella follows:]



Oversight Hearing on The Failure of the FEHBP Demonstration Project
Subcommittee on the Civil Service
April 12, 2000

Mr. Chairman, I appreciate your efforts to hold this important oversight hearing on the FEHBP demonstration project for military retirees.

In the past, the military health care system has struggled to properly care for military personnel and their families. TRICARE, the Department of Defense's integrated health delivery system, which provides both healthcare for military families and active duty members of the uniformed services has proven successful in some areas but has not resolved all of the problems inherent to the system. I know that a Congressional TRICARE advisory committee was set up in July of 1996 to look into the problems and they ultimately concluded that TRICARE fell short in delivering on its promised free medical

care for life.

One of the solutions that seemed most promising was initiated in August of 1999 when Congress authorized a demonstration project to permit a limited number of Medicare-eligible military retirees to enroll in The Federal Employee Health Benefits Program (FEHBP). This program, which currently covers approximately 9 million federal employees, retirees and their dependents and offers enrollees a choice of over 300 plans nationwide, including HMOs, managed fee-for-service plans, and plans offering a point of service product has been a great success. In fact, the Government Accounting Office has found that the per capita cost of the military health care system is 23% higher than that of the FEHB program.

Unfortunately, the results have come in from the demonstration project and there was much less enrollment than should have been expected. I am concerned that the implementation of the project was not carried out effectively and I applaud this committee for focusing again on this problem. It must be a priority for this subcommittee and Congress to ensure that we provide quality health care to those that have sacrificed so much for this country.

Mr. SCARBOROUGH. Congressman Mica.

Mr. MICA. I thank my colleagues. Mr. Moran and I served together. I think he was the ranking member when we initiated some of this. Our intent at the beginning was to have total coverage. We got beaten down. They said the sky would fall, that people would be signing up in droves, that it would be the end of the world and sliced bread as we knew it. None of that occurred.

It is sad, though, in the meantime that tens of thousands have been denied care and that our original intent was to provide coverage to that gap.

I can't totally blame DOD, because others lobbied that the sky would fall, too, that this would become some type of incredible burden, and organizations ran around behind our back and said it had to be done on a very narrow basis, and how much harm it would do. It is sad that they have left these people behind.

Now we need to get this demo behind us, open this up to everyone, to people who need it, fill in the gaps, and meet our commitment to these people that served this country and their dependents.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you, Mr. Mica.

Next we will recognize the gentleman from Florida, Mr. Miller.

Mr. MILLER. I appreciate your statements and am very supportive.

Mr. Moran, you have a lot to do on the Federal employee health plan, and one of the reasons, I guess, the demonstration project was thought about was that we don't want to destroy something like that. Does that concern you? I mean, to jump totally into it, which I think is a concept—but, you know, to go to a $9 billion addition to Federal employee health benefit, what does it do with that plan? Do you have concerns about the fact that they have failed here on a simple demonstration project?

Mr. MORAN. Well, it is an excellent question, Mr. Miller. We do keep two different pools so that we would not compromise the civilian rates for civilian employees. We don't think that it is going to adversely affect the overall insurance rate if you did melt both pools, but we keep them separate.

Mr. MILLER. For the administrative structures?

Mr. MORAN. That is right. And they are large enough that you don't lose economies of scale by doing so. But we do that so that it—for one thing, we didn't want any opposition from the civilian employee ranks, and I don't think we have it, and there is no reason that we would. It is the same benefit structure, but we will separate the two pools.

Mr. MILLER. Like my colleagues, I am glad you are here, but we are really looking forward to the next panels to get some answers, maybe.

Thank you.

Mr. MORAN. Thanks.

Mr. SCARBOROUGH. Thank you. I thank both of you for coming today, and certainly also greatly appreciate the fact that you all are helping Congress and the administration remember a promise that has been forgotten and has been broken to the men and women

that have protected our country for so long. Thank you for your work and your testimony.

Mr. MORAN. Thank you, chairman.

Mr. NORWOOD. Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Next, I would like to call up panel two. They are Chuck Partridge and Kristen Pugh.

Colonel Partridge currently serves as co-director of the National Military and Veterans Alliance. He has been the legislative counsel for the National Association of Uniformed Services since May 1984. Colonel Partridge's military career spanned 31 years of enlisted and commissioned services in the Reserve and active forces. He served in Vietnam, Germany, and Korea, and in several installations in the United States.

Kristen Pugh currently serves as deputy legislative director of the Retired Enlisted Association. Today she is going to be testifying on behalf of the Military Coalition.

Both Colonel Partridge and Ms. Pugh testified at our previous hearing on the demonstration project. Both have been involved in the demonstration project from the very start and worked very hard to create it. I would like to welcome them back for their comments today.

Colonel Partridge.

STATEMENTS OF COLONEL CHUCK PARTRIDGE, U.S. ARMY, RETIRED, CO-CHAIR, NATIONAL MILITARY AND VETERANS ALLIANCE; KRISTEN L. PUGH, DEPUTY LEGISLATIVE DIRECTOR, THE RETIRED ENLISTED ASSOCIATION, ON BEHALF OF THE MILITARY COALITION; AND HON. RANDY "DUKE" CUNNINGHAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Colonel PARTRIDGE. Thank you, Mr. Chairman. It is a pleasure to be here. And it is also a pleasure to hear the line of questioning and hear the testimony of the Members of Congress before us.

With base hospital closures, reduction in medical personnel, perennial medical funding shortfalls, the increasing lack of available health care continues to be a major concern to active and retired personnel, alike. In fact, the situation will clearly get worse as additional hospitals are converted to clinics and medical personnel downsizing continues.

Furthermore, each year the Secretary of Defense proposes additional rounds of base closures. Sooner or later, more closures will occur. This means hospitals will close and additional thousands of retirees will lose their health care benefit.

Our members remain concerned that the Department of Defense has no plan that the promised health care benefit will be in place by a certain date. In fact, military retirees are the only Federal employees that do not have a lifetime benefit. That is why we support providing FEHBP as an option. This is also why H.R. 3573 in the House and S. 2003 in the Senate have such strong grassroots support. Those bills would solve the problem.

FEHBP is widely available. There is a variety of plans and options. Its availability is not dependent on troop deployment or base closures. It is widely accepted by physicians and other providers. And it is cost effective for DOD, with low administrative costs.

Military hospitals and associated networks should remain the primary source of care for military personnel and their families and beneficiaries who could be guaranteed care. However, the FEHBP option is badly needed to ensure that everyone who served and was promised a health care benefit have access to a DOD-sponsored health care program.

Regarding the demonstration program, specifically, based on information received from our members and the test sites, there are several reasons for a low participation rate. They include lack of aggressive marketing by DOD. Initial explanations at the health fairs did not fully cover the interaction of FEHBP plans with the Medicare program. This was remedied during a second round of health fairs, and the fact that the enrollment period was extended, but by that time a lot of people had made up their minds.

A 3-year limit on the demonstration also deterred enrollees. They were concerned that the test would fail and not be extended and they would be faced once again with changing health plans.

Thus, we believe that allowing those who enrolled to remain in the program, even if FEHBP is not adopted worldwide, would allay these fears.

One feature of the test which locked FEHBP enrollees out of military treatment facility was also a deterrent. We believe that enrollees should no longer have fully paid care in MTF but should be allowed access with FEHBP being billed for the care, to include prescription drugs. This would allow MTF commanders to be reimbursed for space-available care, result in more-effective use of MTFs, and contribute to medical readiness by making these people available for the graduate medical education programs. Further, it would allow DOD to recover part of the premium cost.

The geographic limitations of the test also contributed to the lack of participation. Our recommendation last year and the recommendation this year is that the geographical limits be removed, and, if you are going to continue a test rather than make it permanent, raise the cap. Set the cap at some level and then enroll people until the cap is hit. That would give you a much better test, because, as has been stated, the current test proves nothing. It was flawed, and now we don't have sufficient data on which to base the decision.

The requirement to establish a separate risk pool for such a small population also could result in higher premiums; however, we would like to state that this was avoided by some carriers who decided to establish the same rate regardless of the risk so that they could get some feel for what this meant for military retirees.

Mr. Chairman, the National Military Veterans Alliance, the National Association for Uniformed Services, and the Society of Military Widows thank you for holding these hearings and thank you for letting us testify.

Mr. SCARBOROUGH. Thank you, Colonel Partridge, for all your hard work and your testimony.

[The prepared statement of Colonel Partridge follows:]

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"The Servicemember's Voice in Government"
Established 1958

STATEMENT BEFORE

THE SUBCOMMITTEE ON CIVIL SERVICE

OF THE

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

ON THE

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

DEMONSTRATION

FOR

MILITARY RETIREES

BY

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Curriculum Vitae and Organizational Disclosure Statements

Charles C. Partridge

Legislative Counsel

National Association for Uniformed Services

Colonel Partridge, US Army, Retired, has been the legislative counsel for NAUS since May 1984.

Colonel Partridge's military career spanned 31 years of enlisted and commissioned services in the reserve and active forces. He served in Vietnam, Germany, Korea and in several installations in the United States. Colonel Partridge served three tours in the Pentagon as a staff officer dealing with personnel matters. He also served as the Chief of Staff of the Army Intelligence and Security Command, Arlington, Virginia and as the Executive, Office of the Chief, Legislation Liaison, Secretary of the Army, Pentagon. He is a graduate of the Army War College, the Army Command and General Staff College, and has a Masters in Public Administration from Pennsylvania State University.

Disclosure

Neither the National Association for Uniformed Services (NAUS) nor the Society of Military Widows (SMW) has received a grant from (and/or subgrant) or a contract (and/or subcontract) with the federal government for the past three fiscal years.

INTRODUCTION

Mr. Chairman and distinguished members of the Committee, The National Association For Uniformed Services (NAUS) and the Society Of Military Widows (SMW) appreciate the opportunity to testify on the demonstration project to extend the Federal Employees Health Benefits Program (FEHBP) to military retirees and their families.

The National Association for Uniformed Services represents all ranks, branches and components of uniformed services personnel, their spouses and survivors. Our nationwide association includes all personnel of the active, retired, reserve and National Guard, disabled and other veterans of the seven uniformed services: Army, Marines, Navy, Air Force, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration.

Our affiliate, the Society of Military Widows, is an active group of women who were married to uniformed services personnel of all grades and branches and represents a broad spectrum of military society. From our membership of over 160,000 and 300,000 family members and supporters, or almost half a million voters, we are able to draw information from a broad base for our legislative activities.

We want to thank the committee for its long standing interest in military retirees and their health care. We also want to thank you for the opportunity to discuss the demonstration project for the Federal Employees Health Benefits Program for military retirees.

General

Medical care, including an adequate prescription drug program is a top concern of the military community. They were recruited and retained based on promises of a lifetime medical benefit which they have seen eroding year by year. Dissatisfaction with the failure of the US government to keep the medical care promise is having a serious impact on recruiting and retaining the current force. Retirees are a major part of the recruiting effort. Without their active support, recruiting suffers.

With base hospital closures, reduction in medical personnel, and perennial medical funding shortfalls the increasing lack of available health care continues to be a major concern to active and retired personnel alike. In fact, the situation will clearly get worse as additional hospitals are converted to clinics and medical personnel downsizing continues. Furthermore, each year the Secretary of Defense proposes additional rounds of base closures. Sooner or later, more closures will occur. This means hospitals will close and additional thousands of retirees will lose their health care benefit. After the previous round of closings DoD provided a BRAC prescription drug benefit; however most retirees do not benefit because they live in the wrong zip code or do not meet the prior use requirements to qualify.

Increasingly, we find that active duty personnel are also dissatisfied with their health care. Inadequate fee schedules, inflexible rules, red tape and slow bill payment discourage physicians and other providers from joining TRICARE- Prime networks. Medicare eligible retirees are not authorized to participate in TRICARE-Prime and the Administration opposes prompt expansion of the TRICARE Senior Prime demonstration. That demonstration would allow Medicare eligible retirees living near military hospitals to participate in a Military HMO.

With additional base closings, this option will serve fewer and fewer beneficiaries even if fully implemented. Our members remain concerned that the Department of Defense has no plan that will, by a date certain, provide the promised health care benefit. In fact, military retirees are the only Federal Employees that do not have a lifetime benefit.

That is why we support providing FEHBP as an option. It is widely available, there are a variety of plans and options, its availability is not dependent on troop deployment or base closures and it is widely accepted by physicians and other providers. FEHBP is cost effective for DoD, with low administrative costs. Military hospitals and associated managed care networks should remain the primary source of care for military personnel, their families and military beneficiaries who can be guaranteed care. However, the FEHBP option is badly needed to insure that all who served and were promised a Health Care benefit have access to a DoD sponsored health care program.

FEHBP Demonstration

Last Year, the Department of Defense began the Congressionally mandated demonstration authorizing medicare eligible military retirees, their family members and survivors and certain other beneficiaries to participate in the federal Employees Health Benefit Program. The demonstration sites are in areas including: New Orleans, LA- Dover ABP, DE- Puerto Rico- Fort Knox, KY- Greensboro/ Winston-Salem, NC- Dallas, TX- Humboldt County, CA- Camp Pendleton, CA.

As of March 6, 2000, 2,401 individuals of the 66, 000 eligible population were enrolled. This is approximately 3.4 percent of the total, far short of DoD's prediction that some 80% would enroll.

Based on information received from our members in the test sites there are several reasons for the low participation rate. They include, lack of aggressive marketing by DoD; initial explanations at health affairs did not fully cover the interaction of FEHBP plans with the Medicare program. This was remedied during a second round of health fairs during an extension of the period that retirees could enroll. The three-year limit on the demonstration also deterred enrollees; they were concerned that the test would fail or that the program would not be extended and they would be faced once again with changing health plans. Thus, allowing those enrolled to remain in the program, even if FEHBP is not adopted, would allay these fears.

One feature of the test, locking FEHBP enrollees out of military treatment facilities was also a major deterrent. We believe that enrollees should no longer have fully paid care in MTFs, but should be allowed access with FEHBP paying for the care to include prescription drugs This would allow MTF Commanders to be reimbursed for space available care, resulting in more effective use of MTFs and contribute to medical readiness. Further, it would allow DoD to recover part of the premium cost. The geographic limitations of the test also contributed to the lack of participation. We recommend that the geographical limits be removed and the 66,000 cap be raised. For these reasons, the demonstration was flawed and as we testified last year, DoD will not obtain sufficient data on which to base a decision as the current demonstration is structured.

The requirement to establish a separate risk pool for such a small population could require higher premiums. This was avoided by some carriers establishing the same rates for military retirees as other beneficiaries for purposes of the test. They will monitor the military participants and adjust the premiums.

Mr. Chairman, the National Association for Uniformed Services and the Society of Military Widows thank you and this subcommittee for holding this hearing and for your continuing support for improving health care for military beneficiaries.

Mr. SCARBOROUGH. Ms. Pugh, welcome back.

Ms. PUGH. Thank you very much. Good afternoon, Chairman Scarborough, Mr. Mica, and Mr. Miller.

The Military Coalition appreciates the opportunity to discuss reasons we believe have led to the dismal enrollment numbers in FEHBP 65 tests. Today, of course, 2,562 beneficiaries, about 4 percent of the 66,000 enrollees authorized by Congress, have enrolled in this test. This number reflects the extended enrollment period from December 1999 through March 2000.

To better understand the reasons why retirees, both enlisted and officers, were and were not enrolling in FEHBP 65, in January the Military Coalition sent 7,410 health surveys to affiliated eligible association members residing in test sites offering FEHBP 65 only. For those 2,622 that responded, only 13 percent enrolled, while the other 87 percent did not enroll.

In one question, those not participating could mark one or more reasons for non-enrollment, and many entered additional comments explaining why they chose not to enroll. Some of these conclusions that were drawn—the Coalition believes the extremely low participation rate is contributed to a variety of reasons, to include lack of timely delivery of accurate and comprehensive information about FEHBP 65 to eligible retirees.

The first health fairs sponsored by DOD were not conducted until the first week of November, a month later from the targeted TMA marketing plan. The fairs were planned hastily, with little or no notification for eligible enrollees.

Reading comments from those surveyed, "The town hall meetings were very unsatisfactory. No one had answers to questions." "The town hall meetings were poorly planned and publicized." I believe this is the reason for such a poor participation in the program.

Also, the call centers lacked knowledgeable specialists to provide answers to simple questions and to send adequate educational materials.

Survey comments: "Requested forms and information to enroll, but never received information." "Getting information was very frustrating. The DOD information center did not appear to ever get a grasp of what the program was all about."

There was fear of venturing into an unknown health care program with the worry they would have to change plans again when the test authority expired in 2002. The limited, 3-year test deterred many eligible beneficiaries from enrolling.

Survey comments: "Just couldn't risk having to try to get insurance at age 73 should the demonstration fail to be renewed." "FEHBP 65 program may not last." Another quote, "I plan on enrolling in FEHBP 65 when the program becomes available to all military retirees on a regular basis, not a test basis."

Beneficiaries were concerned about pre-existing medical conditions if the tests terminated and they needed to resume their Medigap coverage.

There was a lack of understanding by the target population about FEHBP, including the potential cost savings of their existing Medicare supplemental insurance if they were to opt for an alternative.

Beneficiaries were concerned about the benefits provided under the various FEHBP plans to those enrolled in Medicare part B. DOD marketing materials failed to adequately highlight that copays and deductibles are waived for fee-for-service plans for Medicare eligibles enrolled in part B. Virtually all potential enrollees, 93 percent, are enrolled in Medicare part B.

DOD did not market FEHBP in a timely manner to a population of members new to the FEHBP plan, unlike Federal civilian retirees.

There was a 10 percent error rate in DOD's first mail-out, but to date DOD has made no effort to correct this data base.

Finally, it is in the opinion of the coalition that if DOD wanted this program they would have marketed appropriately to this population of eligible enrollees.

Marketing material from past and future DOD programs demonstrate their lack of commitment to properly market the FEHBP 65 test.

The TRICARE senior prime test and TRICARE senior supplement were illustrated in glossy and informative marketing materials that are attractive to the customer and user friendly, too. A post card, a nice brochure, and a nice book—I might want to participate in—in comparison to the inadequate, misleading materials sent to FEHBP 65.

If I was a retiree and I received this, I would probably throw it away because I have TRICARE on it, and if you are over 65 you can't enroll in TRICARE, and this was a post card that came out that was due on July 15th that didn't come out until August 15th.

In conclusion, the coalition recommends a guaranteed enrollment beyond the test date, an aggressive education and marketing program, mailings to all eligible beneficiaries in each site, and expansion in number of enrollees in the upcoming years for a truly fair assessment of FEHBP 65.

Thank you.

Mr. SCARBOROUGH. Thank you. We appreciate the testimony.

[The prepared statement of Ms. Pugh follows:]

THE MILITARY COALITION

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STATEMENT OF THE MILITARY COALITION (TMC)

on

CONCERNS ABOUT IMPLEMENTATION OF FEHBP-65
DEMONSTRATION PROGRAM

provided to the

HOUSE GOVERNMENT REFORM COMMITTEE'S
SUBCOMMITTEE ON CIVIL SERVICE

March 8, 2000

Presented by

Kristen Pugh
Deputy Legislative Director
The Retired Enlisted Association

MISTER CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE

On behalf of The Military Coalition, we would like to express appreciation to the Chairman and distinguished members of the House Government Reform Committee's SubCommittee on Civil Service for holding this important hearing. This testimony provides the collective views of the following military and veterans organizations which represent more than 5 million members of the seven uniformed services, officer and enlisted, active, reserve, veterans and retired plus their families and survivors.

- Air Force Association
- Army Aviation Association of America
- Association of Military Surgeons of the United States
- Association of the United States Army
- Chief Warrant Officer and Warrant Officer Association, United States Coast Guard
- Commissioned Officers Association of the United States Public Health Service, Inc.
- Enlisted Association of the National Guard of the United States
- Fleet Reserve Association
- Gold Star Wives of America, Inc.
- Jewish War Veterans of the United States of America
- Marine Corps League
- Marine Corps Reserve Officers Association
- Military Chaplains Association of the United States of America
- Military Order of the Purple Heart
- National Military Family Association
- National Order of Battlefield Commissions
- Society of Medical Consultants to the Armed Forces
- The Retired Enlisted Association
- The Retired Officers Association
- United Armed Forces Association
- United States Army Warrant Officers Association
- United States Coast Guard Chief Petty Officers Association
- Veterans of Foreign Wars
- Veterans' Widows International Network, Inc.

The Military Coalition does not and has not received any federal grants, and does not have nor has had any contracts with the federal government.

INTRODUCTION

The Military Coalition (TMC) appreciates the opportunity to discuss the reasons we believe have led to the dismal enrollment in the Federal Employees Health Benefit Program Demonstration project (called FEHBP-65). This hearing is particularly important to the Coalition since many of its members are 65 and older and lose TRICARE when they become eligible for Medicare at 65.

Because of four rounds of base closings, which resulted in 58 military treatment facilities (MTFs) being closed, and the downsizing of many of the remaining MTFs due to budget restrictions, retirees no longer have reasonable access to "space available" care in MTFs. Accordingly, older retirees are growing very angry that access to military-provided health care is not there when they need it most. These are the retirees who served in World War II, Korea and Vietnam, who "were promised lifetime health care" in exchange for a career in the uniformed services. These retirees and their spouses are being left to Medicare as their sole source of health care. They are anxious and are facing serious financial difficulties having to pay more out of pocket for supplemental insurance, dental care and drugs. The fact remains that Department of Defense (DoD) has a moral responsibility to provide a medical benefit to those men and women who have retired honorably after faithfully serving in the Uniformed Services.

The demographics have changed from the 1950's when retirees were only 7 percent of the military health care beneficiary population. Today, retirees and their families make up more than half of the total uniformed services community.

A significant victory for the uniformed services retired community occurred when the FEHBP–65 Demonstration was included in the Defense Authorization Act for FY1999. Accessing a complete health care benefit equal to what all other federal civilian employees have under the FEHBP was not only the right thing to do, but it was the equitable thing to do.

On September 12, 1995, this subcommittee held the first hearing to look at an alternative option for military retirees to access health care through FEHBP on the very same basis as any other federal employee. Subsequently, House and Senate members began introducing legislation to address the viability of this program to the service community. Although we unequivocally preferred worldwide

FEHBP, the Coalition strongly endorsed H.R. 1766 and the Senate companion bill (S. 1334), calling for testing FEHBP for Medicare eligible retirees 65 and older. On May 21, 1998, the House passed the Watts-Moran-Thornberry amendment to authorize DoD to test enrolling Medicare-eligible retired uniformed services beneficiaries in FEHBP, with a vote of 420-1. The amendment was subsequently included in the FY1999 Defense Authorization bill (H.R. 3616). That was an historic vote whereby the House acknowledged that the "broken promise of lifetime health care" would be honored for retired servicemembers. After that tremendous victory, the Coalition anxiously awaited the implementation of this test program as member interest began to grow and calls for enrollment information came into the associations.

The Coalition was pleased with the provisions in the FY 1999 Defense Authorization Act which allows up to 66,000 Medicare-eligible uniformed service beneficiaries to enroll in the Federal Employees Health Benefit Program (FEHBP-65) at six to ten sites around the country. Further, the Coalition was pleased that the Civil Service Subcommittee followed up by holding hearings in June 1999 to address implementation of the FEHBP-65 test. The Coalition believed that without adequate education and marketing of the program to the 66,000 eligible beneficiaries the test would possibly fail. DoD representatives stated during the hearing that they expected a 70 percent participation rate - a rate far above what we expected based on other options available to the targeted beneficiaries.

While the Coalition appreciates the hard work that DoD did to choose the sites, and finish all preparations in time for the open enrollment period last November, we were very disappointed in the low enrollments during the open season. To date, only 2,310 beneficiaries - approximately three and one-half percent of the 66,000 potential enrollees authorized by Congress - have enrolled in the test. That is even with the extension of the enrollment period from December 31, 1999 through February 2000.

The Coalition believes the extremely low participation rate is attributable to a variety of reasons to include:

- Lack of timely delivery of accurate and comprehensive information about the FEHBP-65 test to eligible beneficiaries
- Inertia on the part of some beneficiaries caused by their fear of venturing into uncharted

waters with the worry they would have to change plans again when the test authority expires in 2002;

- Beneficiaries' concerns about pre-existing medical conditions if the test terminates and they need to resume their Medigap coverage;
- A lack of understanding by the target population about FEHBP, including the potential cost savings over their existing Medicare supplemental insurance if they were to opt for this alternative; and
- Beneficiaries' uncertainty about the benefits provided under the various FEHBP plans to beneficiaries who are also enrolled in Medicare Part B

We would like to expand upon some of the reasons for the low enrollments in FEHBP-65.

POOR MARKETING

There was a lack of timely delivery of accurate and comprehensive information about the FEHBP-65 Test to eligible beneficiaries.

We believe the marketing materials for the FEHBP-65 test were inadequate and did not hit the mark. DoD marketing materials for the FEHBP-65 test failed to highlight that copays and deductibles are waived under fee-for-service plans for Medicare-eligibles enrolled in Medicare Part B. This is a real shortcoming given that virtually all of the potential enrollees are enrolled in Medicare Part B.

DoD did not market the program in a timely manner. The marketing timeline dates set up by the Tricare Management Activities (TMA) office, which oversees the program, were not met. The first notification of the program for eligible beneficiaries was planned to be via a postcard mailed out by July 15, 1999. This postcard was not mailed until August 15th. To compound the problem, the postcards mailed on August 15th, provided a telephone number that was not operational until September 7, 1999 and the white paper brochure, which provided some information about the eligibility requirements for the program, carried the TRICARE logo. Retirees 65 and older know

they are not eligible for TRICARE; therefore, many of the retirees discarded this material as not applicable to them.

The "Health Fairs" sponsored by DoD were not conducted until the first week of November - a month later from the expected marketing plan. These fairs were planned hastily by DoD. In the October 1999 FEHBP carrier meeting, DoD assumed the carriers were responsible for putting the fairs together. Therefore, the fairs were put together quickly with short notification to beneficiaries. Beneficiaries were not properly informed about the benefits of enrolling in the FEHBP test program. The bottom line is TMA failed to commit time for informative and meaningful "health fairs" in the test sites.

Address errors. Some eligible beneficiaries in these sites did not receive notification of this test. DoD itself admitted there was a 10% address error rate in its first mail-outs, but to date has made no effort to correct the database. Further, DoD apparently will make no effort to notify those who will be turning 65 during the test period they would be eligible to enroll in the FEHBP - 65 test.

EDUCATION MATERIALS WERE INADEQUATE

Beneficiaries were concerned about pre-existing medical conditions and penalties if the test terminated and they had to resume their Medigap Coverage. These concerns were not specifically addressed.

Beneficiaries were not informed specifically about the potential cost savings over their existing Medicare supplemental if they selected this alternative.

Beneficiaries were uncertain about the benefits provided under the various FEHBP plans if they were also enrolled in Medicare Part B.

The test program was being offered to beneficiaries who were unfamiliar with FEHBP, unlike retired Federal Employees who understand the program. It was essential that they be educated on how FEHBP works as a wrap around health care coverage to Medicare, as well as if there were protections on their Medigap plans during this 3-year test.

PREFERRED CURRENT HEALTH CARE PLANS

Many beneficiaries did not want to change their current plan - Medicare HMO, Employee Sponsored Health Care, Medicare Subvention (TRICARE Senior Prime) or Medigap supplemental insurance.

At two FEHBP test sites where TRICARE Senior Prime was also operating, enrollees, as expected, remained in TRICARE Senior Prime. If that experience were applied and TRICARE Senior Prime were expanded across the country, the Coalition expects that this program would only serve 33 percent of the 1.4 million retired uniformed services beneficiaries over the age of 65. According to the Government Accounting Office, about 17 percent of retired beneficiaries have employer-sponsored health care from second career employment. Over 15 percent of Medicare-eligible beneficiaries are enrolled in a Medicare Risk HMO – military retirees enroll at a similar rate. Of the balance of the population, or about 35 percent of the 1.4 million population, many are set on using Medicare Standard and Medigap insurance. However, other retirees may find FEHBP an attractive alternative to buying Medigap insurance. The Coalition estimates that the actual participation in FEHBP would be no more than 10-20 percent when considering the premiums they must pay.

ENROLLMENT NUMBERS

The FY 99 Defense Authorization Act subtitle C, Section 721 limited the eligibility and number of enrollees to 66,000 enrollees for the test program. The Coalition knew that these designated 66,000 eligible participants would not all enroll because of the limited three-year test program. Many of these participants may have employer-provided insurance, Medicare Risk HMOs, Medigap policies, or have enrolled in TRICARE Senior Prime as in the case of the Dover, DE program. At best, the Coalition expected around 10,000 to enroll in the program during the November 1999 open enrollment period. However, that proved too ambitious given that the actual enrollments have been just over 2,300 beneficiaries.

The Coalition would like to see the number of test sites expanded so that more participants can enroll in FEHBP-65 during the calendar year 2000 open enrollment season; an increase the number of enrollees to 200,000 in the 2001 open enrollment period and expansion of the demonstration to enough test sites to accommodate these potential enrollees. In a recent Senate Armed Services Hearing on March 2, Dr. Sue Bailey, Assistant Secretary for Health Affairs for DoD, stated her commitment to expand the FEHBP-65 Demonstration to two more sites this year.

SURVEY FINDINGS

In anticipation of a need to fully understand why retirees were or were not enrolling in the FEHBP-65 program, several associations within The Military Coalition cooperated in distributing surveys to their members in the several test sites. Slightly over 10,000 surveys were mailed in the last half of January and a large number have been returned. Preliminary results are just becoming available. It is anticipated that we will have a very high response rate because of the high interest in improved health care alternatives for Medicare-eligible military retirees.

One of the survey questions provided a list of reasons that individuals may have in not signing up for the FEHBP-65 test program. Individuals were invited to mark one or more reasons for their non-enrollment. Data from 536 non-enrollees at FEHBP-65 test sites, excluding Dover AFB and Camp Pendleton where both the FEHBP-65 and TRICARE Senior Prime test programs were offered, shows the following:

- 58 % preferred their current health care program,
- 40% were unwilling to enroll in a demonstration program,
- 39% said they didn't understand how FEHBP-65 was better than their current program,
- 31% were concerned that they may not be able to regain a Medicare supplemental policy if the program were discontinued,

- 28% said the costs were too high and
- 24% said the FEHBP-65 was too complex and confusing.

Responses from potential FEHBP-65 enrollees in the Dover and Camp Pendleton area (where TRICARE Senior Prime is offered) showed similar responses. As expected, some of these members were already enrolled in the TRICARE Senior Prime program and gave that as a reason for not enrolling in the FEHBP-65 program.

All survey respondents were asked to enter any comments at the end of the survey. Many respondents entered comments explaining why they chose not to enroll in the FEHBP-65 program. They made the above points in many different ways. We would be pleased to provide examples of their comments to you or your staffs should you want them. We believe you would find the comments very helpful in understanding what our members expect in a comprehensive health care program.

RECOMMENDATIONS

Legislatively, the Coalition supports H.R. 205, introduced by Rep. James Moran, which would enable Medicare-eligible uniformed services beneficiaries to enroll in FEHBP on a worldwide basis. We also support H.R. 113, introduced by Rep. Randy "Duke" Cunningham which remove the current numerical and geographic limits on the test sites. Finally, we strongly support H.R. 2966, introduced by Rep. Ronnie Shows, which would provide FEHBP or TRICARE for life to Medicare-eligible beneficiaries and would provide that care free to retirees who entered the uniformed services prior to June 7, 1956. This bill takes a significant step toward honoring the lifetime health care commitment.

As the initial participation has been so low, and thus the financial impact of the test has been much less than anticipated, the Coalition strongly recommends DoD be directed to immediately select two additional sites with large beneficiary populations of 25,000 or

more for inclusion in the test next year. It is also imperative that the zip codes applicable to the current sites be expanded to reach additional potential enrollees.

Further, the Coalition strongly recommends that DoD continue to increase efforts to communicate and explain fully the benefits available under the FEHBP test, including the option to revert to a Medigap policy without pre-existing illness restrictions should the test be terminated. These efforts should include ensuring that all eligible beneficiaries in each site receive notification of this test.

To salvage this test, and keep faith with retirees, the Coalition respectfully requests that this Subcommittee take immediate action to urge the Secretary of Defense to expand the test to two additional sites beginning in the next Open Season (Fall 2000) and broaden the existing test sites so that the targeted enrollment of 66,000 beneficiaries can be realized. Due to contract negotiations over benefits and rates, the selection of these sites is time-sensitive to OPM and FEHBP carriers. To facilitate the process and ensure that OPM has adequate time to commence negotiations with the carriers, it is important that this decision be made before the end of March. Further, the Coalition strongly recommends that at the very least, current test participants must be allowed to continue their participation in FEHBP even after the conclusion of the demonstration program. And finally, the Coalition further urges this Subcommittee to expand the FEHBP-65 program worldwide as quickly as feasible and make it a permanent program.

Closing Comments

The Military Coalition commends this Subcommittee for all its work which led to the enactment of the FEHBP-65 Demonstration. In order to fairly test this program, OPM, DoD, Congress, and the Coalition must all work together to study the viability of this option for military retirees for the future. Improving the marketing, education, and increasing the enrollment numbers would allow better data to be collected and more accurate test results to

be obtained.

Initial expansion of the test this year, guaranteed enrollment beyond the test date, and an aggressive education program are the only ways that a fair assessment can be made of the propensity of uniformed services beneficiaries to enroll in the program, the resultant government cost, and the success or failure of FEHBP as an option to honor the lifetime health care commitment.

Thank you for allowing The Military Coalition to present its views to this distinguished committee and its members.

Mr. SCARBOROUGH. I wanted to start by asking you all a question. You two have obviously been key leaders in the implementation of this, as far as lobbying for it, encouraging better efforts by DOD and OPM. Let me ask both of you to separately grade DOD and OPM on their implementation of the program.

I see you smiling, but what would it be? You have been there from the beginning?

Ms. PUGH. I will answer first. I guess, on the very beginning, if we can walk back to the July hearing that we had, there were great concerns of what OPM's role was, as well as the Department of Defense.

The information provided—there was a true disconnect, because DOD, in the very beginning, did not know. They thought the health fairs were going to be sponsored by us or the health insurance companies. That is a disconnect. The material that was provided from them we never reviewed before it was sent out. There was no real commitment.

The information from OPM is the information that they provide to all Federal employees, and if you haven't retired as a Federal civilian servant you don't know what those numbers mean. You don't know. When you look at a chart, you don't understand it.

So I feel that DOD did very poor marketing, and OPM put out what they needed that was provided and required by law.

Mr. SCARBOROUGH. Colonel Partridge.

Colonel PARTRIDGE. I will underline that. Our concern all along was that the selection of the sites were done on a random basis, probably for good reason, but that helped in the failure of it. It is just not a passing grade in terms of laying a program out that we could get behind early on, get our people informed, and help inform.

Mr. SCARBOROUGH. Throughout the process—and I know you talked about a disconnect—throughout the process, did you find DOD and OPM responsive to military retiree groups, concerns that you had? Let us talk about that dialog. Let us talk about the disconnect, particularly with DOD, who thought that you all were going to be implementing these health fairs or sponsoring the health fairs. How responsive were they to your concerns?

Colonel PARTRIDGE. Once we saw where this was going, we went over and began to express our concern at the staff level, and I think at that point they began to react, but it was too late.

Much of the material was already out there. People had already made up their mind by the time we started the second round.

Ms. PUGH. I guess another thing to add, too, is concerning the fact that we knew where we were in July. We needed to take our time and start marketing in August, and one post card did not provide any adequate information. We needed to start doing health fairs then.

Again, when you do a health fair in November and the November enrollment season starts 10 days later or 5 days later and you weren't notified of that health fair, how can you make a decision in 2 months?

Mr. SCARBOROUGH. Hearing your testimony, it sounds like marketing may have been the biggest effect. Is that a fair assessment of your testimony? Was poor marketing——

Ms. PUGH. It is a very fair assessment.

Mr. SCARBOROUGH. That was part of it?

Ms. PUGH. Not only just the marketing aspect, but the education materials behind the marketing. As I pointed out in my testimony, people didn't really understand the protections on the Medigap policy.

Mr. SCARBOROUGH. Yes.

Ms. PUGH. If you are over 65, the last thing you want to be doing is dropping the current plan that you have to go into a program where you don't know if you will be protected.

I guess the caveat is the insurance carries out there, the Medigap, couldn't answer that question, nor could the call center.

As an example, one of my members called me and I sent him the law that he would be protected on the Medigap policy.

Mr. SCARBOROUGH. Yes.

Ms. PUGH. That should have been done at the very beginning.

Mr. SCARBOROUGH. Right.

Colonel Partridge, marketing problems?

Colonel PARTRIDGE. Yes, sir.

Mr. SCARBOROUGH. Do you think that was the main problem?

Colonel PARTRIDGE. Marketing was a major problem, but the policy was also a problem. The short duration, the way it was designed—in other words, if you enrolled the first year, you have 3 years.

Mr. SCARBOROUGH. Right.

Colonel PARTRIDGE. If you wait till the second year, you have 2 years. If you enroll the third year, you have 1 year, and the fact that they couldn't continue in the program.

I think the fact that they knew it was a test and they would have to get out was a major factor.

Mr. SCARBOROUGH. And how do we get around that? I mean, here we are a year into it. Again, if you look at the number, we have lost over 300,000 World War II veterans in the past year who were short-changed, who had their promises broken to them, just like my grandfather did as a veteran of World War II and the Korean War. He died bitter at the Government because the Government broke the promise.

Are we going to be wasting another 2 years? I mean, even with the best of marketing, is there any way to make this program work with only 2 years left?

Colonel PARTRIDGE. No. I would say that the odds are greatly against us. If we leave the program just as it is, leave the 2-years as it is, tell people, "You are going to have to get out of this program at the end," I don't see how we can fix it at this point.

Mr. SCARBOROUGH. What if DOD tries to improve the program and we still only have 2 years?

Colonel PARTRIDGE. I think the 2-year limit is a major factor. I think that will, in itself, be a major deterrent against people signing up.

Mr. SCARBOROUGH. Is there any way around that, or not?

Colonel PARTRIDGE. Of course, what we would like to do is make it permanent. One way to fix that is, if you enroll in the program, you are in for the rest of your life, whether we continue the program or not.

So let us say suppose we had 66,000 people enrolled in it—and you have got what in the Federal plan, several million? I mean, what difference? There would be no reasonable cost there. You could allow that to happen. Let them stay in.

Of course, our view would be let us go ahead and make it permanent, and if you want to control the cost, control the cost by setting caps of who can enroll in it each year.

Mr. SCARBOROUGH. Ms. Pugh, are we kidding ourselves by thinking that we can now improve marketing a year into the program and do all these other wonderful things and set up better call centers and set up better health fairs while still not providing a lifetime benefit? Are we kidding ourselves saying that there is any way to make this work?

Ms. PUGH. I think, on the first note, we have already marketed to this population, so they are already turned off.

Mr. SCARBOROUGH. Right.

Ms. PUGH. So I don't know how we capture that population again, No. 1.

No. 2, with 2 years left, again, the same conclusions are going to be drawn from retirees—dropping current health care, what they already know to go into something for 2 years.

I think the only thing—and what Colonel Partridge indicated to, as well—is expanding it and making it a permanent program, or, at the very least, grandfather the population now and then in the future so there is a sense of security that they can go into this program for their life.

Mr. SCARBOROUGH. OK.

Mr. Miller.

Mr. MILLER. That sounds good.

Do you have any feeling about the 4 percent, that 1,600? Do you have any sense of what their experience is so far?

Ms. PUGH. Yes, I do. I told you I did a survey, and——

Mr. MILLER. That is great you did a survey.

Ms. PUGH. Yes. And we can provide and place in the record the information that we received. But, going through some of the comments, from even people that enrolled I went through some comments. People still were uncertain when they enrolled in the program. They took a chance, is basically what they said. So that is one conclusion.

Some of the other observations were reasons why people didn't participate is maybe they already had a FEHBP, and that is——

Mr. MILLER. These are the ones that already participate?

Ms. PUGH. Are participating.

Mr. MILLER. So that 4 percent, which I know is not a very large sample to talk about—I mean, 1,600 people signed up.

Ms. PUGH. Some of the survey responses, people are very content. They are very content from the FEHBP product. Going into it, they were wary, but now, being in the program, they are very happy to see that they have a pharmacy benefit and a true wraparound to the Medicare coverage.

A caveat to that is we have got some people who responded to the survey who already are retired civilian employees, and they indicated in their comments, "We are so happy to see, for the first

time, that some of the people that we served alongside get to have this benefit."

Mr. MILLER. When they get to choose, do they have similar choices that we, as Federal employees, have?

Ms. PUGH. Yes.

Mr. MILLER. The same type of choices?

Ms. PUGH. Yes.

Mr. MILLER. But they don't pay—you know, we have a different rate. We choose whichever plan we want, the more we pay.

Ms. PUGH. The rates were adjusted because it is a separate risk pool.

Mr. MILLER. Right.

Ms. PUGH. Actually, we were surprised. Some of the rates were a little lower, and that is actuary work done by the insurance carrier. But they do have to pay. I mean, DOD pays the 72 percent and they have to pay the rest of the percentage.

Mr. MILLER. Better marketing, information, and the guarantee that they are going to be able to stay in the demonstration—for those that sign up, they are good for the rest of their lives, as long as they want to. And then, if we could enlarge the size of the pool—what about the question of the sites selected. I don't think Florida got selected, did we?

Mr. SCARBOROUGH. No, and I am having a hard time figuring out why.

Mr. MILLER. I think three of us from Florida are on this committee.

Mr. SCARBOROUGH. Well, that is why.

Mr. MILLER. But what impact—I think you said that it was a random selection process. How much of a problem was the sites to you?

Colonel PARTRIDGE. My only point there was that perhaps by deliberately picking sites, which might have been politically unfeasible from the prospect of DOD, but by actually picking sites, even with a small number we could have gotten a better test than the random selection, because the way the random selection process worked, it truly was random. I am sure that just by a little analysis and judgment we might have been able to have done a better test. I don't know for sure.

Ms. PUGH. And, just to add to that point, we have always said, from the very beginning, working with this committee and the staff on this committee, especially, we should never have had sites, per se. It should have just been opened up nationally with 300,000 enrollees eligible to participate, because we are seeing 66,000. We have a little under 2,600 who enrolled.

Mr. MILLER. Do you see problems if we opened it up nationally to, say, 300,000, rather than target it? I mean, the logic was you wanted to have certain geographic regions that are fairly compact to work with, but do you see any problems why that would work if you just said anyone in the country that wanted to join it could do it?

Ms. PUGH. From the very beginning, no, I don't. And actually the language in the Senate side, S. 2087 that the chairman referred to earlier, does have a provision to give DOD authority to drop those

barriers, but it still limits the enrollment to 66,000. We have always said to open it up.

Colonel PARTRIDGE. The good part about doing that nationwide is that you could start the enrollment and control it by caps and suppose, after you finish the enrollment period, you have got 50,000 people waiting to get in, then you would know that. The way we do it now, we don't know. We don't really know who wants it and didn't get it. It is just not there.

Mr. Cunningham has a bill, H.R. 113, that would have done that. It would have removed the geographical limits, as would the current bill in the Senate.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. SCARBOROUGH. I thank you, Mr. Miller.

I would like to welcome Congressman Cunningham here.

Why don't we do this—let me thank you all for coming and, again, helping us out from the very beginning, and we will dismiss you now.

I have got a couple other questions that I am going to forward to you all in writing. If you could return them to me in a couple weeks, that would be great.

Thanks again.

While we are changing panels, Congressman Cunningham, we certainly would appreciate your testimony and invite the third panel up.

Mr. CUNNINGHAM. Thank you, Mr. Chairman. I am going to be blunt.

Mr. SCARBOROUGH. What a departure, Randy. [Laughter.]

Duke is going to be blunt. Can you believe that? Next you are going to tell me Mike is going to be blunt.

Mr. CUNNINGHAM. We are going to draw that trail in the sand, line in the sand, whatever you want to call it.

I know that the previous panels have covered what the problems are. We have FEHBP for Federal workers, and the bottom line is we don't have it for Federal workers in the military that have substandard living, where the children are ripped out of the schools, the family can't make investments because they are moved all over the country, they are asked to go on, in this administration, multiple deployments and ripped away from their families, and in many cases they don't come back because they are killed and the children are left without fathers or mothers in many cases, and that is just wrong.

Regardless of what it takes, it is time that we, as a Nation, live up to our word and give our military retirees, veterans, the health care that has been promised to them.

If you have a civilian worker that gets this and a military that goes out and fights for this country and makes these sacrifices, it is just wrong, whatever it takes.

If you want to get it—and I told you I would be frank—you need to get rid of a White House that has an anti-military bias, and we plan on doing that. I have talked to both Governor Bush and John McCain and people on the Senate side, and we are going to make this happen after November and we are going to push it through and we are going to support our military and we are going to sup-

port our veterans. And I am tired of excuses from both Republicans and Democrats on why we can't do this and giving in to it.

If you need to take a look, yes, lift the artificial geographical and numerical demonstration limits. This was a plan that was failed to doom—and we said it—when the administration limited us in the scope in which we wanted to do this and they said it would cost too much.

We need to get this done, and we need to take those limits off for the same reasons that the testimony was given before and why it failed.

Not only was it not marketed a couple of months before—and I don't fault DOD that much, because I know the problems they have had with 149 deployments all over the country and looking at what their budgets are and looking at the limits that they have to take care of their people.

The subvention bill was my bill. TRICARE is a Band-aid. Where it is available, then it is not a bad program, but in many cases it is not. And those are Band-aids, and it is time that we go forward and move with this damn thing.

We need to lift the prohibitions on the MTFs and FEHBP participants and allow those military facilities to charge FEHBP plans for retiree services. That hasn't been done, and we can do that.

You ask, "Is it legitimate to go out and market a plan with 2 years?" And I agree with the previous thing. No, because when you tell people that they may not even be able to get back into their original plans if they go on this pilot program, they are scared, and they are not going to do it. I sure wouldn't do it.

Until we come up and we extend the timeline and we open this thing up, it is going to be a waste of time, but the bottom line, Mr. Chairman, is we need to open this thing up and give the military Federal retirees the same as civilian.

I can have a secretary, when I was in the military, work side by side with me, and they are good. She can get FEHBP, I cannot as a military retiree, and that is wrong.

I yield back, Mr. Chairman.

Mr. SCARBOROUGH. Thank you very much, Congressman Cunningham.

Thank you, once again, for your hard work and for your testimony before this committee. If you can stick around, I look forward to you answering some questions.

Rear Admiral Carrato, welcome back. We are happy to have you here again. We had you in Florida a few weeks ago and had you here last year and certainly look forward to your testimony.

Same with you, Mr. Flynn. Welcome back.

Rear Admiral Carrato.

STATEMENTS OF REAR ADMIRAL THOMAS F. CARRATO, USPHS, DIRECTOR, MILITARY HEALTH SYSTEMS OPERATIONS, TRICARE MANAGEMENT ACTIVITY; AND WILLIAM E. FLYNN III, DIRECTOR, RETIREMENT AND INSURANCE PROGRAMS, OFFICE OF PERSONNEL MANAGEMENT

Admiral CARRATO. Mr. Chairman, Mr. Miller, I appreciate the opportunity to discuss our progress in implementing the FEHBP demonstration program.

The demonstration makes FEHBP enrollment available to certain military health system beneficiaries, principally military retirees who are Medicare eligible and their family members.

The Department of Defense has worked closely with OPM in implementing this program.

Pursuant to the statute, last year we selected eight sites for the program, told eligible beneficiaries about the program, and conducted an open enrollment season coincident with the usual FEHBP open season in November and December for health care enrollment effective January 2000.

Enrollment during the open season was very low. Through December 30, 1999, there were about 1,300 enrollees. This represented less than 2 percent of the total eligible population.

We were very concerned by the low enrollment and wanted to make sure everyone had gotten the word and understood the opportunity. The Department worked with OPM to develop an additional mailing for late December to do three things: to emphasize the significance of the opportunity, to clarify the relationship of FEHBP plans to Medicare coverage, and to provide additional time for beneficiaries to consider enrolling.

This was in keeping with normal OPM policy to provide additional time for beneficiaries to enroll, even after open season has technically ended, if they have not had sufficient time to consider the opportunity.

In addition to the mailing, DOD arranged and conducted 18 town hall meetings across the eight demonstrationsites during January 2000. I would like to acknowledge the participation of Congresswoman Kay Granger, Congressman Richard Burr, and Congressman Mike Thompson in our town meetings, as well as the help and participation of several other congressional staff members.

As a result of the additional marketing, over 1,000 more beneficiaries are covered by the demonstration. Nearly half of the growth of enrollment was in Puerto Rico, where there were 308 persons covered as of December 30 and over 950 as of early April.

Actual enrollment has fallen far short of even the most modest estimates of participation. The Department shares the committee's concern about the level of enrollment.

We take congressional mandates seriously and have spent over $4 million in establishing the mechanisms to support the program and market it effectively to eligible beneficiaries. This represents an investment of over $50 per eligible person, or, looked at another way, over $1,700 for every enrollee in the demonstration.

GAO is conducting a beneficiary survey to evaluate in detail why beneficiaries enrolled or not, and we would defer to their findings in this regard.

We would point out that enrollment response has been the best in those sites with very limited access to military health care—Puerto Rico; Greensboro, NC; and the northern California area.

Given that enrollment falls far short of the levels authorized for the demonstration, the Department believes that it would be appropriate to add two more sites to the demonstration, bringing the total number of sites to the statutory maximum of ten.

On April 6 we randomly chose two seed counties for the new sites in the three TRICARE regions still available. The statutory

authority limits us to one site per TRICARE region, so only regions 3, 11, and the central region were eligible. The counties chosen at random were Coffee County, GA and Adair County, IA. We are going to be adding counties to these seed counties to reach 25,000 additional eligibles per site. Enrollment in the new sites will begin in the fall 2000 open season.

The Department, in cooperation with OPM, has made a concerted, sustained effort to get the word out, to fully inform beneficiaries about this important opportunity, and to give them adequate time and support in their decisionmaking. We are gaining valuable information about beneficiary preferences and desires, and we look forward to GAO's detailed findings on the beneficiary survey.

As the Department conducts these tests—FEHBP, TRICARE senior, and other approaches for meeting the health care needs of our senior beneficiaries—we always remember the substantial sacrifices that these people made for their country. We take increased devotion to our daily tasks from their honorable service, and we keep in mind their fallen comrades who gave their last full measure of devotion.

Thank you.

Mr. SCARBOROUGH. Thank you, Admiral.

[The prepared statement of Admiral Carrato follows:]

Implementation of the Federal Employees Health Benefits Program Demonstration Program

Statement By

Rear Admiral Thomas F. Carrato, USPHS
Director, Military Health System Operations
TRICARE Management Activity

Submitted to the

Civil Service Subcommittee
Committee on Government Reform and Oversight
U.S. House of Representatives

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Mr. Chairman, Distinguished members of the Committee, I appreciate the opportunity to discuss our progress in implementing the demonstration program required by section 721 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999. The demonstration makes enrollment in the Federal Employee Health Benefits Program available to certain Military Health System beneficiaries, principally military retirees who are Medicare eligible and their family members.

The Department of Defense has worked closely with the Office of Personnel Management in implementing the demonstration program. Pursuant to the statutory direction, last year we selected eight sites for the program, told eligible beneficiaries about the program, and conducted an open enrollment season coincident with the usual FEHBP open season in November and December for health care enrollments effective January 2000.

In its invitation to this hearing, the committee asked that we specifically address several items, including:

1. **The most recent enrollment data available for the demonstration.** This issue is addressed in testimony, and was submitted in advance for Committee review.

2. **An assessment of the difficulties low enrollment will create for participants and carriers in the future.** We have discussed this question with the Office of Personnel Management, and they will address it in their testimony.

3. **Recommendations for improving the demonstration project.** The Office of Personnel Management has prepared some recommendations to improve the Fall 2000 open season for persons eligible for the demonstration. We plan to work closely with OPM in developing the marketing plan and approach, to assure that beneficiaries have all the information they need to make their enrollment decision.

In addition to requesting that we address these issues, the Committee asked that the Department provide information on several matters in advance of the hearing, including:

- Implementation of the memorandum of understanding between the Department and the Office of Personnel Management for the conduct of the demonstration.
- Timelines, milestones, schedules or similar documents relating to implementation or marketing of the demonstration, and any missed deadlines or targets.
- Detailed information about each health fair conducted by the Department, including attendance, publicity, responsible persons, materials used, training materials, and other documentation.
- Plans for marketing and conducting health fairs.
- Training materials and scripts or reference material used in operation of the Call Center for the demonstration.

- Information on meetings, discussions, or conversations regarding implementation, marketing, and operation of the Call Center for the demonstration.
- Documents relating to a decision to have a second open season, require those who enrolled in the second open season to pay premiums back to January 1, 2000, and changes in the marketing plan for the second open season.
- Information on whether the Department has analyzed the number of enrollees and its effect on the demonstration.
- Information on any consultation with OPM or FEHBP carriers regarding low participation rates and their effect on future premiums.
- Any additional documentation relating or referring to the demonstration.

In response to the request from the committee, the Department has provided several thousand pages of documentation about the development and marketing of the demonstration. I will address some of the issues of concern in my testimony.

Premium Rates in the Demonstration

Because the statutory authority for the demonstration provided for a separate risk pool for the demonstration, and set government contributions at the standard rates for Federal employees, beneficiary groups were concerned that FEHB plans might set rates too high. That concern was allayed when Blue Cross and Blue Shield, and several other plans, set their rates at the same level as for Federal employees and annuitants. Although many plans did set their rates higher than their standard FEHB premium levels (some dramatically higher) beneficiaries did have a choice of plans at the same premium levels experienced by Federal employees and annuitants.

Overview of the Marketing Effort

From the outset, the demonstration project was marketed beyond the conventional scope of the FEHBP due to the eligible population's unfamiliarity to the program, unlike the regular FEHBP eligible population who must be enrolled in the program for five years before continuing enrollment through retirement.

Summary of Phase 1 Activities

- During the period January 1998 to December 1999, the Department had over 20 meetings with representatives from the Military Coalition and Military Veterans Alliance where the FEHBP Demonstration was discussed.
- A DoD news release was issued on Jan 14, 1999, Military Retirees' Federal Employees Health Benefits Program Test Sites Selected.
- On August 10, 1999, postcards were sent to all eligible beneficiaries within the 8 demonstration sites. The mailing of the postcard to beneficiaries in the demonstration sites was delayed from the planned date of July 15, because of two printer's errors

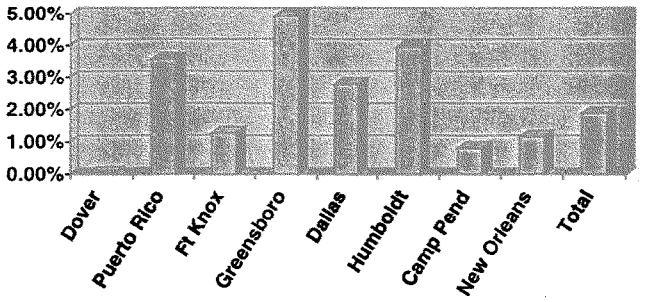
that forced two reprintings of the postcards. There was no discernible impact on beneficiaries from this delay.

- On September 1, 1999, the Department distributed 67,164 informational brochures in English and on September 4, 1999, distributed 4,651 informational brochures in Spanish to Puerto Rico.
- A toll-free Call Center opened on September 7, 1999 offering bilingual services.
- All eligible beneficiaries within the continental United States received the OPM 2000 Rate/Plan Guide between November 3-5, 1999, with an inserted flyer announcing health fair times and locations. This was later than the scheduled time of October 30, because of production delays in printing the OPM Guide. There have been anecdotal reports that some beneficiaries did not receive the mailing announcing the health fair until it was too late to attend.
- In order to accommodate eligible beneficiaries within the Commonwealth of Puerto Rico, 4,651 bilingual postcards with health fair times and locations were sent to Puerto Rico on November 20, 1999.
- The Department participated in or organized health fairs throughout November and December to coincide with the Open Season November 8 through December 13. About 2,370 beneficiaries attended the health fairs. We are particularly grateful to the Congressional staff members who took time to assist us and attend some of the fairs.
- The TRICARE web site regarding the FEHBP demo was accessed over 10,000 times in the months leading up to the enrollment season.

Enrollment Results from Phase 1

Through December 30, 1999, there were about 1,300 enrollees (technically, covered persons). This represented less than 2 percent of the total eligible population. Chart 1 displays the results by site.

Chart 1: Percentage of Eligible Beneficiaries Enrolled, by Site, December 1999



Summary of Phase 2 Activities

Owing to the very low response, the Department worked with OPM to develop an additional mailing for late December, to emphasize the significance of the opportunity, to clarify the relationship of FEHB plans to Medicare coverage, and to provide additional time for beneficiaries to consider enrolling. This was in keeping with normal OPM policy to provide additional time for beneficiaries to enroll, even after open season has technically ended, if they have not had sufficient time to consider the opportunity.

In addition to the mailing, DoD arranged and conducted 18 town hall meetings across the eight demonstration sites during January 2000. We would like to acknowledge the participation of Congresswoman Kay Granger, Congressman Richard Burr, and Congressman Mike Thompson in our town meetings, as well as the help and participation of several Congressional staff members.

Enrollment Results from Phase 2

As a result of the additional marketing, over 1,000 more beneficiaries are covered by the demonstration. Nearly half of the growth was in enrollment in Puerto Rico where there were 308 persons covered as of December 30, and 773 as of late February.

Assessment of Enrollment Results and the Demonstration's Success

In last year's testimony before this committee, I cited participation estimates by the Congressional Budget Office, the General Accounting Office, and others, which have ranged up to 83 percent of eligible beneficiaries. Given the level of interest by beneficiary groups in this program we assumed that a significant portion of the eligible beneficiaries might participate. It should be noted that under this demonstration, there is a statutory limit of 66,000 participants. If the Department had to stop enrollment due to high rates of participation, this would have lessened the validity of the demonstration results, since under the regular FEHBP Program, there are no limits on enrollment. This would make it impossible to draw conclusions about the most important issue being tested in the demonstration – the level of beneficiary participation.

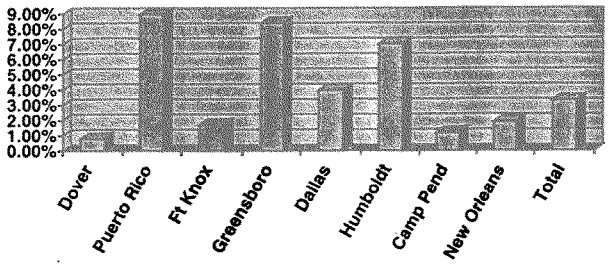
Now, the initial results are in, and actual enrollment has fallen far short of even the most modest estimates of participation. The Department shares the Committee's concern about the level of enrollment, in part because we have made a substantial commitment of staff resources and funding to the successful implementation and operation of the demonstration. We take Congressional mandates seriously, and have spent over $4 million in establishing the mechanisms to support the program and market it effectively to eligible beneficiaries. This represents an investment of over $50 per eligible person, or looked at another way, over $1,700 for every enrollee in the demonstration.

The General Accounting Office is conducting a beneficiary survey to evaluate in detail why beneficiaries enrolled or not, and we would defer to their findings in this regard. Since their results will not be available for some time, we provide the following discussion of possible reasons for the low participation.

First, some beneficiaries may have had inadequate information, or not enough time to decide on whether to enroll. This possibility was the principal factor in our decision to work with OPM to mail additional information to all beneficiaries in late December, and conduct additional marketing activities in each site in early January. The number of additional enrollees since January 1 (nearly 1,000) suggests that time and information may have played some part in the low participation. However, most of the more recent enrollees are from Puerto Rico, where we are aware of communications problems, rather than from all the sites. On balance, it does not appear that lack of information or time is the main reason for low participation.

Second, there are clear patterns in the enrollment levels by site. Chart 2 displays the percentage of eligible beneficiaries who are enrolled, by site, as of late February.

Chart 2: Percentage of Eligible Beneficiaries Enrolled, by Site, February 2000



Enrollment response has been best in those sites with very limited access to military health care – Puerto Rico, Greensboro, and Northern California. In locations with a military facility, or where beneficiaries have access to military pharmacy coverage, enrollment has been much lower – suggesting that access to military health care services may play a big role in beneficiary decision making. This would be consistent with the Department's position in its 1998 Report to Congress on FEHBP coverage, to focus on areas away from military facilities. The Department proposed to "work with the Congress on a test, subject to new funding being provided, of FEHBP coverage and other means of expanding health care benefits for military beneficiaries over age 65 in several locations outside military medical treatment facilities catchment areas."

Third, beneficiaries may have made their health care arrangements, and be unwilling to change them for a limited-term demonstration. Our experience with the TRICARE Senior (Medicare Subvention) Demonstration was similar, in that initial

enrollment demand was considerably below early projections. In part, this can be attributed to the beneficiary education and marketing process, but beneficiary resistance to disrupting their lives to enroll in a temporary program is likely a factor also. GAO's review should shed light on the significance of this.

Fourth, there may be a variety of other factors at work, and we hope that GAO's survey and evaluation will help uncover them. For example, age, health status, existing insurance coverage, financial status, and retired rank are some of the variables which may affect an individual's decision to enroll.

Planned Expansion of the Demonstration

Given that enrollment falls far short of the levels authorized for the demonstration, the Department believes that it would be appropriate to add two more sites to the demonstration, bringing the total number of sites to the statutory maximum of ten. Site selection will need to be carried out in the next few weeks to make it possible for the sites to be included in the open season enrollment period later this year. This is because of the long lead time needed for negotiations with the FEHB plans in the selected sites. Our intention in selecting sites would be to choose areas with substantial numbers of eligible beneficiaries (20,000 or more per site) in order to increase the size of the demonstration meaningfully.

DoD's Commitment to Its Senior Beneficiaries

DoD recognizes its responsibility to offer a health program for military beneficiaries aged 65 and older, and is committed to maintaining access to care despite reductions in medical infrastructure. For example, DoD mail order and retail pharmacy benefits are extended to Medicare-eligible beneficiaries who formerly relied on now-closed pharmacies – over 400,000 persons.

We believe that significant efficiencies can be achieved in the Military Health System. Our strategy is to explore and test viable options for retiree health care, and to identify the best ways to meet our beneficiaries' needs in the future.

Among the programs that are now under way or being developed are the following:

- **TRICARE Senior** (Medicare subvention) is undergoing a 3-year test at six sites, as authorized by the Balanced Budget Act of 1997. Under TRICARE Senior Prime, DoD may receive capitated payments from Medicare Trust Funds for beneficiaries enrolling in TRICARE.

- A demonstration project at **MacDill AFB**, Florida involves enrollment of 2,000 seniors for primary care services at the MacDill hospital; when they need services beyond the capabilities of MacDill, they will obtain those services from civilian

providers and use their Medicare entitlement. Annual DHP funding of $2 million has been allocated to this project.

- **Additional demonstrations** besides the FEHBP demonstration include a test of TRICARE as a supplement to Medicare, at two sites, and enhanced pharmacy coverage, at two sites. Marketing of the TRICARE Senior Supplement is under way now in Santa Clara, California and the Cherokee County, Texas area. The pharmacy pilot program will start in July.

With full implementation of these demonstration programs next year, DoD will have in place projects in about 20 locations, affecting about 100,000 65 and over military beneficiaries. As information becomes available about beneficiary satisfaction, program costs and feasibility, and other factors, it will be vital to examine the options and come up with a well-reasoned approach to meeting the health care needs of the beneficiaries, to whom the nation owes so much.

Access to military health care is a benefit these people have earned based on their years of service to and sacrifice for their country. Many of them were promised free care for life if they spent a career in the military. DoD feels a sincere and enduring responsibility for the health of our retired beneficiaries, and will do all it can to meet its moral commitment to provide health care for our military retirees and their families. At the same time, they understand the reality of fewer hospitals, fewer physicians, and less money. We are committed to finding the best alternatives for ensuring our older retirees and their families comprehensive health care delivery.

Summary -- Keeping our Commitments

The Department, in cooperation with OPM, has made a concerted, sustained effort to get the word out, to fully inform beneficiaries about this important opportunity, and give them adequate time and support in their decision making. We are gaining valuable information about beneficiary preferences and desires, and we look forward to GAO's detailed findings on their beneficiary survey. There are improvements that we can make for the next open season, and we plan to make them.

As the Department conducts these tests of FEHBP, TRICARE Senior, and the other approaches for meeting the health care needs of our senior beneficiaries, we always keep in mind the substantial sacrifices that these people made in service to their country. We also remember their comrades in arms, who gave the last full measure of devotion.

Thank you.

Mr. SCARBOROUGH. Mr. Flynn.

Mr. FLYNN. Thank you, Mr. Chairman and Mr. Miller and other members of the subcommittee. We appreciate very much your invitation to appear before you today.

I want to discuss OPM's perspective on the initial enrollment results under the Federal employees health benefits demonstration project for Medicare-eligible military retirees and members of their families.

Enrollment in the demonstration project to date is slightly under 1,700 new members, encompassing a little over 2,500 people. From a total eligible base of about 66,000, these initial results, as you have heard this afternoon, are, admittedly, disappointing.

Both OPM and the Department of Defense have invested considerable resources and cooperated closely on every aspect of implementation. We believe our experience has demonstrated that we can and will do things even better in the second year, and we welcome the opportunity today to discuss that with you.

At the outset, we made two basic decisions in undertaking implementation of this project.

First, we felt it was important to carry out the pilot program so that, as much as possible, it looked just like the Federal Employees Health Benefits Program.

Second, we acknowledged that this group would need special information. Unlike Civil Service retirees, these individuals were largely unfamiliar with the Federal Employees Health Benefits Program and how it worked.

With these factors in mind, we in the Department of Defense divided up our respective responsibilities to run the project and reflected that in a memorandum of understanding. We developed a substantial set of materials tailored to the population covered by the project, and we provided copies of those materials to the subcommittee, and I would be happy to answer any questions you might have about them.

In addition, both the Department of Defense and our staff worked with representatives of the military coalition and alliance groups in sharing information as implementation of the project progressed.

While marketing did go beyond the conventional scope of activities for regular Civil Service retirees, only about 500 persons were enrolled by the official close of the 1999 open season. Because of this, as Admiral Carrato has mentioned, we allowed belated open season enrollments, with coverage and premiums taking effect retroactive to January.

These figures suggest that we should increase even more the amount of information needed to introduce this program to individuals who are not familiar with it. Persons making this choice clearly want more information not only about the Federal Employees Health Benefits Program, but also about how it compares with available alternatives. Similarly, more direct contact with eligible individuals before the open season seems warranted.

However, lack of familiarity with the Federal Employees Health Benefits Program is only one of the dynamics in this project. Anecdotal evidence suggests that many eligibles may not perceive our

program as the preferred option. For example, of over 66,000 people contacted, only about 3,600 requested enrollment materials.

Similarly, as you have heard, enrollment rates in the project show that areas such as Greensboro, NC; Dallas, TX; and Humboldt County, CA were higher than project sites where military treatment facilities are located. This suggests that, when access to military treatment facilities is available, individuals are less likely to sign up for the Federal Employees Health Benefits Program.

As well, Medicare eligible retirees with zero premium Medicare plus choice HMO contract coverage might prefer that arrangement.

And, since the project is limited to 3 years, as you have heard again this afternoon, there is evidence that individuals were reluctant to sign up because of a concern about being uninsured at the end of the project.

And, as you have heard this afternoon, the law does expressly entitle beneficiaries to reacquire coverage without preexisting condition limitations when they no longer participate in the project. Nonetheless, it seems clear that some individuals are concerned about this.

Your invitation asked us to talk about the difficulties that low enrollment could create for participants in health plans. As you know, and in testimony before this subcommittee last year, we anticipated that possibility and consulted with the health plans to develop a risk mitigation strategy to help insulate premiums from the impact of utilization. In most cases, that seems to have had the desired effect, as you have heard earlier, about the premiums and their relative position to the regular FEHBP premium.

Certainly, we share your concerns about where we go from here to improve this project, and I have outlined some actions that seem warranted. In addition, the GAO survey that has been mentioned will be useful in understanding the interests of this population and planning improvements for the future.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions you or the other Members may have.

Thank you.

Mr. SCARBOROUGH. Thank you. We appreciate your testimony.

[The prepared statement of Mr. Flynn follows:]

STATEMENT OF
WILLIAM E. FLYNN, III
U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM

at an oversight hearing on

THE DOD/FEHBP DEMONSTRATION PROJECT—BROKEN PROMISE?

MARCH 8, 2000

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THE INVITATION TO APPEAR TODAY. I AM HERE TO DISCUSS THE OFFICE OF PERSONNEL MANAGEMENT'S PERSPECTIVE ON INITIAL ENROLLMENT RESULTS UNDER THE DEPARTMENT OF DEFENSE'S FEDERAL EMPLOYEES HEALTH BENEFITS DEMONSTRATION PROJECT FOR MEDICARE-ELIGIBLE MILITARY RETIREES AND OTHER ELIGIBLE BENEFICIARIES. UNDER THIS PROJECT, UP TO 66,000 ELIGIBLE BENEFICIARIES WHO LIVE IN DESIGNATED AREAS CAN ENROLL IN THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM. THIS DEMONSTRATION BEGAN WITH THE FALL 1999 OPEN ENROLLMENT PERIOD AND WILL CONTINUE THROUGH DECEMBER 31, 2002.

ENROLLMENT IN THE DEMONSTRATION PROJECT TO DATE IS SLIGHTLY UNDER 1700 NEW MEMBERS, ENCOMPASSING ABOUT 2400 COVERED LIVES,

DESPITE SPECIAL EFFORTS TO INFORM ELIGIBLE BENEFICIARIES THAT THE DEPARTMENT OF DEFENSE WOULD ACCOMMODATE BELATED OPEN SEASON ENROLLMENTS. THESE INITIAL RESULTS ARE ADMITTEDLY DISAPPOINTING. NONETHELESS, BOTH THE OFFICE OF PERSONNEL MANAGEMENT AND THE DEPARTMENT OF DEFENSE HAVE INVESTED CONSIDERABLE RESOURCES AND HAVE COOPERATED CLOSELY ON EVERY ASPECT OF IMPLEMENTATION. WE BELIEVE OUR EXPERIENCE HAS DEMONSTRATED THAT WE CAN DO SOME THINGS BETTER IN THE SECOND YEAR, AND WE WELCOME THE OPPORTUNITY TO DISCUSS THAT WITH YOU.

AT THE OUTSET, WE MADE TWO BASIC DECISIONS IN UNDERTAKING IMPLEMENTATION. FIRST, WE FELT IT WAS REASONABLE THAT TREATMENT OF MILITARY BENEFICIARIES UNDER THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM SHOULD BE AS MUCH LIKE CIVIL SERVICE RETIREES AS POSSIBLE. THE OFFICE OF PERSONNEL MANAGEMENT ASKED THE DEPARTMENT OF DEFENSE TO ESTABLISH ONE OFFICE TO FUNCTION LIKE A FEDERAL EMPLOYING OFFICE IN ADMINISTERING ENROLLMENT, PREMIUM COLLECTION, AND INFORMATION DISSEMINATION, AND TO CREATE A CALL CENTER FOR CUSTOMER SERVICE. THE DEPARTMENT CONTRACTED WITH A VENDOR TO OPERATE A PROCESSING CENTER FOR ENROLLMENTS AND OTHER MATTERS. OUR AGENCY THEN COORDINATED TRAINING FOR THE VENDOR'S STAFF ON ELIGIBILITY CRITERIA AND ON PAYROLL AND PERSONNEL OFFICE FUNCTIONS.

THE SECOND DECISION ACKNOWLEDGED THAT THIS GROUP WOULD NEED SOME SPECIAL INFORMATION. UNLIKE CIVIL SERVICE RETIREES WHO TYPICALLY PARTICIPATE IN THE HEALTH INSURANCE PROGRAM DURING ALL OR AT LEAST A SUBSTANTIAL PART OF THEIR CAREER, THESE INDIVIDUALS WOULD BE LARGELY UNFAMILIAR WITH HOW THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM WORKS.

WE ENTERED INTO A MEMORANDUM OF UNDERSTANDING WITH THE DEPARTMENT OF DEFENSE FOR THIS PROJECT. IT ASSIGNS TO THE DEPARTMENT RESPONSIBILITY FOR IDENTIFYING ELIGIBLE BENEFICIARIES AND MARKETING, INCLUDING ARRANGING FOR HEALTH FAIRS AND TOWN HALL MEETINGS, AND HANDLING ENROLLMENT AND CUSTOMER SERVICE. THE OFFICE OF PERSONNEL MANAGEMENT ASSISTED BY REVIEWING ENROLLMENT AND MARKETING STRATEGIES, PROVIDING TRAINING FOR THE PROJECT STAFF AND, IN CONSULTATION WITH THE DEPARTMENT, DEVELOPING SPECIAL PROGRAM MATERIALS FOR BENEFICIARIES.

INITIAL PROGRAM MATERIALS FOR THE PROJECT INCLUDED: A SPECIAL ENROLLMENT GUIDE, THE 2000 GUIDE TO FEDERAL EMPLOYEES HEALTH BENEFITS PLANS PARTICIPATING IN THE DOD/FEHB DEMONSTRATION PROJECT; A HANDBOOK, FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM AND MEDICARE; AND A TRIFOLD INFORMATIONAL BROCHURE, DOD FEDERAL

EMPLOYEES HEALTH BENEFITS PROGRAM (FEHBP) DEMONSTRATION PROJECT. THE GUIDE CAME WITH A COPY OF THE 1999 PLAN SATISFACTION SURVEY RESULTS THAT SHOWS HOW PARTICIPANTS RATE THEIR HEALTH PLANS.

IN DECEMBER 1999, AFTER REVIEWING OPEN SEASON ACTIVITY AND BENEFICIARY INQUIRIES TO THE CALL CENTER, WE WORKED WITH THE DEPARTMENT TO PREPARE A SPECIAL MAILING FOR ALL ELIGIBLES: THE DOD/FEHBP DEMONSTATION MAY BE FOR YOU. IT ADVISED THAT IT WAS NOT TOO LATE TO ENROLL AND IT INCLUDED FREQUENTLY ASKED QUESTIONS ON THE PROJECT AND ITS RELATIONSHIP TO MEDICARE.

BOTH THE DEPARTMENT OF DEFENSE AND OUR AGENCY WORKED WITH REPRESENTATIVES OF MILITARY COALITION AND ALLIANCE GROUPS IN SHARING INFORMATION AS IMPLEMENTATION OF THE PROJECT PROGRESSED. THE DEPARTMENT ISSUED A NEWS RELEASE IN JANUARY 1999 TO ANNOUNCE THE SELECTION OF TEST SITES. IN AUGUST 1999, POSTCARD ANNOUNCEMENTS WENT OUT TO ALL ELIGIBLE BENEFICIARIES IN THE EIGHT DEMONSTRATION AREAS. THE POSTCARD FEATURED AN INTERNET WEBSITE ADDRESS AND A TOLL-FREE PHONE NUMBER FOR MORE INFORMATION. PRIOR TO THE 1999 OPEN ENROLLMENT PERIOD, THE OFFICE OF PERSONNEL MANAGEMENT SENT THE CALL CENTER A LARGE SUPPLY OF HANDBOOKS ON THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM AND MEDICARE FOR

DISTRIBUTION. THEN, IN THE FIRST WEEK OF NOVEMBER 1999, THE CALL CENTER MAILED ALL ELIGIBLE BENEFICIARIES THE 2000 GUIDE TO FEHB PLANS PARTICIPATING IN THE DOD/FEHB DEMONSTATION WHICH INCLUDED INFORMATION ON HOW TO ENROLL, TOGETHER WITH A FLYER WITH HEALTH FAIR TIMES AND LOCATIONS.

WHILE MARKETING TO PROJECT ELIGIBLES WENT BEYOND THE CONVENTIONAL SCOPE OF ACTIVITY FOR REGULAR CIVIL SERVICE RETIREES, ONLY ABOUT 500 PERSONS WERE ENROLLED BY THE OFFICIAL CLOSE OF THE 1999 OPEN SEASON. IN RESPONSE TO EXPRESSED CONCERNS BY REPRESENTATIVES OF BENEFICIARY GROUPS AND MEMBERS OF CONGRESS, WE MET WITH THE DEPARTMENT AND CONCLUDED THAT THEY SHOULD ALLOW BELATED OPEN SEASON ENROLLMENTS. WE FURTHER AGREED THAT ELIGIBLE INDIVIDUALS SHOULD RECEIVE ANOTHER MAILING OFFERING THEM A 30-DAY PERIOD DURING WHICH THEY COULD REQUEST FURTHER INFORMATION. UNDER OUR REGULATIONS, FEDERAL EMPLOYING AGENCIES MAY ACCEPT BELATED OPEN SEASON ENROLLMENTS WHEN THE AGENCY DETERMINES THAT EXTENUATING CIRCUMSTANCES PREVENTED A PERSON FROM MAKING A TIMELY CHOICE. WHEN AN AGENCY ACCEPTS A BELATED OPEN SEASON ENROLLMENT, COVERAGE AND PREMIUMS TAKE EFFECT WITH THE FIRST PAY PERIOD THAT BEGINS IN JANUARY FOLLOWING THE REGULARLY SCHEDULED OPEN ENROLLMENT PERIOD.

THE LAST MAILING TO DEMONSTRATION ELIGIBLES FOR THE 1999 OPEN SEASON BEGAN IN THE THIRD WEEK OF DECEMBER 1999. THE MATERIAL ADVISED RECIPIENTS OF THEIR CONTINUED OPPORTUNITY TO ENROLL AND THAT THE EFFECTIVE DATE OF COVERAGE AND PREMIUMS WOULD BE JANUARY 1, 2000. IT ALSO NOTIFIED THEM OF TOWN HALL MEETINGS DURING JANUARY 2000 AND INCLUDED FREQUENTLY ASKED QUESTIONS ABOUT HOW HEALTH BENEFITS COORDINATE WITH MEDICARE. THE OFFICE OF PERSONNEL MANAGEMENT SENT A LETTER TO HEALTH PLANS TO INFORM THEM ABOUT THE DECISION TO ACCEPT BELATED OPEN SEASON ELECTIONS. WE PROVIDED A COPY OF THE MAILING FOR BENEFICIARIES AND ASKED PLANS PARTICIPATING IN THE PROJECT TO PROVIDE ASSISTANCE IN CONDUCTING TOWN HALL MEETINGS. AS A RESULT OF THESE EFFORTS, ENROLLMENT HAS INCREASED AND NOW INCLUDES ABOUT 2400 COVERED LIVES. IT WILL BE ANOTHER FEW WEEKS BEFORE FINAL RESULTS ARE AVAILABLE.

THE IMPROVED ENROLLMENT FIGURES FOLLOWING THE DECEMBER MAILING SUGGEST THAT THE OFFICE OF PERSONNEL MANAGEMENT AND THE DEPARTMENT OF DEFENSE SHOULD REVIEW THE LEVEL OF EFFORT NEEDED TO INTRODUCE THIS PROGRAM TO INDIVIDUALS WHO HAVE NO PRIOR EXPOSURE TO HOW IT WORKS. PERSONS IN THIS SITUATION CLEARLY WANT INFORMATION, NOT ONLY ABOUT THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM, BUT ALSO ABOUT HOW IT COMPARES WITH

ALTERNATIVE HEALTH CARE PROGRAMS THAT ARE AVAILABLE TO THEM. SIMILARLY, MORE DIRECT CONTACT WITH ELIGIBLE INDIVIDUALS IN ADVANCE OF THE FIRST OPEN ENROLLMENT PERIOD SEEMS WARRANTED.

HOWEVER, THE BENEFICIARIES' LACK OF FAMILIARITY WITH THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM IS ONLY ONE OF THE DYNAMICS AT WORK IN THIS PROJECT. ANOTHER IS INDIVIDUAL HEALTH CARE PREFERENCE. A HALLMARK CHARACTERISTIC OF THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM IS THE FACT THAT IT OFFERS PARTICIPANTS A BROAD CHOICE OF HEALTH PLANS AND EMPHASIZES THAT INDIVIDUALS SHOULD CAREFULLY REVIEW THEIR OPTIONS AND SELECT A HEALTH PLAN THEY FEEL IS BEST FOR THEIR SITUATION. ANECDOTAL EVIDENCE SUGGESTS THAT MANY ELIGIBLES MAY NOT PERCEIVE OUR PROGRAM AS A PREFERRED OPTION. FOR EXAMPLE, OF THE OVER 66,000 ELIGIBLES WHO RECEIVED INFORMATION, ONLY ABOUT 3,600 REQUESTED ENROLLMENT MATERIALS FROM THE CALL CENTER. WE CAN SUGGEST SEVERAL LIKELY REASONS FOR THIS.

PROJECT ENROLLMENT RATES TO DATE SHOW THAT NON-CATCHMENT AREAS SUCH AS GREENSBORO, DALLAS, AND HUMBOLT COUNTY, ENROLLED A SIGNIFICANTLY HIGHER PERCENTAGE OF ELIGIBLES THAN PROJECT SITES LOCATED IN MILITARY TREATMENT FACILITY CATCHMENT AREAS. IT IS PROBABLE THAT MILITARY RETIREES ARE MOST FAMILIAR WITH, AND HAVE

A STRONG PREFERENCE FOR, USING DEFENSE DEPARTMENT FACILITIES. THOSE WHO HAVE ACCESS TO FREE SPACE-AVAILABLE CARE AND PRESCRIPTION DRUGS IN A MILITARY TREATMENT FACILITY ARE UNLIKELY TO SWITCH TO FEDERAL EMPLOYEES HEALTH BENEFITS COVERAGE WITH ENROLLEE COST SHARING.

SIMILARLY, MEDICARE-ELIGIBLE RETIREES WHO RESIDE IN THE SERVICE AREA OF A ZERO-PREMIUM MEDICARE + CHOICE HEALTH MAINTENANCE ORGANIZATION MIGHT PREFER THAT TO AN ARRANGEMENT LIKE OURS WITH PREMIUMS. ALSO, SINCE THE PROJECT IS LIMITED TO 3 YEARS, ELIGIBLE BENEFICIARIES MAY BE RELUCTANT TO GIVE UP OTHER INSURANCE OUT OF CONCERN ABOUT BEING UNINSURED AT THE END OF THE PROJECT. IN THIS REGARD, THE LAW AUTHORIZING THE PROJECT EXPRESSLY ENTITLES BENEFICIARIES TO ACQUIRE A MEDIGAP POLICY WITH NO PREEXISTING CONDITION LIMITATIONS AT THE END OF PARTICIPATION IN THE PROJECT. HOWEVER, SOME ELIGIBLES MAY NOT HAVE FOCUSED ON MATERIALS EXPLAINING THAT PROTECTION.

YOUR INVITATION ASKED ABOUT THE DIFFICULTIES THAT LOW ENROLLMENT COULD CREATE FOR PARTICIPANTS AND HEALTH PLANS. ABSENT SOME MECHANISM TO PROTECT HEALTH PLANS WITH SMALL ENROLLMENTS AND HIGH UTILIZATION, RISK CHARGES WOULD HAVE INFLATED PREMIUMS AND LED TO MAJOR DISTORTIONS IN PROJECT

RESULTS. WE ANTICIPATED THE POSSIBILITY AND CONSULTED WITH HEALTH PLANS TO DEVELOP A RISK MITIGATION STRATEGY TO HELP INSULATE PREMIUMS FROM THE IMPACT OF ABNORMAL UTILIZATION.

TO COUNTERACT THE IMPACT ON PREMIUMS FOR A HEALTH PLAN WITH ABNORMALLY HIGH UTILIZATION OF SERVICES, OPM WILL MAKE THE PROGRAM'S ADMINISTRATIVE RESERVE AVAILABLE TO REIMBURSE THE CARRIER FOR EXCESSIVE LOSSES. TO ENSURE PROPER ACCOUNTING, WE WILL REQUIRE AN ANNUAL ACCOUNTING OF REVENUE AND COSTS ATTRIBUTABLE TO THE PROJECT POPULATION. AT THE END OF THE 3-YEAR DEMONSTRATION PERIOD, WE WILL DETERMINE THE NET POSITIVE OR NEGATIVE EXPERIENCE AND AGGREGATE RESERVE SURPLUSES WILL BE DISTRIBUTED PROPORTIONATELY TO THE CONTINGENCY RESERVES OF ALL HEALTH PLANS.

CERTAINLY, WE SHARE YOUR CONCERNS ABOUT WHERE WE GO FROM HERE TO IMPROVE THIS PROJECT AND I HAVE OUTLINED SOME ACTIONS THAT SEEM WARRANTED IN MY STATEMENT. WE SHOULD HAVE FINAL NUMBERS FROM THE ENROLLMENT PERIOD AT THE END OF THIS MONTH. THAT, AND THE GENERAL ACCOUNTING OFFICE'S SURVEY OF ELIGIBLES WHO DECLINED PARTICIPATION, WILL BE EXTREMELY USEFUL IN BETTER UNDERSTANDING THE INTERESTS OF THIS POPULATION, AND PLANNING IMPROVEMENTS FOR THE FUTURE.

IN SUMMARY, WE BELIEVE THAT ELIGIBLE MILITARY BENEFICIARIES WOULD BENEFIT FROM RECEIVING INFORMATION ON FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM AND MEDICARE COORDINATION WELL IN ADVANCE OF THE NEXT OPEN ENROLLMENT PERIOD. FURTHER, WE WILL WORK WITH THE DEPARTMENT OF DEFENSE TO PROVIDE SPECIALLY TARGETED INFORMATION FOR THEIR BENEFICIARIES. THIS SHOULD INCLUDE INFORMATION WHICH CLEARLY EXPLAINS HOW THE FEDERAL EMPLOYEE HEALTH BENEFITS PROGRAM COMPARES WITH OTHER HEALTH CARE ALTERNATIVES FOR THAT POPULATION.

THIS CONCLUDES MY STATEMENT. I WILL BE HAPPY TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE AT THIS TIME.

Mr. SCARBOROUGH. Let us talk, Admiral, first of all, about marketing. Again, to recap—and I know you have heard this before, but we had a discussion last year about the turn-out, and I had said it was going to be low, you had said that DOD believed it would be as much as 85 percent, and, quite frankly, I was right, you were wrong. But I think the one thing that I think you probably couldn't even foresee last year was just how bad your marketing was going to be. I mean, you may have spent $4 million on marketing this thing, or DOD may have, but they sure didn't spend any money on marketing materials.

Our last panel showed this to us. Again, the TRICARE materials are exceptional. I think I could even convince a few dumb Members of Congress to get into TRICARE after reading this. But you look at the FEHBP thing. Seriously, I mean, first of all, unmarked. A lot of them didn't know where it was coming from. This card is just absolutely unbelievable. I mean, compare it to this. There is absolutely no comparison. And on this FEHBP material you actually—I mean, this seal, it was done on somebody's computer, and it wasn't even a good computer that it was done on. There is pixelation here. I don't want to get in great detail, but I guarantee you you could buy a $500 computer at Office Depot and put something together that looks better than this.

I mean, we understand. This matters. We have got e-mails up from people that called in and threw it away and looked at it as junk mail, and I don't think it is being too cynical to believe that somebody putting these materials together really didn't care whether people read it or not, and if it got thrown away that was a win for DOD.

How do you explain marketing materials this bad? And please don't tell me that you are in charge of printing or anything like that. Hopefully it is somebody else over at the DOD. But, I mean, it is awful. I mean, do you agree with me that this stuff is not the top-quality material that you would prefer come out to promote this project?

Admiral CARRATO. Let me start by saying I am responsible for this demonstration program and I put an excellent team in place to implement this program, in cooperation with OPM. On the DOD side, there is largely the team that is responsible for other 65 demonstrations, so I can tell you that we made every effort to make this a successful program.

Mr. SCARBOROUGH. Did you sub out this work?

Admiral CARRATO. Let me just draw a distinction between marketing and education. For TRICARE senior prime, we were actually involved with educating, marketing, bringing people into a Medicare plus choice plan, the DOD Medicare plus choice plan. The purpose of these activities was to get the word out that there was this opportunity to enroll in FEHBP, and marketing really is largely a function of the individual plan, choices, so the individual plans would have large responsibility for marketing.

What we wanted to do was fully inform our beneficiaries that this was an option. We wanted to let them know that this program was in place. We needed to let them know about health fairs and really wanted them to take full advantage of the literature and the marketing materials from the plans that participated in FEHBP.

To directly answer your question, in retrospect we probably should have paid more attention to those materials, and we certainly will do that next go-round.

Mr. SCARBOROUGH. There are, again, e-mails up here, and I want to read briefly one or two of them, because, again, the biggest concern is that the DOD sent out materials without letterhead or a seal indicating its involvement or sponsorship.

According to one eligible member from Camp Pendleton, they wrote, "The mailing came in an unmarked envelope. The contents included an FEHBP general description, with no indication of the sender, no letterhead or signature block; a frequently asked question sheet about DOD FEHBP; and a list of town hall meetings—again, no indication of the sender. The entire mailing appeared to be junk mail."

Another beneficiary from Dallas, talking about the lack of notification, stated, "I have read all the mailings, called all the phone numbers, checked all the Websites to no avail. I attended a town hall meeting last November and it was a farce." And this is a real insult—"There was more order in a Washington cocktail party, with people talking to each other all at once, and no one to whom you could even ask a question. I left in disgust. I have yet to meet a single individual who can discuss this program intelligently. I have no idea who was responsible for 'getting the word out,' but he stumbled badly."

How do you respond to the inability of an eligible beneficiary to distinguish this congressionally mandated mailing with what they called "junk mail." I think, again, our previous panel said that is a concern that others have had.

Admiral CARRATO. Yes. Sir, honestly, at last year's hearing I did rely on some estimates. Ours were based on GAO and CBO estimating up to 83 percent enrollment in the program, and the great enthusiasm with which this demonstration authority was received by certainly the leadership of our coalition and alliance organizations, I did think we would have significant enrollments, and I am greatly disappointed by the effort.

In terms of the town hall meetings and the health fairs, when we discovered that the enrollment rates were as low as they turned out to be, as we looked at the initial results from the open season—and we had been communicating since January with the coalition and alliance, requesting their assistance and getting the word out through their channels—we immediately called a meeting with representatives, including Ms. Pugh and Colonel Partridge, and said, "Look, how do we get this thing turned around?" We met with Members of Congress. Congressman Burr, as I mentioned before, was very interested. "What do we do?"

We got together with Mr. Flynn's shop and decided to go out with some additional materials.

One of the big concerns—and I guess I underestimated this—is the fact that this is a new program and, dealing with this population, it does take some time to feel comfortable with the decision you are going to make, particularly when it involves a demonstration.

We asked if we could work together and prepare some additional material that would clarify the relationship between Medicare and

FEHBP, and we worked with OPM to do that and worked with the coalition, able to extend the period. And, working with some Members, we were able to establish a whole new round of town hall meetings, which we held in January.

So I think we learned a great deal of lessons, which is the purpose of a demo. We reacted, I think, very quickly to try and get additional educational material out to our beneficiaries to make them know what this program offered.

It offers a very, very rich supplement to their Medicare benefit. We think it represents an outstanding deal.

Mr. SCARBOROUGH. Congressman Cunningham, let me ask you to help me out here, because obviously Admiral Carrato is a good man. He has committed his life to military service. In fact, we are trying to help him out. I mean, we are trying to help you out. We are trying to help out the men and women, not only who are military retirees now, but the people that are going to be retired 10 years, 20 years, 30 years from now to make sure we keep the promise that we made to them.

What happened? I mean, where is the disconnect here? I mean, comment on what you have heard today.

We have certainly heard your testimony, but you are, obviously, representing San Diego and the District where my late grandfather lived. I mean, you have seen this from the ground floor. What happened here? Were there some people that just weren't as interested in this succeeding as Congress? I guarantee you 99 percent of the people here believe, or was it just people shooting themselves in the foot?

Mr. CUNNINGHAM. Mr. Chairman, as I stated, it is not all DOD's fault. Sometimes many of us feel like Billy Mitchell when he said that we need air power, and someone said, "Well, I will put a ship out there and we will bomb it," and you know what the result was.

When we testified at the beginning of FEHBP, we told the committees what would be required. When the White House limited us and told us what the marketing—you know, how they were going to market it, how they were going to limit it, they weren't going to let people go to military facilities that existed, and then the scare tactics—if you join this pilot program, you may not be insured after the program dies—they are scared. And you may have an education program going one way, but on the other side you have got a negative program that is more powerful in fear.

That was not handled well, in my opinion.

Second, the cost analysis that came out to scare people off, you take a look and it was their own testimony. People with TRICARE, people with other programs aren't as likely to go to this if they have the facility there. But a lot of our retirees are not covered, and TRICARE is terrible for them.

Yet, they said if 100 percent of these people come into the FEHBP it is going to break the bank, and that is just not true, so the analysis was flawed, itself.

If you take a look at Medicare part B, many of those people were not informed that in other plans that there were copayments and deductibles, and the fairs—when you have a fair, and a week later you have to make that decision—you know, I have town hall meetings myself, and I know probably every Member, Republican or

Democrat, does, too. How many people out of your population do you have at those town hall meetings? And then, if you don't have someone there that is organized, that knows the system, that can brief the system—and it is called marketing. Are you going to sell cars? Are you going to sell Chevys? Are you going to sell Toyotas? If your marketing is flawed and you are working in an uphill way, anyway, if you had an old car in 1970's, and American-made car that was a Toyota without shine, you had a hard time selling that car.

It is the same thing with FEHBP. If you tell our retirees that FEHBP will be their plan, like it is for civilians, to help them with Medicare, I guarantee you they are going to accept it, but if they have doubts in that they are not going to accept it because they are scared. That was the flaw, itself, in this.

Mr. SCARBOROUGH. Is there any way around that? Let me ask you that question on that. Is there any way that we can make this program succeed by people coming in now knowing that they can only be in it for 2 years?

Mr. CUNNINGHAM. Yes. We will after November, because we will open up the plan. Guaranteed.

Mr. SCARBOROUGH. OK. Let me ask you one final question here. I wanted to talk about Medicare coverage. It wasn't until after the initial enrollment period was closed that the DOD included in its materials information that was still without letterhead or signature block, clear information about Medicare coverage. Mention was made in the frequently asked questions provided by the Department; however, neither the plan brochure nor the initial mailing was adequate information specified.

Participants were told that Congress—when they called the telephone center, they were referred to the providers, themselves, for questions pertaining to Medicare.

Mr. CUNNINGHAM. Mr. Chairman, would you yield just for 1 second on that?

Mr. SCARBOROUGH. Sure.

Mr. CUNNINGHAM. I have got to leave, and there is one other point I wanted to make.

Mr. SCARBOROUGH. Right.

Mr. CUNNINGHAM. If you drive out to Bethesda, look at the big signs that talk about "TRICARE is the plan."

Mr. SCARBOROUGH. Yes.

Mr. CUNNINGHAM. Go to Balboa and San Diego. You look at the big signs, the marketing that makes you want to join those programs.

Mr. SCARBOROUGH. Right.

Mr. CUNNINGHAM. There is nothing at our military hospitals or facilities or anything to help market this plan.

I am sorry. I have got to leave.

Mr. SCARBOROUGH. OK. Thank you.

Mr. CUNNINGHAM. Thank you.

Mr. SCARBOROUGH. Let me ask you, Admiral, why was this important feature not highlighted in the marketing materials, particularly in the plan brochure that was passed out to potential enrollees?

Admiral CARRATO. I think there are two questions in there. The first was clarification of the relationship to Medicare.

We originally used some material that OPM had prepared, standard material for Federal annuitants, and we quickly discovered that that did not satisfy the requirement for someone who had not been familiar with FEHBP, so we worked together to get a concise statement out that explained the relationship of this program to Medicare, so that is the answer to the first question. We learned, we reacted, got the message out.

The second issue is really sort of a fine technical point, and that has to do with Medigap coverage, and in the early 1990's the Government decided that Medigap Medicare supplemental plans needed to be regulated, and after that regulation was implemented—I think it was about 1991—there were 10 approved Medigap coverages. The provision in the statute allows you to return to that coverage with no preexisting penalties.

The issue and the reason some individuals were told to talk to their coverer, their insurer, was that some of this population actually had purchased supplemental plans pre-dating the early 1990 change in statute, so we didn't want to provide misleading information, and that is why we recommended that the enrollee contact their insurer to get the complete answer on it.

Mr. SCARBOROUGH. Let me ask you, because I am going to have to run to some votes here—and I hope both of you don't mind, I am going to have some written questions provided to you, and if you could answer in the next couple of weeks that would be great.

Let me ask you the same question—and if I could get a brief response—do you think it is possible for this program to succeed in the next 2 years with enrollees knowing that they may only be able to be in the program for 2 years before being kicked out.

Admiral CARRATO. I will try and be brief.

Mr. SCARBOROUGH. Go ahead.

Admiral CARRATO. I think the answer is what we heard in Pensacola from the representative of TROA. I think one of the most powerful marketing tools in the military health system is chats at a club over the back fence, and I think when we have some word of mouth with people who have enrolled and are satisfied with the program, I think that might help get the message out and boost enrollments.

I think we will certainly make every effort we can, working together with OPM and our coalition and alliance partners, and we will do everything we can to make it more successful.

Mr. SCARBOROUGH. Mr. Flynn, do you think you can be more successful? Do you think you will be successful at all, again, with people knowing that they can be kicked out in 2 years?

Mr. FLYNN. Clearly, Mr. Chairman, we have heard that concern. I have to treat it as a valid concern because of the wide number of people who said it. I think, nonetheless, we can do better. I do think, however, that sense of it being a pilot and people thinking that they won't have coverage after will have an influence on how successful we can be.

Mr. SCARBOROUGH. OK. Admiral, last question. The $64,000 question. You said you can do a better job. Are you going to get your 83 percent next year when we have this hearing?

Admiral CARRATO. Just to show you I am not a complete idiot, no comment, sir. [Laughter.]

Mr. SCARBOROUGH. Oh, come on. I am offended, even though I do have last year's testimony here where you predicted—in highlighter—83 percent.

Admiral CARRATO. I predict we will do better, sir.

Mr. SCARBOROUGH. Will we get to 50 percent?

Admiral CARRATO. That is CBO's prediction in their scoring of the bill.

Mr. SCARBOROUGH. CBO says 50 percent?

Admiral CARRATO. Yes, sir.

Mr. SCARBOROUGH. OK. And you are confident we are going to get there?

Admiral CARRATO. We will do better, sir.

Mr. SCARBOROUGH. Well, I hope we do much, much, much better.

I thank both of you for coming on this very, very important subject, and I look forward to discussing it with you again.

We are adjourned.

[Whereupon, at 3:51 p.m., the subcommittee was adjourned.]