



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

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Baucus Faults Bush Administration for Exceeding Authority in Implementing PPO Demonstration; Questions Whether New PPO Reforms Will Work

Today, the Government Accountability Office (GAO) issued a report showing that the administration exceeded its authority in testing managed care plans in Medicare. During negotiations over last year's Medicare bill, the administration pressed for additional funding and new rules to facilitate participation by preferred provider organizations (PPOs) in Medicare. The administration asserts that PPOs will be more efficient and save federal dollars over time, while delivering private plan options at lower cost to Medicare beneficiaries living in rural areas – assertions purportedly based on data from the PPO demonstration project.

In its evaluation, the GAO considered the administration's authority to conduct the demonstration, the cost of the demonstration to the Medicare program, and the benefits and costs to beneficiaries enrolled in PPO plans.

After reviewing the GAO's conclusions and recommendations, Senator Max Baucus, Ranking Member of the Senate Finance Committee, which has jurisdiction over Medicare, made the following statement:

"I was pleased to play a role in the passage of last year's Medicare bill. It is not a perfect bill, but it is a good first step. As well as adding a new drug benefit, the bill aims to expand private plan options for Medicare beneficiaries living in rural areas.

"While I believe in choice, I also believe that private plan options, including PPOs, should be added to Medicare only if they bring value to beneficiaries and taxpayers. Although the administration claimed last year that regional PPOs would provide greater plan options and more comprehensive benefits at a savings to the federal government, the GAO shows that such claims are not based on reality.

"Contrary to assertions made by CMS officials last year, the GAO found that PPOs are more expensive, both to taxpayers and enrollees. Medicare spent between \$650 and \$750 more per year for each beneficiary who enrolled in a PPO than it would have spent if the same beneficiaries had stayed in traditional Medicare. And contrary to administration

claims that private plans will lower beneficiaries' out-of-pocket costs, the GAO found, in many cases, that beneficiaries incurred *higher* out-of-pocket costs.

“The GAO also found that the majority of PPOs in the demonstration chose to participate in counties that were already served by Medicare HMOs, rather than reaching out into new areas. A majority of beneficiaries who could enroll in a demonstration PPO already had access to existing private plans. In fact, 74 percent of those who enrolled in a PPO had previously been enrolled in a Medicare+Choice plan. This does not give me confidence that rural areas, which currently are not typically served by private plans, will have access to a new regional PPO option in 2006.

“One of the troubling findings of this report is that CMS exceeded its demonstration authority in carrying out the PPO demonstration. Contrary to federal law, CMS allowed demonstration PPO plans to restrict Medicare covered services to in-network providers. Beneficiaries seeking home health and skilled nursing care were required to use network providers or else pay the full costs for those benefits. The law does not allow CMS to waive the requirement that these services be covered, regardless of whether the provider is part of the PPO network.

“I am pleased that CMS has already instructed PPO plans to comply with coverage requirements under the law. But the violation demonstrates a pattern by this administration of disregarding the law and proper administrative procedures.

“This report renews my resolve to remain vigilant and maintain vigorous oversight as CMS implements the Medicare changes Congress passed last year. As they implement the most comprehensive set of Medicare reforms since the program's enactment, it is imperative that the administration follow both the letter and spirit of the law.

“The report also confirms my belief that traditional Medicare will continue to be the dominant plan for Medicare enrollees. As such, Congress must ensure that the traditional program remains robust and that it continues to reflect up-to-date medical care to meet the needs of beneficiaries.”

Full text of the GAO Report, GAO-04-960, “Medicare Demonstration PPOs: Financial and Other Advantages for Plans, Few Advantages for Beneficiaries” is posted on the Senate Finance Committee's website on Senator Baucus' press release page.

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