Committee On Finance
Max Baucus, Ranking Member

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Hearing on Competitive Purchasing of Health Care

I appreciate the opportunity to explore the issue of purchasing health care services in a competitive environment. This is a "big-think" kind of hearing. We have the opportunity to consider what sort of competitive bidding structures large purchasers of health care currently use. And this is important, because the President has recently put forth a Medicare reform proposal – or at least the outline of a plan – that emphasizes choice and competition among private health plans.

We aren't here to pick at the administration's proposal. Rather, we're here to think about how a competitive model might – or might not – work for Medicare. As I see it, there are many lessons here – both for the current Medicare+Choice program as well as for traditional fee-for-service Medicare.

In particular, some of the questions I hope our witnesses will help answer include:

- Is it necessary to have losers in a bidding process, like the TRICARE system? Or is competition possible when essentially all bidders are accepted, like the FEHB program?
- How can quality be incorporated in a competitive purchasing system, as GM has done?
- What are the challenges of bringing in PPOs to serve ALL parts of the country?
- Is a PPO model any less expensive or more efficient in a rural area than traditional Medicare?

My sense is that with higher administrative costs, profits, and risk load, combined with an inability to contract with preferred providers in remote areas, PPOs would actually be more expensive than traditional fee-for-service Medicare. And as I understand it, CBO happens to agree with this assessment. They also believe that getting regional PPOs to participate in Medicare will be very costly. At any rate, they certainly won't improve Medicare solvency.

Which leads me to my last questions.

- Are these competitive systems truly transferrable to Medicare?

- And, perhaps more importantly, are there lessons from these systems that we can apply to traditional Medicare – not just to private plans?

It's important to keep in mind that almost 90 percent of seniors are enrolled in traditional Medicare, and I don't see that ratio changing any time soon. Montana doesn't have any coordinated care plans. We have a private fee-for-service plan in Medicare, but only 146 enrollees have signed up. And that is not an exaggeration.

As we try to make improvements to the system – modernizations, reforms, or whatever you want to call these changes – we must think carefully about whether a competitive model truly can flourish in all areas of the country.

My colleagues on the Committee know full well that I am skeptical that competition is the answer for seniors in my home state. That is why one of my biggest priorities is making sure that traditional fee-for-service Medicare remains a strong option for beneficiaries in Montana and other places in the country.

These beneficiaries should have access to the same level of drug benefits as those enrolled in private plans. And we should spend just as much time – if not more time – exploring ways to ensure that the fee-for-service program is operating efficiently, and what improvements we can make there.

I'm interested in hearing from our witnesses and learning more about how competition currently operates in other parts of the government and in the private sector, and also how we might be able to apply these experiences to the Medicare program.