

January 28, 2003 9:36 p.m. EST

## WALDHOLZ ON HEALTH

By MICHAEL WALDHOLZ



# Private-Sector Medicare May Offer Real Benefits

As President Bush begins to sell his new Medicare plan, one word we're not likely to hear from the White House is privatization. But privatizing some large part of Medicare will be a theme behind the plan, and that's not necessarily a bad thing. If integrated carefully, a profit motive may lead to services that will help keep seniors healthy.

Mr. Bush offered broad outlines of the plan in his State of the Union address Tuesday evening, and specifics had been revealed in interviews with administration officials in recent weeks. The idea is to encourage seniors to pick from a menu of managed health plans run by giant health insurers. Seniors who choose to sign up will be charged premiums, co-payments and deductibles based on the level of benefits they choose. Each plan will be required to offer prescription drug coverage of the type most Americans get from their employers.

The big carrot here is that those seniors who choose to remain in the government-administered plan over a managed plan won't get the new drug benefit. Low-income Medicare recipients will likely get their premiums subsidized by Uncle Sam.

Changing Medicare in this way won't be easy. For starters, seniors desperately want a drug benefit, but they don't want to be forced into managed care or some other private insurance setup to get it. And they have good reason to be skeptical. An attempt to get seniors to join privately run HMOs in the mid-1990s through a program called Medicare + Choice has had an abysmal track

## RECENT COLUMNS

January 15

- [Programs for Elderly Focus on Prevention](#)

December 18

- [Plain Talk About Smallpox Risk](#)

December 4

- [Spinal Cord Research Is Promising](#)

[MORE](#)

## ABOUT MICHAEL WALDHOLZ

Michael Waldholz is news editor for health and science for The Wall Street Journal. Mr. Waldholz joined the Journal in 1980 as a reporter covering medicine and the health-care and pharmaceutical industries. He was named a senior special writer in March 1994, became a news editor for the science, technology and health group in May 1995 and was named deputy editor for health and science in January 1996, and editor for science and health in 2000.

In 1997, Mr. Waldholz led a team of Wall Street Journal reporters that was awarded a Pulitzer Prize for chronicling the development and effects of new AIDS therapies. He's been nominated for and won many other awards, including a Pulitzer nomination as part of a team of writers for a series on genetics. Mr.

record.

In a position paper released earlier this week, Public Citizen [points out](#)<sup>1</sup> that the extra benefits provided by the managed care plans attracted the sickest of folks, and that government payments to the private insurers failed to keep up with the resulting rise in costs. Claiming they lost money on the Medicare business, many insurers bailed out, sometimes providing only a few months' notice. This left seniors scrambling to find new coverage, often when they needed it most.

Indeed, it's no surprise that in a recent WSJ Online/Harris Interactive Health-Care Poll, those 65 and older expressed more satisfaction with Medicare than any other group. (See [article](#)<sup>2</sup>)

The fact is, though, that Medicare is an outdated 40-year-old program that doesn't give seniors many of the kind of services they deserve, like disease management and other preventive care programs that are now commonly offered by some of the nation's best HMO firms. As a result, Medicare is great at treating people when they're sick -- and when it's the costliest to care for them -- but doesn't help them stay well. If done right, the private sector could provide better services that will save money while helping seniors.

"Medicare is a one-size-fits-all approach that just doesn't make sense any longer," says Thomas Scully, a major administration backer of the private-sector approach who runs the government's Centers for Medicare and Medicaid Services.

So what are some of the things that would make Medicare reform as envisioned by the president a real improvement for seniors, the medical profession, insurers and taxpayers, all of whom must see some significant benefits if the plan is to be politically acceptable?

For starters, administration officials say they have learned much from the Medicare + Choice failures. One lesson is to give insurers a better opportunity to make a profit. Beginning this month, the government and a handful of insurers are offering an experimental plan in which patients who join a managed care plan get a broader choice of physicians and more access to specialists than in the previous HMO program. In return, the government has offered payment schedules that can make caring for the elderly profitable as long as insurers also do their job in keeping patients healthy and out of the hospital. If costs still exceed payments, the government promises to cover a share of the added expense.

Results from this demonstration project won't be known for a year or more. It is clear, however, that private insurers won't readily jump at the chance to offer the kinds of competing plans envisioned by the Bush officials unless they are guaranteed a good shot at making profits.

Another key part of the plan, arguably a byproduct of the profit motive, is to provide seniors with the kind of choice and flexibility not widely available in Medicare now. Mr. Scully says his goal is to give Medicare recipients the opportunity to pick benefits that match their health needs, "just as most other Americans get from the employee plans."

Mr. Scully, and his boss, Tommy Thompson, Secretary of Health and Human Services, say they want seniors to access preventive services designed to keep people with heart disease and diabetes, illnesses that are becoming the costliest to treat, from using expensive hospital care. Many managed care plans offer disease management strategies where para-professionals and nurses that they employ, through phone calls and visits,

Waldholz is the author of "Curing Cancer," published by Simon & Schuster in 1997. He is a co-author of "Genome," about the hunt for human genes, published by Simon & Schuster in 1990. Mr. Waldholz writes a bimonthly column for the Journal's Personal Journal section called "Prescriptions." He also appears each Monday on CNBC's "Power Lunch" and also throughout the week reporting about health and biotechnology.

Born in Newark, N.J., Mr. Waldholz received a bachelor's degree in English and a master's degree from the University of Pittsburgh. He has a daughter, Rachel, and son, Daniel, and he lives in Bloomfield, N.J.

aggressively encourage folks with chronic illnesses to have regular check-ups, have their blood sugar and blood pressure monitored, and participate in health rehab programs. These services are for free or a low fee. Studies show this kind of pre-emptive care, if provided properly, can reduce illnesses and keep folks from running to expensive and traumatic emergency rooms.

Besides some experimental programs (see related [article](#)<sup>3</sup>), Medicare currently provides few preventive services. As a result, Medicare pays the high cost of treating illnesses, but gets little of the savings from preventive care techniques the elderly need the most.

Another expectation with the Bush plan is that the managed care outfits will get access to the volume-buying discounts that Medicare doesn't currently secure. Insurers regularly dicker with drug makers, often refusing to provide certain drugs unless prices are discounted. Insurers also get cut-rate prices from doctors and hospitals in return for steering patients their way. Though the drug industry and health providers often chafe at the negotiated rates, both groups say they are more willing to take their chances with competing private plans than face the potential of unpredictable price and fee cuts mandated by Congress to keep budgets from exploding.

This may seem like more of a benefit for institutions, but it can be a plus for patients, too. For some time now, doctors have been dropping out of Medicare altogether, saying they can't afford to provide services at current reimbursement rates. If fees are negotiated, instead of dictated by the feds, there's a better chance more doctors will continue to participate.

The Bush plan has a lot of risks, but so does the status quo -- healthwise and budgetwise. If the White House is as committed to patients as they claim to be, their approach just may end up benefiting seniors. Just don't call it privatization.

**Write to Mike Waldholz at [mike.waldholz@wsj.com](mailto:mike.waldholz@wsj.com)**<sup>4</sup>

**URL for this article:**

<http://online.wsj.com/article/0,,SB104379443024541904,00.html>

**Hyperlinks in this Article:**

- (1) [http://www.citizen.org/hot\\_issues/issue.cfm?ID=462](http://www.citizen.org/hot_issues/issue.cfm?ID=462)
- (2) <http://online.wsj.com/article/0,,SB1042740717936274024,00.html>
- (3) <http://online.wsj.com/article/0,,SB1042584752432814544,00.html>
- (4) <mailto:mike.waldholz@wsj.com>

*Updated January 28, 2003 9:36 p.m. EST*

**Copyright 2003 Dow Jones & Company, Inc. All Rights Reserved**

**Printing, distribution, and use of this material is governed by your Subscription agreement and Copyright laws.**

**For information about subscribing go to <http://www.wsj.com>**