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Office of the White House Press Secretary

THE WHITE HOUSE

## FACT SHEET

H.R. 9019, THE HEALTH MAINTENANCE ORGANIZATION AMENDMENTS OF 1976

The President has signed H.R. 9019, the Health Maintenance Organization Amendments of 1976.

I. PURPOSE

This measure amends the Health Maintenance Organization Act of 1973 (P.L. 93-222) by extending the HMO program for two years beyond the current expiration date of September 1977 and correcting certain provisions which discouraged participation in this Federal effort. In addition, the amendments are designed to improve the competitive position of HMOs with traditional health insurance programs and health delivery systems.

II. BACKGROUND

The Health Maintenance Organization Act of 1973 authorized two major forms of Federal assistance to encourage the development of HMOs:

- a five-year program of Federal grants, contracts, loans and loan guarantees, and
- a requirement that employers who offer health insurance offer their employees the option of joining a "qualified" HMO (one meeting certain Federal standards of health benefits and quality).

However, many of the complex features for funding or Federal qualifications contained in the extensive 1973 HMO Act requirements slowed HMO development so that there were not enough qualified applicants for the funds appropriated. The Administration, therefore, proposed corrective legislation.

III. MAJOR PROVISIONS

Provisions in H.R. 9019 designed to improve the marketing of HMOs would:

- permit an HMO to choose which services it would offer as supplemental to the basic package, and provide for separation of the supplemental benefits package from the basic plan, i.e., a high option-low option alternative. Under current law HMOs have virtually no discretion to decide which services to include in a supplemental benefit package and must include them in the basic benefit plan.
- permit HMOs to contract directly with other health professionals for their services. Current law requires an HMO to provide services only through its own staff or medical group.
- eliminate the present annual open enrollment requirement, except for large, well-established HMOs.

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- eliminate the requirement that HMOs offer preventive dental care for children as a basic service, and
- waive the requirement for four years after an HMO becomes qualified that it community rate its basic and supplemental health services payments. The open enrollment requirement coupled with community rating, i.e., a single rate for all groups of potential HMO enrollees regardless of health status, puts HMOs at an extreme disadvantage in competing with other health insurers who can offer rates based on the health status and actual medical utilization patterns of the groups applying for coverage.

H.R. 9019 also would make important changes in the requirement that employers offer HMO plans to employees in addition to other more conventional health insurance plans -- the so-called "dual choice" requirement. This significantly expands the market available to HMOs. H.R. 9019 would:

- require an employer to offer "dual choice" only if at least 25 employees live in an area served by an HMO, (present law requires an employer to offer an HMO option if even one employee lives in an HMO service area),
- transfer enforcement of the "dual choice" requirement from the Department of Labor to the Department of Health, Education, and Welfare, with the HEW Secretary having authority to assess civil penalties for violations,
- require State and local entities to offer employees "dual choice" options as a condition of receiving certain Federal health grant funds,
- require the Civil Service Commission to offer membership in an HMO qualified under the Public Health Service Act as a health benefits option to Federal employees.

#### IV. BUDGET

H.R. 9019 would decrease the 1977 authorization for HMOs from \$85 million to \$45 million and add authorizations of \$45 million for 1978 and \$50 million for 1979.

The bill also would authorize \$12 million to extend the home health demonstration authorities through FY 1977.

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