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Health Action In Depth

Medicare Prescription Drug Coverage —More Broken Promises?

The Medicare program, created by Congress in 1965, provides health coverage for the nation's 34 million seniors over 65, as well as about 5 million people with disabilities. But health care looked completely different in the 1960s. The clearest evidence of this is the way Medicare benefits were structured—inpatient, hospital-based care was the focus of coverage, and outpatient prescription drugs weren't covered at all. And while almost everything about health care has changed drastically in the last 37 years, the Medicare benefit package hasn't changed much since the program's inception.

Now, prescription drugs are an integral part of medical treatment. So why hasn't the Medicare program been modified to provide coverage of this essential aspect of medical care?

While Congress has tried time and time again to pass legislation that would add a prescription drug benefit to Medicare, every effort over the past five years has ended in a stalemate. (Congress actually passed a bill in 1988, but it was repealed the next year.) What's more, legislative attention to seniors' drug coverage sometimes serves only as a means of providing political cover during an election season. Case in point: the bill Republicans forced through the House this past June. Control of the House of Representatives is at stake in this fall's elections, and as grossly inadequate as this bill is, it serves the purpose of making it appear that Republicans have taken constructive action on the issue.

And They're Off...

Both parties view Medicare prescription drug coverage as a decisive issue in the November elections. Traditionally, however, Democrats have been able to capture more swing voters when it comes to health issues, and some polls show they have a 20-point advantage on such matters. Therefore, one of the Republican goals for this fall's elections is neutralizing this advantage. Since Republicans control the House of Representatives, they wanted to move quickly to get a bill drafted, introduced, and passed. The bottom line is that their bill—H.R. 4954 (the *Medicare Modernization and Prescription Drug Act of 2002*)—is bad for seniors' health and wallets for several reasons: 1) the benefits are meager, and seniors' out-of-pocket costs are steep; 2) the legislation relies on private insurance companies to provide the benefit instead of the Medicare program; and 3) the bill takes no meaningful steps to moderate or reduce skyrocketing drug costs.

This bill, which costs $320 billion over 10 years, requires seniors to pay a $250 annual deductible and a $33 monthly premium. (The monthly premium for drug coverage would be in addition to the Medicare Part B premium, which is currently $54 a month.) After satisfying the deductible, beneficiaries would have to pay 20 percent of total drug expenses (the program would pay the remaining 80 percent) up to $1,000 and 50 percent of total drug expenses up to $2,000. Next comes a huge gap in coverage (also known in Washington jargon as the "doughnut hole"): beneficiaries would need to pay *all* of their drug costs until they had spent $3,700 out-of-pocket (excluding the premium). Once they reach that out-of-pocket threshold, their private insurance plan would pick up all additional drug costs.

> Under the House Republican bill, a senior with $2,500 in annual drug costs would have to pay $1,400 in out-of-pocket cost-sharing plus a premium of $396—equaling $1,796 (72 percent of total expenses)—out of his or her own wallet. A senior with $4,000 in drug costs would have to pay $2,900 in out-of-pocket cost-sharing plus the premium—equaling $3,296 (82 percent of total expenses)—out of his or her own wallet.

Just as troubling, the bill deliberately bypasses the Medicare program and instead relies on private insurance companies—including private, stand-alone insurance plans and Medicare+ Choice (M+C) plans—to provide this benefit. There are several reasons that this is a misguided approach:

- Such a delivery system would be inefficient and ignores the potential savings from using the buying power of nearly 40 million Medicare consumers to roll back drug prices.

- Insurance companies themselves have expressed doubt about their ability and willingness to provide drug-only coverage.

- As observed by the experience with M+C plans, insurance companies have a very poor record of providing health coverage for seniors generally, and prescription drug coverage specifically.

- The bill doesn't guarantee drug coverage for anyone: there is no guarantee that insurers would offer drug coverage in any specific community or region of the country.

- The bill gives insurers vast discretion in designing the coverage they decide to offer: They would be able to determine the size of premiums charged, the amount of cost-sharing imposed on seniors, the drugs that would be made available, and under what conditions seniors would obtain those drugs. Beneficiaries, therefore, would have no way of predicting what their premiums would be, how much cost-sharing they'd have to bear, or which drugs would be covered.

The House, aiming to pass legislation before the July 4th recess, staged a floor vote on June 27. The Republican leadership prevented Democrats from offering their own (far more generous) bill as a substitute, and they prevented Democrats from offering amendments to the GOP bill. In the end, the measure passed by a slim margin—221 to 208—with six members abstaining.

Even though the bill is a sham, the vote enables Republicans to deflect criticism from Democrats. It also enables them to go to their senior constituents—who turn out to vote in higher numbers, especially in mid-term elections—and say they passed a drug plan. In an attempt to lessen Democrats' historic advantage on the subject, House Republicans were sent back to their districts for the July 4th recess with binders instructing them on how to spin their vote on Medicare prescription drug coverage.

> ***"You can put lipstick on a pig, but you can't call it a lady."***
> --Rep. Charles Rangel

Numerous consumer groups, senior groups, and unions criticized the House bill, including AARP, the AFL-CIO, AFSCME, the American Federation of Teachers, Consumers Union, the National Committee to Preserve Social Security and Medicare, and Families USA. Democrats also condemned the legislation and the manner in which the floor vote was conducted. Rep. Charles Rangel (D-NY), who also decried the fact that the Republican-approved tax cut limited the amount of money available for a benefit, said "You can put lipstick on a pig, but you can't call it a lady. You can take this bill and call it reform, but it does not alleviate the problems that our seniors have."

A Love Letter to the Pharmaceutical Industry

Not coincidentally, shortly after the Republican bill was passed by the House—and before the Senate had formally considered its legislation—the Department of Health and Human Services (HHS) released a study that essentially supported the delivery of a Medicare drug benefit through the private sector. The study, *Securing the Benefits of Medical Innovation for Seniors: The Role of Prescription Drugs and Drug Coverage*, delivers what amounts to a love letter to the drug industry: It maintains that government drug cost-control measures instituted by other countries prevent seniors from getting the newest drugs to treat their chronic illnesses. Therefore, the authors assert, a benefit provided through the Medicare program would fall prey to excessive government regulation, resulting in less innovation in research and development (R&D) on the part of drug companies.

As Families USA executive director Ron Pollack noted, however, the report is a canard because "No legislation is being considered to impose price controls. Rather, the current [drug pricing] debate is about stopping the drug industry's anti-competitive practices that are designed to prevent generics from coming to market. It is those anti-competitive practices that are artificially inflating drug prices throughout the country."

On to the Senate

During the last two weeks in July, a total of four Medicare prescription drug bills were voted on in the Senate. The first two of these bills were substantive proposals, and we've included their details in the box above.

1) The first to come up for a vote was a bill from Senate Democrats that Families USA and almost all senior and progressive groups supported. S. 2625, the *Medicare Outpatient Prescription Drug Act of 2002*, whose sponsors included Bob Graham (D-FL), Zell Miller (D-GA), and Edward Kennedy (D-MA), would have provided a far more generous benefit than the House Republican bill. Estimated to cost about $594 billion over eight years, the Graham-Miller-Kennedy bill would have created an outpatient prescription drug benefit within the Medicare program.

2) The next Medicare prescription drug bill considered by the Senate was S. 2729, the *21st Century Medicare Act*. This bill was similar in structure and in other ways to the one passed by the House. Cosponsors of the bill included Charles Grassley (R-IA), John Breaux (D-LA), Orrin Hatch (R-UT), James Jeffords (I-VT), and Olympia Snowe (R-ME). The legislation, sometimes known as the "Grassley" bill or the "tripartisan" bill, was estimated to cost about $330 billion over eight years. As with the House bill, seniors would buy drug-only coverage from private insurance companies. Families USA and virtually all senior groups opposed this bill.

3) Next came a bill co-sponsored by Republicans Chuck Hagel (R-NE) and John Ensign (R-NV). S. 2736 (the *Medicare Rx Drug Discount and Security Act of 2002*), estimated to cost $160 billion over 10 years, would not have provided much relief to Medicare beneficiaries; it would have provided catastrophic coverage along a sliding scale based on income. It would also have created a Medicare drug discount card—similar to the one proposed by the President—designed to lower drug prices through the pooling of beneficiaries.

All three of these bills were voted down on the Senate floor, but this was not unanticipated. Because of complicated budget rules, any bill needed 60 votes—a three-fifths majority—to pass. Senate leaders hoped that failure of both the Graham-Miller-Kennedy bill and the Grassley bill would spur negotiation to reach a compromise.

4) The final Medicare prescription drug bill to be voted on was an attempt to reach a compromise. Sponsored by Senators Bob Graham (D-FL) and Gordon Smith (R-OR), this bill would have cost $395 billion over 10 years. It included a comprehensive low-income benefit for those with incomes up to 200 percent of poverty and a catastrophic benefit for those spending more than $3,300 on prescription drugs out-of-pocket. Medicare beneficiaries who did not qualify for comprehensive coverage would receive a 5 percent reduction on every drug (subsidized by Medicare) as well as a pharmacy discount card designed to provide significant savings. All but the lowest-income beneficiaries would have to pay a $25 annual enrollment fee, but there would be no monthly premiums or deductibles.

The Bottom Line

The Senate's failure to get 60 votes on all four bills in a row has led many to conclude that Medicare prescription drug legislation will not be enacted this Congress. There are certainly a number of factors that have made this effort difficult. First, the massive tax cuts initiated by the Bush Administration and pushed through Congress in the spring of 2001 eliminated the huge budget surplus. Now, many supporters of the tax cuts blame the lack of available money for their opposition to a meaningful drug benefit. Second, the parties are very far apart on what a drug benefit should look like and whether it should be delivered through private insurance companies or Medicare. Third, while the House Republicans could rely on a small partisan majority to pass their bill, the Senate Democrats needed three-fifths of all Senators to pass their bill—a much higher threshold to meet. In fact, S. 2625 came closest to this goal by getting 52 votes.

This year's legislative fight may not be over, however. Senators are regrouping during the August recess and reviewing their options. Stay tuned….