



Poison Pills in the Medicare Prescription Drug Deal

Conference committee members recently released a summary of a tentative agreement on the Medicare prescription drug benefit that includes a scaled-back version of the House-passed competition proposal. While offering modest benefits, the bill contains provisions that undermine the program's integrity, make far-reaching changes to the health insurance system, and reduces Medicaid protection to low-income people. Although it is easy to get lost in the details, the overall direction of the legislation is clear: the conferees are creating a windfall for the drug industry while setting Medicare on the path of becoming a voucher program with the value of vouchers falling further and further behind the cost of medical care over time.

The final vote in the House and the Senate could come as early as the end of this week. If you are concerned, please contact your Representative and Senators to express your opinion soon!

Key Issues in the "Compromise" Bill

1. **Prescription drug benefit** in general is limited by the agreement to spend no more than \$400 billion over ten years or roughly $\frac{1}{4}$ of the total anticipated drug costs of Medicare beneficiaries. The benefit would initially include a \$35/month premium and a \$250 deductible, for traditional Medicare enrollees. For drug costs between \$251-\$2249 Medicare would pay 75 percent. Catastrophic coverage would begin above \$5100, and 95 percent of costs would be covered. Medicare would pay nothing between \$2250 and \$5100. Private carriers, however, could have different premiums and deductibles, as long as the coverage offered is considered equivalent. This flexibility may aid private insurers in attracting disproportionately healthy enrollees.

2. **Privatization** –The bill includes competition pilot projects in six metropolitan areas that would privatize the program by allowing private plans to bid against Medicare on an uneven playing field. These "demonstration" projects could cover as many as 15 percent of those in Medicare and will last six years.¹ Through selective marketing, private insurers would be able to attract healthier enrollees, driving up the average cost per enrollee of those who choose to remain in the Medicare program. These sicker enrollees would then be assessed a surcharge to cover the higher than average cost. Meanwhile, private plans could realize windfall profits because their premiums would not be adequately adjusted to take into account their healthier than average population. In the end, no one would be able to afford to remain in Medicare and everyone would be forced to join a private plan. A good example of how the arithmetic works can be found on the Families USA website: http://www.familiesusa.org/site/PageServer?pagename=Medicare_Central_private_example

3. **Spending limits on use of general tax revenues** – The bill contains language that would force Congress to take action to increase payroll taxes or reduce benefits if general revenue accounts for more than 45 percent of Medicare spending (something that is expected in the near future) while prohibiting reliance on reducing prescription drug prices or using the more progressive income tax to help maintain the program.

4. **Cost-containment provisions.** The bill lacks cost-containment measures for prescription drug costs, and explicitly prohibits the federal government from negotiating or containing the drug prices paid. In addition, the majority of the \$228 billion in Medicare dollars spent on purchasing drugs will be spent on a \$139.2 billion net increase in drug makers' profit.ⁱⁱ

5. **“Dual eligibles”** – low-income Medicare beneficiaries covered by Medicare and Medicaid – will have higher out-of-pocket costs than they do today in Medicaid. Medicaid will also no longer cover medically necessary drugs that Medicare refused to cover. Many of those on Medicaid today would also see their costs go up. Those who qualify for Medicaid today by virtue of having catastrophic health care expenses (as opposed to low incomes) would not qualify for low-income subsidies (see below) and would face much higher drug costs than they do now. The federal government would reclaim most of the fiscal relief that states would get from having drugs covered by Medicare. Meanwhile, states (and beneficiaries) would incur new costs from higher Medicare Part B deductibles.

6. **Low-income subsidies** – The bill includes low-income subsidy provisions that would eliminate premiums, co-payments, and the gap in coverage (between \$2200-\$3600) for beneficiaries with incomes up to 135% of the federal poverty level (FPL) (about \$12,000 for an individual) and assets of no more than \$6000 for an individual or \$9000 for a couple. However, these low-income enrollees would have co-payments of \$1 to \$5 per prescription.

7. **Health Savings Accounts** would essentially provide tax breaks to those healthy and wealthy enough to make deposits into the accounts. Individuals with health plan deductibles of \$1,000 per year and couples with deductibles of \$2,000 per year would be eligible. These tax-advantaged accounts, could also encourage employers to shift to offering less comprehensive, high-deductible plans, where employees bear a greater proportion of health care costs.ⁱⁱⁱ Not only could this provision undermine comprehensive health benefits and shift costs onto sicker individuals, but it is yet one more tax cut tilted toward the wealthy.

8. **Financial incentives for private industry**, including:

- ◆ \$12 billion to encourage private health plans to participate in Medicare
- ◆ Additional \$67 billion to private health plans in the form of higher base rates and as a result of their ability to attract healthier members than Medicare^{iv}
- ◆ Up to \$70 billion in tax-free subsidies to encourage employers who currently provide retiree drug coverage to continue doing so after the Medicare drug benefit plan begins
- ◆ Estimated \$18 billion in tax incentives for employers that offer retiree drug coverage
 - Government will pay 28% of the costs for coverage from \$250-\$5000 in drug costs

9. **Ban on reimportation of prescription drugs** from abroad is maintained. The proposal would allow drugs from Canada if the Department of Health and Human Services certifies their safety, which the department has refused to do. This ban will result in continued high drug costs with little cost-containment.

ⁱ Families USA Private Plans and Competition

ⁱⁱ Sager, A and Socolar, D. 61 Percent of Medicare's New Prescription Drug Subsidy is Windfall Profit to Drug Makers. Boston University School of Public Health. 10/31/03.

ⁱⁱⁱ Park, E; Friedman, J; Lee, A. "Health Savings Security Accounts: A Costly Tax Cut That Could Weaken Employer-Based Health Insurance." Revised 6/26/03.

^{iv} Medicare Private Plan Overpayments: An Anti-Competitive Practice That Hurts Medicare. Medicare Rights Center. 10/24/03.