A Reality Check for Medicare Drug Benefits

by Stephen Barlas

Despite all the brave political talk at the start of May, the GOP leadership in the House was unable to bring a Medicare prescription drug bill to the House floor by the end of the month. A bill might yet pass the House. But what is becoming clearer is that too many Republicans and Democrats are taking exaggerated positions for political gain.

There is political opposition both on and off of Capitol Hill regarding the House GOP proposal, which relies on Medicare beneficiaries choosing between rival plans offered by insurance company/pharmacy benefit manager (PBM) combinations. Most Democrats prefer that the drug benefit be administered like the Medicare fee-for-service medical benefit: seniors go to a drugstore or call a direct mail service, they receive their drugs, and then the drug provider bills an insurance company intermediary, which in turn bills the government.

Senator Max Baucus (D-Mont.) is chairman of the Senate Finance Committee, which makes him a key person on the issue. Sen. Baucus sniffed at the House bill when it was introduced as a set of principles in early May. He said, “A Medicare benefit must be affordable and meaningful to seniors, and I’m not convinced that a $350 billion benefit provides that.” One can imagine what Sen. Baucus thinks about President Bush’s $190 billion plan, which has drawn some GOP derision as well.

Comments like that illustrate the air of unreality that envelops the Capitol on many issues. It is not as if $350 billion is a drop in the bucket. The Republican plan would have seniors pay a monthly premium of $35 to $40, along with one-quarter of their first $1,000 of drug expenses and half of the expenses between $1,000 and $2,250. Then, Medicare would pay the full cost of prescription drugs after seniors had spent $5,000 of their own money on medications in a year.

Not all Medicare beneficiaries need federally subsidized drug coverage. Only 38% of recipients have no drug coverage at all. The very poor have drug coverage through Medicaid. The very rich have supplemental drug policies. Many middle- and upper-income Medicare recipients have drugs covered under extended health coverage from their former employers. Medicare fee-for-service participants can shift to Medicare+Choice plans, if they are available in their area. Drug company cards now abound.

The seniors who really need federally supported drug coverage are those with numerous chronic conditions whose annual out-of-pocket prescription bills hit some arbitrarily high figure, such as $4,000 a year. When he testified before the House Commerce Committee’s health and environment subcommittee, Craig Fuller, president of the National Association of Chain Drug Stores, very reasonably suggested that a Medicare drug benefit should start small, with “stop-loss” coverage for seniors who incur more than a certain amount in unreimbursed drug expenses each year, such as $6,000. This would cost considerably less than the GOP’s $350 billion plan, which envisions a $5,000 stop-loss and subsidized coverage up to that point.

A Medicare drug benefit must start small because of the growing size of the federal deficit, which will be in the red after many years of being in the black. And just as the recession has been wallowing the budget, so too has the aftermath of 9/11, with President Bush and Congress both vying to see who can increase Pentagon and antiterrorism spending more.

Moreover, there are other substantial Medicare shortcomings that will take big bucks to fix. The shrinkage of Medicare+Choice providers is one. The severe underfunding of the nursing home benefit is another. Then there’s the projected 20% decline in payments to physicians over the next four years. The list goes on.

Some or all of these problems might be more serious than the lack of a prescription drug benefit. And their solutions will cost billions upon billions of dollars. But rather than worrying about what kind of Medicare drug benefit would be reasonable and affordable, both Republicans and Democrats have their sights on the 2002 congressional elections. The politicians are in a political panic. What appears to be most important to congressmen is what they can say in their campaign advertisements about the number of Medicare recipients they tried to help by supporting some unaffordable, ridiculously expensive Medicare drug benefit that most people don’t need and Congress can’t pass.