Medicare Update

Medicare Prescription Drug Coverage: A Bill Passes, but Debate Continues

As P&T was going to press, the U.S. Congress had just passed the President’s proposed Medicare bill. For six years, Congress had tried and failed to reach agreement on legislation to overhaul Medicare and to add prescription drug benefits for the 40 million elderly and disabled Americans in the program. The American Association of Retired Persons, the American Hospital Association, and the American Medical Association supported the new bill. Following are the highlights of the bill in its present form (as of November 25, 2003).

Beginning in April 2004, Medicare beneficiaries will be able to obtain a prescription drug discount card that is intended to yield savings estimated at 15% to 25%. Low-income beneficiaries will also be entitled to a $600 subsidy that would be applied to the card, but they will still be required to make a co-payment of between 5% and 10% for each prescription drug.

Beginning in 2006, Medicare beneficiaries will be able to sign up for a drug plan or join a private health plan that offers drug coverage. Under the Medicare drug plan, they will be charged premiums averaging $35 a month per person, or $420 a year. After beneficiaries pay a $250 deductible, insurance will cover 75% of drug costs up to $2,250. Beneficiaries will thus pay up to $750 out of pocket (the $250 deductible plus 25% of costs from $251 to $2,250, or $500). After $2,250 in total drug costs, Medicare will pay nothing more (there will be a gap in coverage) until the beneficiaries have paid $3,600 out of pocket. Thus, beneficiaries will have to pay $2,850 more out of pocket in addition to the $750 already paid. Premiums do not count toward the out-of-pocket costs. When out-of-pocket spending reaches $3,600, beneficiaries are required to pay 5% of the cost of each prescription.

There will be a small annual subsidy for low-income beneficiaries. Tax-free subsidies will be provided to employers who maintain drug coverage for retirees starting in 2006. Generic drugs will be moved to the market more quickly, because the ability of pharmaceutical companies to block less expensive equivalents will be limited. The importation of drugs from Canada is expected to continue.

Critics of the bill argue that the devil is in the details, which, some Democrats say, translate into increased profits for insurance and drug companies at the expense of the elderly. Some conservative Republicans who voted against the bill say that it is too expensive. Given the political controversy surrounding the passage of the bill, this piece of legislation most likely will not be the final word on Medicare or prescription drug coverage.