New Medicare Law Benefits Industry More Than Seniors

After six intense years of partisan debate, Congress passed a Medicare prescription drug law that gave the brand-name pharmaceutical industry nearly everything it wanted. The legislation provides only modest drug coverage to seniors, fails to reduce high drug costs and leaves the future of the Medicare program as we know it in doubt.

For Public Citizen, what started out in 1998 as a proactive fight to help seniors obtain comprehensive drug coverage and rein in skyrocketing drug prices turned into a defensive battle to save the Medicare program from being overtaken by HMOs and the private insurance industry.

For this reason Public Citizen worked hard to defeat the legislation, which passed in November and largely was drafted by Republican leaders in Congress in coordination with the White House and drug companies.

Public Citizen opposed the landmark measure, which will cost taxpayers $400 billion over the next 10 years, because:

- **Most seniors will get only modest assistance.** As the chart on below shows, most seniors still will have to pay a considerable amount in drug costs because of the $420 annual premium, a yearly deductible of $250 and co-payments on drug purchases. Beneficiaries must pay 25 percent of the first $2,250 in expenses but 100 percent of drug costs from $2,251 to $5,100. (This is the so-called “doughnut hole” in the benefit.)

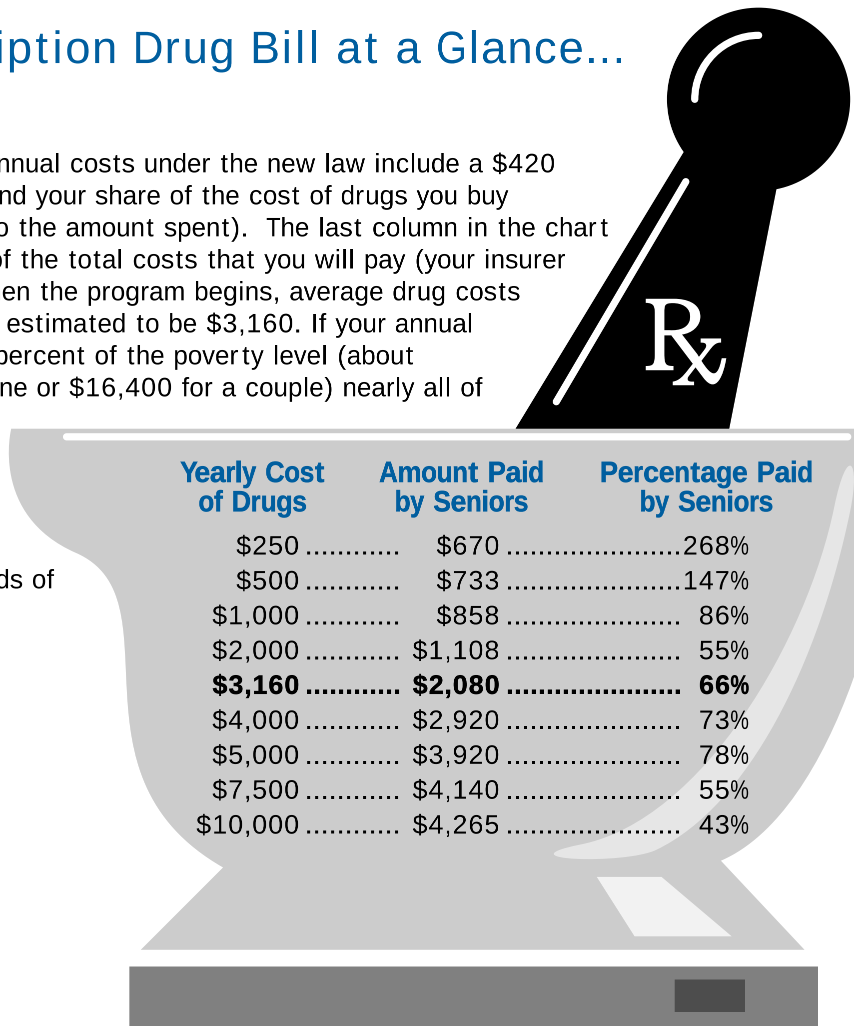
The average senior will have $3,160 in total drug costs in 2006 when the program kicks in — but under this law they will have to pay 66 percent of that amount. Only low-income seniors — about one-third of the Medicare population — will be spared these huge costs, as most of their expenses will be covered.

To put the limited coverage in perspective, Bush’s tax cuts for the top 1 percent of Americans amount to an incredible $824 billion over the next 10 years. This is more than double what Congress voted to spend on the Medicare drug benefit over the same period.

Medicare Prescription Drug Bill at a Glance...

What Seniors Get...

If you are on Medicare, your annual costs under the new law include a $420 premium, a $250 deductible and your share of the cost of drugs you buy (your share varies according to the amount spent). The last column in the chart below shows the percentage of the total costs that you will pay (your insurer will pay the rest). In 2006, when the program begins, average drug costs for a Medicare beneficiary are estimated to be $3,160. If your annual income does not exceed 135 percent of the poverty level (about $12,000 for a senior living alone or $16,400 for a couple) nearly all of your costs will be covered as long as your assets are less than $6,000 for a single person and $9,000 for a couple (not including a car and home). About two-thirds of seniors will not qualify for this assistance.



Yearly Cost of Drugs	Amount Paid by Seniors	Percentage Paid by Seniors
$250	$670	268%
$500	$733	147%
$1,000	$858	86%
$2,000	$1,108	55%
$3,160	**$2,080**	**66%**
$4,000	$2,920	73%
$5,000	$3,920	78%
$7,500	$4,140	55%
$10,000	$4,265	43%

• **Some seniors may actually lose ground.** At least 2 million retirees who now receive generous drug coverage under their former employers' retirement plans may be dropped by their employers because of the Medicare drug program. If they choose coverage under Medicare, it will be more limited. Up to 6 million of the poorest and sickest elderly receive better drug coverage under the Medicaid program, which is partially funded by the federal government and run by states. Under the new law, they will get more limited drug coverage as Medicaid has been prohibited from filling in the gaps.

• **Drug companies are huge winners because demand will increase as drug prices remain high.** With more than seven lobbyists for every senator and with a friend in the White House, the drug industry — whose top 10 companies made $36 billion in profits in 2002 — made out like a bandit. There is no provision limiting drug prices or assuring Medicare can negotiate them for recipients. The

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What Special Interests Get...

The dirty little secret about the Medicare drug bill is that a big chunk of the $400 billion to be spent over the next 10 years goes to special interests, not seniors. Much of this spending is to get insurers to provide the drug coverage in the first place. (Republicans insisted on having Medicare HMOs and private insurance companies provide the drug coverage, rather than make it available under the existing traditional Medicare program, as hospital and physician coverage is now done.) Payments to special interests also were made to get them to put their political muscle behind the bill to help get it passed.

Brand-name Drug Companies

- Expanded markets for their products as more beneficiaries will have some drug coverage. **Value:** Billions of dollars in new sales and increased profits.
- A prohibition on the Medicare program using its bargaining clout to directly negotiate deep drug price discounts. **Value:** One estimate is $139 billion over 8 years.
- An effective ban on the reimportation of prescription drugs from Canada, which cost about 50 percent less than in the U.S.

HMOs and Private Insurance Companies

- Subsidies are provided to private insurance plans to lure them into areas in which they do not currently operate. **Value:** $14.2 billion
- Income is sheltered from taxes to encourage consumers to purchase catastrophic health coverage from private insurers, further undermining employer coverage. **Value:** $6.7 billion
- An experimental program affecting up to 7 million beneficiaries will be launched that will force the government-run Medicare program to compete with private insurance plans to provide all Medicare benefits. Private plans, which are much less efficient than Medicare, will be able to game the system, forcing those under Medicare to pay higher premiums. **Value:** Will be worth untold billions if it leads to the full privatization of the Medicare program.

Hospitals

- Payments to hospitals and doctors are increased for rural health care delivery. **Value:** $19.7 billion
- Direct payment rate increases. **Value:** $2.7 billion

Physicians

- Blocks a planned 4.5 percent cut in physician reimbursement rates and instead increases rates 1.5 percent a year. **Value:** $3.5 billion

Calculate How Much the Drug Benefit Is Worth to You!

Rep. Peter DeFazio (D-Ore.) operates a Web site that allows you to calculate how much you will pay out of pocket for drugs in 2007 based on the benefits under the new Medicare law. Go to:

http://defazio.house.gov/medicxarerxcalc.html

industry successfully fought to have drug coverage provided by private insurers, rather than Medicare. It figured if Medicare paid for seniors' drugs, like it pays for hospital and physician services provided by the private sector now, the government would use the bargaining clout of 41 million beneficiaries to negotiate sizable price cuts. After all, the cost of drugs to the Veterans Department averages 45 percent off retail prices, because the government negotiates with the industry.

The drug industry also successfully blocked a highly popular program to let pharmacies and wholesalers in the United States import and sell lower-cost drugs from abroad, particularly Canada. Americans who purchase drugs across the border typically pay 50 percent less than in the United States. The only hit the drug industry took under the new law was modest — making less-expensive generic drugs available sooner by limiting the ways the brand-name drug companies can block them from coming to market.

• **Medicare is slowly being privatized, leaving seniors at the mercy of HMOs and other private insurance companies.** Medicare is such a popular program because it delivers good benefits to all at an affordable price. That's because it's a government-run social insurance program like Social Security — not a for-profit HMO or insurance company. That will change in a few years. First, most people will have to get their new drug coverage from private insurers.

Second, in 2010 a privatization experiment will affect about 20 percent of beneficiaries. The entire Medicare program, which pays beneficiaries' hospital and doctor bills, will be put in direct competition with HMOs and insurance companies. Even though Medicare is much more efficient than private plans — it has very low administrative costs, no marketing costs, and doesn't need to earn profits — it will have a hard time competing. Private insurance companies will market selectively to healthier and less costly seniors. The sickest and most costly seniors largely will be covered by the government program. With healthy seniors being drained off to the private sector, Medicare's costs per beneficiary will escalate compared to those of the private insurance plans. This will require seniors to pay more if they want to stay with Medicare. The bottom line: Many seniors will be forced to get all their benefits from private insurance companies.

• **Patient choice of doctor will be more limited**. Under Medicare today, 90 percent of seniors have chosen to stay in the government-run program for their hospital and physician coverage rather than join a Medicare HMO. One major reason is because they have complete freedom to choose their provider. HMOs greatly limit choice.By requiring that drug coverage be provided by private insurance plans, many more beneficiaries will be forced into HMOs and PPOs (preferred provider organizations) where drug — as well as hospital and physician benefits — will be provided. These private plans will be paid 20 percent to 30 percent more than what it costs Medicare to cover the same people. This extra money, which will cost taxpayers dearly, will allow these private companies to offer better benefits to induce more people to join them. A major downside of such private coverage is that beneficiaries will have much less choice selecting their physicians.

Congress had the opportunity to pass a Medicare drug bill that strengthens the current program and adds comprehensive drug coverage at an affordable price by containing costs. Instead, this new law threatens the program by beginning to turn it over to the insurance industry.