



Critique of the Bush Prescription Drug Proposal

During his campaign, President Bush claimed to have a proposal to make coverage for prescription drugs available to all seniors. Unfortunately, when looked at more closely, Bush's proposal appears to have been another bit of election year posturing that fails to provide a comprehensive and affordable Medicare prescription drug coverage for America's seniors.

There are two parts to the Bush proposal. Phase One would make federal funds available for an ill-advised state-based approach to providing prescription drug insurance to low-income seniors. This approach would leave half of all seniors ineligible for coverage until they have \$6,000 in out-of-pocket drug costs. Many more would be left uncovered because of the inefficiencies of a state-based approach. Even for those who did receive coverage under the proposal, the plan offers no guarantee that they will have access to the medicines they need.

In Phase Two, Bush would dramatically transform Medicare into a system of subsidies for seniors and the disabled to buy health insurance on the private market. Under this new scheme, seniors would not have access to a guaranteed set of prescription drug benefits as they do for hospital and physician services under Medicare today. Which drugs would be covered and Medicare recipients' cost sharing responsibilities are left unclear.

Phase I: Bush's "Immediate Helping Hand" Program Is a Weak Hand

In Phase One, the Bush proposal would create a transitional "Immediate Helping Hand" program, which would provide states with \$48 billion from 2001 to 2004 to create or improve already existing programs that cover prescription drugs for low-income seniors. There are several major problems with this approach:

- **It would force most seniors to wait at least 4 years before receiving any benefits.** Over half of all seniors – those with incomes over 175% of poverty and out-of-pocket drug costs under \$6,000 in a year – would receive no immediate benefits under the "Immediate Helping Hand" program. They would have to wait until at least 2005 before they would receive any benefits, the date that Phase Two of Bush's proposal would begin.
- **Failure to provide coverage through Medicare means the Bush proposal will fail to reach millions of seniors.** Medicare successfully extends coverage for hospital (Part A) and physician services (Part B) to almost all seniors (94%), approximately 32

million people.¹ In the 14 states that already have pharmacy assistance programs for low-income seniors of the type envisioned by the Bush proposal, enrollment is low. Nationally, less than 800,000, out of eight million, low-income seniors are enrolled in state pharmacy assistance programs.² These low enrollment rates are the result of poor outreach efforts on the part of states and seniors refusing to sign up for what they consider to be charity programs for the poor.³ Clearly, making prescription drug coverage available through Medicare, which has proven so successful at enrolling the elderly, would be a much better solution.

- **Coverage for middle-income seniors is very inadequate.** Middle-income seniors constitute the greatest number of the 12 million seniors without any prescription drug coverage, and many of them have high out-of-pocket costs. Over half of all seniors without drug coverage have incomes over 150% of poverty,⁴ and nearly three out of five Medicare beneficiaries with the highest prescription drug costs have incomes above 175% of poverty.⁵ However, the “Immediate Helping Hand” program would offer the most assistance to seniors whose incomes are under 135% of poverty and offer no assistance with drug costs or insurance to seniors who have incomes over 175% of poverty until they accumulated \$6,000 in out-of-pocket drug costs in a year. For someone receiving \$15,000 a year in income, just over 175% of poverty, this \$6,000 would be 40% of their income.⁶
- **Benefit package not specified.** The Bush proposal allows states substantial flexibility in setting the benefit level for their plans. The only requirement is that states would have to have their plans approved by the Department of Health and Human Services. The proposal does not specify what standard would be used to evaluate states’ proposals. This leaves open to question the quality of the plans states would offer. Would they cover all necessary medications? Many of the existing state pharmacy assistance benefit programs have limits on the number of prescriptions or the types of drugs they will cover.⁷ What sorts of deductibles, copayments and caps would they impose? There is a wide range among states. Would beneficiaries be able to use their local pharmacy, or would they be forced to get their medications from a pharmacy they do not generally use, or through the mail? If they were forced to get their medications from a mail-order pharmacy, their health may suffer, because they would not receive the benefits of advice from a pharmacist about how to take their medication, and counseling about possible dangerous interactions between the drugs they are taking.
- **Only 1% of Medicare beneficiaries would receive direct compensation for their high drug costs.** Only 1% of Medicare beneficiaries spend more than \$6,000 a year out-of-pocket on prescription drugs. This is the required threshold under the Bush Phase One plan in order to receive compensation for some prescription drug costs directly from the federal government.⁸
- **No guarantee that states that already have programs will use federal funds to expand the programs they offer.** The Bush proposal contains no maintenance of effort requirement. Therefore, in states where there already is a low-income

pharmacy assistance program for seniors, a significant portion of federal dollars would simply displace existing state funding. This would mean little increase in the funding for low-income, elderly pharmacy assistance programs in those states.

- **States may take up to three years to create programs.** Setting up a new program would require states to pass enabling legislation, hire and train new staff, and educate beneficiaries about the new program. Experience with the implementation of the Children's Health Insurance Plan indicates that bringing a new program on-line can take up to three years.⁹ Benefits could be made available to seniors much more quickly and reliably if they were provided through the already existing Medicare program.
- **National Governors' Association opposes a state-based prescription drug benefit.** The National Governors' Association explicitly opposes a state-based approach to providing insurance coverage for prescription drugs to low-income seniors, because such an approach would impose a large cost burden on the states.¹⁰

Phase II: Bush Plan Fails to Create a Comprehensive and Affordable Prescription Drug Benefit Under Medicare

During his presidential campaign, Bush proposed that Phase Two of his prescription drug proposal would begin in 2005 and be known as MediCARxES. Under this program, Medicare would be dramatically transformed into a system of subsidies for seniors and the disabled to buy health insurance on the private market or from the traditional Medicare program. In this new system, seniors and the disabled would not have access to a guaranteed set of benefits. The coverage for existing hospital and physician services and a new prescription drug benefit, including the cost sharing responsibilities of the beneficiary, were left unclear.

- **The Bush proposal fails to offer seniors a defined prescription drug benefit under Medicare.** The Medicare program has enjoyed wide popular support because it offers seniors a guaranteed set of hospital and physician benefits at a set price. However, instead of offering a defined prescription drug benefit under Medicare, the Bush proposal provides Medicare beneficiaries with a subsidy to purchase health insurance that would cover some of the cost of prescription drugs. Experience indicates that leaving decisions about how health insurance for seniors will be designed to private insurance companies and HMOs operating in the private market, as the Bush plan does, will not serve seniors well.
 - Without an explicitly defined benefit package that plans must cover, there is no guarantee that the plans offering coverage under the Bush proposal will provide seniors with access to all medically necessary prescription drugs and allow them to use their local pharmacy. Also, there will be an incentive for plans to offer bare bones coverage so that they can keep their costs down, offer insurance at a price lower than their competitors and attract healthier and

lower-cost enrollees. This sort of competitive dynamic would drive quality health insurance out of the market, leaving only insurance plans with high deductibles and substantial restrictions on the drugs that they will cover.

- Medigap. The Bush proposal relies on private insurance companies to offer prescription drug insurance. There already are private insurance plans that offer some coverage for the cost of prescription drugs to seniors — commonly called “Medigap” plans. These plans have experienced problems showing that this is not a promising approach to making coverage for prescription drugs available to seniors. Medigap plans often refuse to cover high-risk beneficiaries. Also, because Medigap plans, which cover some of the cost of prescription drugs, tend to attract Medicare beneficiaries with particularly high drug costs (adverse selection) these plans charge prohibitively high premiums and offer meager benefits. Seniors who have purchased Medigap drug coverage must meet a \$250 annual deductible and pay half of their drug costs up to the maximum allowable under their plan — \$1,250 for some, \$3,000 for others. On average, a Medigap plan that covers some of the cost of prescription drugs costs \$1,000 a year more than one without that coverage.¹¹ Moreover, those with Medigap coverage pay, on average, 58% of their drug costs out-of-pocket.¹²
- HMOs. The premise of the Bush proposal is that private entities, such as HMOs, will be able to deliver health care more efficiently than Medicare, with the resulting savings making it possible to provide more benefits to America's seniors and disabled, including prescription drug coverage. However, HMO participation in Medicare is an experiment that is failing. Experience has shown that HMOs actually drain resources from the Medicare program. They attract disproportionately high numbers of relatively healthy Medicare beneficiaries, but are paid at a rate that assumes that they are serving a representative sample of the Medicare population. The Medicare program would actually save money if it ended its collaboration with HMOs and abolished the Medicare+ Choice program.¹³

Also, while Medicare HMOs generally offer seniors some coverage for their prescription drugs, they are withdrawing in record numbers from the Medicare program and reducing the drug benefits they offer. From 1999 to 2001, a total of 1.6 million seniors will have been forced to look for new providers after their HMO reduced or ceased to provide services under the Medicare+ Choice program.¹⁴

HMOs also have been demanding larger copayments from beneficiaries and imposing greater limits on the drug benefits they offer. In 2000, all HMOs charged co-pays for prescription drugs, and 86% of them capped prescription drug coverage. And the caps are becoming more restrictive — almost one-third of all HMOs had spending caps of \$500 in drug costs per enrollee in 2000, up from 21% in 1999.¹⁵

- **Low level of subsidies means that large numbers of middle- and upper-income seniors will not enroll in one of Bush's prescription drug insurance plans.** In its analysis of H.R. 4680, the House Republicans' prescription drug bill from the 106th Congress, the Congressional Budget Office found that only 46% of Medicare beneficiaries previously uninsured for prescription drugs would purchase prescription drug insurance as a result of the passage of the bill. H.R. 4680, like the Bush proposal, would subsidize the purchase of private drug insurance by seniors.

There are three important differences between the Bush proposal and H.R. 4680. First, the Bush proposal would include prescription drug coverage as part of larger health care plans, whereas H.R. 4680 proposes stand-alone prescription drug coverage. Second, under the Bush proposal seniors would receive a direct subsidy to help them buy insurance for prescription drugs. Under H.R. 4680, the government would pay the subsidy directly to insurance companies that agreed to insure seniors for the cost of their prescription drugs. Finally, Bush's proposal offers middle- and upper-income beneficiaries a smaller subsidy to help them buy prescription drug insurance – 25% of the premium for prescription drug insurance -- as opposed to 35% under H.R. 4680. Assuming that the first two differences would have little impact on participation, we would expect that as a result of the lower subsidy rate under the Bush plan, participation rates by previously uninsured seniors could even be below 46%.¹⁶

- **Low-income protections inadequate.** For those with incomes under 135% of poverty (\$11,272/single; \$15,187/couple), the Bush proposal would cover the cost of premiums only for a health care plan that covers prescription drugs. It would not cover the copayments and deductibles that plans can charge members. Given that the proposal is vague about the level of benefits participating plans would offer, it could be very limited coverage with high deductibles and copayments, and/or significant limits on the drugs and number of prescriptions covered. One recently enacted program in Nevada for low-income seniors includes out-of-pocket expenses that are quite high for a low-income population – a \$100 annual deductible and a \$10 copayment on generic drugs. Also, many of the existing state-based pharmacy assistance programs for low-income seniors limit the number of prescriptions seniors can fill and the types of drugs they cover. If these are the types of plans that will become available to meet the demand for prescription drug insurance under the Bush proposal, then low-income individuals will continue to suffer from lack of access to affordable prescription drugs.

For those with incomes between 135% and 175% of poverty, the plan's benefits are even more limited – it would cover only the portion of their private insurance premiums that paid for prescription drug coverage and not even that entire amount. For those with incomes at 135% of poverty it would cover 100% of those premium costs. However for those with incomes above 135% of poverty, it would phase down so that for those with incomes at 175% of poverty or above it would pay only 25% of their premiums. If the plans that covered prescription drug benefits were particularly

expensive, because they included many non-prescription drug benefits, then beneficiaries with incomes between 135% and 175% of poverty would find it particularly difficult to afford prescription drug coverage under the Bush proposal.

- **Failure to reduce drug costs means the Bush proposal cannot make drugs affordable for Medicare beneficiaries.** Under the Bush plan, seniors would be able to choose between competing plans that offered coverage for prescription drugs. In theory, these plans would seek to control their costs by negotiating discounts with drug companies so that they could offer coverage for health care, including prescription drugs, cheaper than their competitors. The Congressional Budget Office estimates that this approach would deliver a 25% reduction off retail prescription drug costs to America's seniors.¹⁷ It would be much better if seniors were given the option of drug coverage under the Medicare program and if Medicare negotiated 40% to 50% discounts with the drug companies, just like the Department of Veterans Affairs does. This would reduce substantially the costs of co-payments to seniors and the disabled and make a comprehensive Medicare prescription drug benefit more affordable.
- **Without a strong mechanism to control costs, health care inflation would quickly render the Bush proposal's 25% insurance subsidy worthless.** Under the Bush plan, most seniors¹⁸ would receive a subsidy worth 25% of the cost of prescription drug insurance. However, since insurers and HMOs would generally offer prescription drugs as part of a complete health care package, this subsidy would actually cover less than 25% of the total cost of a health care plan that would include prescription drug benefits. Also, given that the cost of prescription drugs has jumped an average of 12% a year in the 1990s, and the proposal contains only a limited provision to deal with the rapidly increasing cost of drugs, inflation will quickly render this 25% subsidy worthless.¹⁹ Indeed, in all likelihood, the Bush proposal would contribute to inflation among insurers as they adjusted their prices upward to take account of the extra resources the Bush plan gives seniors to buy insurance.
- **Drug company and insurance industry special interests support the Bush approach.** Instead of making prescription drugs more affordable for America's seniors, the net result of this plan would be to increase profits for the insurance industry and do little to curb the high profits enjoyed by the drug industry. It is little wonder, then, that the Health Insurance Association of America (HIAA) and the American Association of Health Plans (AAHP), which represent the health insurance industry and the managed care industry respectively, have said that they support the Bush proposal.²⁰ The Pharmaceutical Research and Manufacturers' Association of America (PhRMA), the brand name pharmaceutical companies' trade group, has said that it supports, in principle, a private insurance approach to making prescription drugs available to seniors.²¹

¹ Health Care Financing Administration, "1999 HCFA Statistics," p. 6. U.S. Census Bureau, "Resident Population Estimates of the United States by Age and Sex: April 1, 1990 to July 1, 1999, with Short-Term Projection to November 1, 2000."

² National Economic Council/Domestic Policy Council, "Low-Income Prescription Drug Plans," September, 2000, p. 5.

³ General Accounting Office, "State Pharmacy Programs," September, 2000, p. 19.

⁴ Department of Health and Human Services, "Report to the President: Prescription Drug Coverage, Spending, Utilization, and Prices," April, 2000, p. 27.

⁵ National Economic Council/Domestic Policy Council, "Low-Income Prescription Drug Plans," September, 2000, p. 3.

⁶ In 2000, the federal poverty level for a single person was \$8,350; 175% of the federal poverty level was \$14,612 for a single person. Department of Health and Human Services, "2000 Federal Poverty Guidelines."

⁷ National Economic Council/Domestic Policy Council, "Low-Income Prescription Drug Plans," September, 2000, p. 6.

⁸ Kenneth Thorpe, "A Preliminary Analysis of Medicare Outpatient Prescription Drug Proposals Proposed by Vice-President Gore and Governor Bush," September, 2000, p. 5.

⁹ National Economic Council/Domestic Policy Council, "Low-Income Prescription Drug Plans," September, 2000, pp. 7-8.

¹⁰ National Governors' Association, "HR-39: Senior Prescription Drug Policy," 2000.

¹¹ Department of Health and Human Services, "Report to the President: Prescription Drug Coverage, Spending, Utilization and Prices," April, 2000, pp. 14-16.

¹² Department of Health and Human Services, "Report to the President: Prescription Drug Coverage, Spending, Utilization, and Prices," April, 2000, p. 48.

¹³ General Accounting Office, "Medicare+ Choice Payments Exceed Cost of Fee-for-Service Benefits, Adding Billions to Spending," August, 2000.

¹⁴ General Accounting Office, "Medicare+ Choice Payments Exceed Cost of Fee-for-Service Benefits, Adding Billions to Spending," August, 2000, p. 3.

¹⁵ Department of Health and Human Services, "Report to the President: Prescription Drug Coverage, Spending, Utilization, and Prices," April, 2000, pp. 17-18.

¹⁶ Congressional Budget Office, "Cost Estimate: H.R. 4680, Medicare Rx 2000 Act," June 28, 2000.

¹⁷ Congressional Budget Office, "Cost Estimate: H.R. 4680, Medicare Rx 2000 Act," June 28, 2000.

¹⁸ 65% of seniors have incomes over 175% of poverty (\$14,612 for a single person, and \$19,687 for a couple). Kaiser Family Foundation, "Medicaid's Financial Protections for Medicare's Poor and Near-Poor," November, 1997.

¹⁹ Health Care Financing Administration, Office of the Actuary cited in Mark Merlis, "Explaining the Growth in Prescription Drug Spending: A Review of Recent Studies," Report Prepared for DHHS Conference on Pharmaceutical Pricing Practices, Utilization and Costs, August, 2000, p. 3.

²⁰ Robert Pear and Robin Toner, "The 2000 Campaign: Clear Choice for Voters," *New York Times*, September 6, 2000. The health insurance industry has said that it would not offer stand-alone prescription drug benefits, as were proposed in the House Republican leadership legislation, H.R. 4680, which passed the House on June 28, 2000. Because the Bush plan calls for prescription drug benefits to be offered by insurers as a part of larger health insurance plans

HIAA supports the proposal. Amy Goldstein, "States Would Play Big Role in Bush's Plan for Medicare," *Washington Post*, September 6, 2000.

²¹ Pharmaceutical Research and Manufacturers Association (PhRMA), "Helping Seniors and the Disabled Gain Prescription Drug Coverage through a Strengthened Medicare Program," February 22, 2000.