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Medicare Law's Costs and Benefits Are Elusive

By ROBERT PEAR

WASHINGTON, Dec. 8 — Now that President Bush has signed a landmark bill adding drug benefits to Medicare, an overriding question remains: how well will it work?

Despite Mr. Bush's prediction that most elderly people would benefit from the new law, federal health officials said they faced immense challenges in meeting the high expectations of Medicare beneficiaries.

"In return for a monthly premium of about \$35, most seniors without any prescription-drug coverage can now expect to see their current drug bills cut roughly in half," Mr. Bush said in signing the bill Monday.

But no one knows whether the legislation will work as intended.

The new drug benefit will be offered and managed by private insurers and health plans, under contract with the government. The legislation defines a standard drug benefit, but insurers could vary it.

So Medicare beneficiaries could face a dizzying array of options — or perhaps very few, depending on where they live. A major question is whether insurance companies will offer policies covering drug costs and nothing else. Such stand-alone drug coverage is virtually nonexistent.

"Seniors are fully capable of making health care choices, and this bill allows them to do just that," Mr. Bush said in signing the bill.

But at least 10 percent of elderly Medicare beneficiaries have Alzheimer's or other types of dementia that would make it difficult for them to understand the options, said Stephen R. McConnell, senior vice president of the Alzheimer's Association.

Lawmakers and health policy experts raised many other questions as well: Will elderly people sign up for the new drug benefit? Can insurers secure big discounts in negotiations with drug manufacturers? Will increased federal payments lure private health plans into the Medicare market? Will competition among health plans save money for Medicare? Or will private plans cost more than traditional Medicare? Will employers scale back health benefits for retirees, knowing they can get a basic drug benefit from Medicare?

About 14 million people with low incomes, 35 percent of Medicare beneficiaries, will qualify for extra assistance under the bill. But federal and state officials said they would have to make enormous efforts to enroll all those eligible for such subsidies.

The new drug benefit becomes available in 2006. But Medicare recipients should see the first effects of

the bill next June, when they can purchase government-approved discount cards for use at retail pharmacies.

Mr. Bush said the cards "will deliver savings of 10 to 25 percent off the retail price of most medicines." Studies by the General Accounting Office and other independent experts suggest that the savings will be closer to the low end of that range.

In signing the bill, Mr. Bush gave three examples of people who would benefit. The savings claimed by Mr. Bush are all possible, in theory. But he made a significant unstated assumption in each case: that insurers and health plans would be able to knock 15 percent to 20 percent off retail drug prices, through negotiations with manufacturers and pharmacies.

Stephen E. Littlejohn, vice president of Express Scripts, which manages drug benefits for many employers and health plans, said that assumption was reasonable. He said his company, based in St. Louis, typically delivered savings of 25 percent, with a further saving of 5 percent for people who fill prescriptions by mail.

If Medicare beneficiaries do not receive drug discounts comparable to those reported by Express Scripts, Congress could empower the government itself to negotiate with drug companies.

To illustrate how the new benefit would work, Mr. Bush described the case of Mary Jane Jones of Midlothian, Va.

"Her drug bills total nearly \$500 a month," the president said. "Things got so tight for a while she had to use needles twice or three times for her insulin shots. With this law, Mary Jane won't have to go to such extremes. In exchange for a monthly premium of about \$35, Mary Jane Jones would save nearly \$2,700 in annual prescription drug spending."

Ms. Jones's drug costs total nearly \$6,000 a year. The administration assumes that a private insurer or benefit manager could obtain a 20 percent discount, cutting the cost to \$4,800 a year. Assuming Ms. Jones received the standard drug benefit, she would pay a \$250 deductible, plus \$500 of the next \$2,000 in drug costs. She would then pay all of the next \$2,550.

Under these assumptions, Ms. Jones's insurance would pay \$1,500, and she would pay \$3,300, thus saving \$2,700, or 45 percent of what she now spends.

Those calculations do not include the premiums, estimated at \$35 a month or \$420 a year. The estimate comes from the Congressional Budget Office. Nothing in the law specifies the premium.

The new law relies on the private sector, insurers and health plans, to hold down drug spending and Medicare costs in general. Such insurers have a mixed record of controlling costs. Mercer Human Resource Consulting, the employee benefit concern, said on Monday that health benefit costs for those covered by private plans rose an average of 10.1 percent per active employee this year, after increases of 11.2 percent in 2001 and 14.7 percent in 2002. Mercer foresees a 13 percent increase next year.

The new law prohibits Medicare from using its purchasing power to negotiate with drug makers. Pharmaceutical companies, adamantly opposed to price controls, prefer to deal with dozens of private buyers rather than a single federal agency.

But Senator John McCain, Republican of Arizona, has described the ban on direct negotiations as

"outrageous," and Democrats have introduced legislation to repeal it.

One of the biggest questions about the new law is whether it will foster the growth of private health plans, as President Bush and other Republicans hope. Fewer than 5 million of the 40 million Medicare beneficiaries, about 12 percent, are in private plans. The administration predicts that the proportion will grow to 35 percent by 2007, as beneficiaries enroll in health maintenance organizations and preferred provider organizations.

The new law would substantially increase Medicare payments to such private plans, beginning in 2004. Some insurers that shunned Medicare in recent years said they would be tempted to enter or return to that market. But they said it would be extremely difficult to build up networks of doctors and hospitals covering entire states or regions, as envisioned in the the new law. Moreover, many Medicare beneficiaries, dropped by H.M.O.'s in recent years, say they will be hesitant to enroll in private plans.

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