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Experts Wary of G.O.P. Drug Plan

By ROBERT PEAR

WASHINGTON, June 15 — A Republican plan to provide prescription drug benefits to the elderly through private insurers is drawing a skeptical reaction from many health policy experts. The plan, they say, would face problems like those that have plagued Medicare's attempt to encourage the use of health maintenance organizations.

Private health plans were once seen as Medicare's best hope for controlling costs. In 1998, the Congressional Budget Office predicted that half of all beneficiaries would eventually be in such managed care organizations. But the market has been extremely unstable. Many H.M.O.'s have found federal payments inadequate and pulled out of Medicare, dropping 2.2 million beneficiaries since 1998.

The House Ways and Means Committee plans to vote next week on a bill to add drug coverage to Medicare, the largest expansion of the program in its 37-year history. The full House is expected to pass the legislation a week later.

Under the proposal, Medicare would pay subsidies to private entities to offer insurance covering the costs of prescription drugs. Such "drug only" insurance does not exist, and many private insurers doubt whether they could offer it at an affordable price.

"I'm very skeptical that 'drug only' private plans would develop," said Bill Gradison, a former congressman who was president of the Health Insurance Association of America from 1993 to 1998.

Representative Bill Thomas, the California Republican who is chairman of the Ways and Means Committee, insisted: "We should rely on private sector innovation in delivering the drug benefit. The private sector approach offers the most savings per prescription."

But John C. Rother, policy director of AARP, which represents millions of the elderly, said, "There is a risk of repeating the H.M.O. experience" with any proposal that relies heavily on private entities to provide Medicare drug benefits.

Senator Debbie Stabenow, Democrat of Michigan, lamented the exodus of H.M.O.'s from Medicare and asked, "Why in the world would we want to make the same mistakes with the prescription drug benefit?"



About 5.6 million, or 14 percent, of the 40 million Medicare beneficiaries are in private health plans. People dropped from such health plans can go back to Medicare's original fee-for-service program or enroll in another H.M.O., if they can find one.

Many companies sell insurance to fill gaps in Medicare coverage, but premiums for such Medigap policies have increased rapidly in recent years, and only 3 of the 10 standard policies include drug benefits.

Richard A. Barasch, chairman of Universal American Financial Corporation of Rye Brook, N.Y., which sells Medigap coverage to 400,000 people, said he seriously considered offering a separate insurance product just for drug costs. But after much research, Mr. Barasch said, he concluded that it was not feasible because most of the buyers would be people with high drug expenses.

Under the Republican proposal, insurers and other companies would submit bids to the government, specifying the premiums they proposed to charge for drug coverage. These companies would manage the benefits and would share the risk of financial loss if subscribers' drug costs exceeded expectations.

Asked about such proposals, Mr. Barasch said: "I don't think it's impossible, but the odds are against it."

Participation in the drug plan would be voluntary. But Republicans said the benefits would be so attractive that 95 percent of Medicare beneficiaries, including people with low drug expenses, would sign up.

Richard I. Smith, vice president of the Pharmaceutical Research and Manufacturers of America, a lobby for drug makers, said he believed that Medicare payments to companies offering drug benefits might be more adequate than the payments to H.M.O.'s. Because of "a rigid formula," Mr. Smith said, payments to many H.M.O.'s have grown only 2 percent a year, while costs have increased 10 percent a year.

In the Senate, both parties are working on Medicare drug legislation, but no consensus has formed and no votes have been taken.

The House Republican plan envisions a large role for companies that now manage pharmaceutical benefits for many working families with private insurance. Such companies, including Merck-Medco, Express Scripts and AdvancePCS, negotiate discounts with drug manufacturers and pharmacies. Under the Republican plan, such companies would also assume financial risk, like insurance companies, if they wanted to do business directly with Medicare.

Thomas M. Boudreau, senior vice president and general counsel of Express Scripts, said: "We are not enthusiastic about that approach."

Under the Republican proposal, any company offering prescription drug

coverage to Medicare beneficiaries would have to be licensed under state law as "a risk-bearing entity" or would have to meet federal standards meant to guarantee financial solvency.

Blair Jackson, a spokesman for AdvancePCS, said: "We are typically paid a fee, generally less than \$1, for each claim. But we do not bear financial risk."

H.M.O.'s have long boasted that they hold down health costs, but their ability to do so has been challenged by hospitals and doctors demanding higher payments. Companies managing Medicare benefits would face similar pressures from drugstores.

The National Association of Chain Drug Stores recently sent a bulletin to its members opposing the Republicans' Medicare drug proposal.

Crystal S. Wright, vice president of the association, said: "This could be an economic disaster for community pharmacies. Benefit managers are likely to get even more leverage than they currently have to reduce pharmacy reimbursement."

Under the Republican drug plan, a typical beneficiary would pay premiums of \$34 a month, a \$250 deductible, 20 percent of drug costs from \$251 to \$1,000 a year and 50 percent of drug costs from \$1,001 to \$2,000. Beneficiaries would then be responsible for all drug costs until they had spent a total of \$4,500 of their own money. Medicare would cover all drug costs beyond that.

But, House Republicans said, insurers could set different premiums and benefits, so long as the overall value of each drug plan was equivalent to that of the "standard coverage" suggested by the government.

The Republican plan is part of a bill costing \$350 billion over 10 years. A Democratic alternative would offer more extensive benefits, at a much higher cost to the government.