CAMPAIGN FOR AMERICA'S FUTURE

1025 CONNECTICUT AVENUE, NW • SUITE 205 • WASHINGTON, DC 20036 • TEL (202) 955-5665 FAX (202) 955-5606 • www.ourfuture.org

Contact: Toby Chaudhuri 202 955-5665

What Bush says vs. the Facts about his Medicare drug plan:

by Roger Hickey

Bush says: We want to help seniors with drug costs.
The Facts: The Bush drug plan puts special interests over seniors.

President Bush claims his new legislation will provide a good prescription drug benefit to seniors. But the Campaign for America's Future and a large coalition of senior, labor and civic groups have joined to make the case that the new drug deal gives windfall profits to the drug and insurance industry and provides tax breaks for the rich – without giving a reliable prescription drug benefit or drug price relief to seniors and people with disabilities.

President Bush used his January 20 State of the Union speech to begin a campaign to convince Americans that he is providing "seniors the modern medicine they deserve." Polls show Americans are skeptical, and their suspicions are well-founded. This primer contrasts Bush's statements about his Medicare deal, with the facts of the matter. It was written by CAF co-director Roger Hickey – organizer of a major citizen coalition which is campaigning to demand that Congress replace the Bush-drug industry plan with a comprehensive prescription drug program that will reduce drug costs for all seniors.

Bush says: This Administration came into office promising a prescription drug benefit for seniors, and we kept that promise.

The Facts: For years Republicans opposed a prescription drug benefit.

But activist senior citizen organizations, like the Alliance for Retired Americans, organized and pressured politicians, conducting highly-publicized bus trips to Canada and Mexico to buy American-made drugs at lower prices than they could get here. Democratic politicians took up the cause. And one highly visible political upset – Debbie Stabenow's defeat of Spencer Abraham sent a message to Republicans that they couldn't stand in the way of progress forever.

The pharmaceutical industry also opposed a government program to buy drugs for seniors, but when George W. Bush decided to neutralize the issue by promising a prescription drug plan, the drug companies quickly got into the business of designing a drug bill for seniors that they could live with. Their enormous political contributions to Bush and his party gave them easy access to the White House and Congressional drafting sessions. [See Public Campaign's new report, "BUYING A LAW: Big Pharma's Big Money and the Bush Medicare Plan" [1] http://www.pcactionfund.org/buyingalaw/.] HMO companies, having failed miserably in their efforts to take over senior health care in the Medicare Plus experiment, decided a Bush drug plan was an opportunity to get government subsidies to play again in Medicare through the new drug program.

Bush says: "Some older Americans spend much of their Social Security checks just on their medications. This new law will ease the burden on seniors and will give them the extra help they need." George W. Bush at bill signing ceremony, December 8, 2003 [2]

The facts: Most Medicare beneficiaries will end up paying MORE for their prescriptions.

Everyone knows that the prices of prescription drugs have been skyrocketing. The new law, which will spend a good part of $400 billion over 10 years, should have empowered Medicare to do what any private firm would do when it buys a lot of anything, from widgets to health care services: go to the drug companies and negotiate the lowest possible price. (This is what the Veterans Administration does, saving billions on drug prices.) Instead, the bill President Bush is so proud of actually explicitly *prohibits* the federal government from negotiating low prices on behalf of beneficiaries.[3] This is a provision that only a drug company lobbyist could have written.

Gail Shearer, Health Policy Director at Consumers Union, looked at the impact of Bush's new drug plan on the pharmaceutical expenditures of consumers, making the assumption that the law will do nothing to curb the outrageously high prices charged by the big drug companies. [4]

She found that "the benefit design, and the assumption of continued growth in expenditures combine so that people at most expenditure levels actually face out-of-pocket expenditures in 2007 (when they would have coverage) *greater* than their out-of-pocket expenditures in 2003 (when they have no drug coverage)."

To repeat, she finds that "Most beneficiaries will face higher out-of-pocket costs for prescription drugs after full implementation, despite the benefit." Specifically, she found:

> • The average Medicare beneficiary (without prescription drug coverage) spending $2,318 in 2003 would find that his or her out-of-pocket costs for prescription drugs (including: premium, deductible, co-payments, and "doughnut") are higher in 2007, despite the new prescription drug benefit, and would total $2,911 in 2007 (real 2003 dollars).

Bush says: "[T]his legislation is a victory for all of America's seniors."

George W. Bush at bill signing ceremony, December 8, 2003.[5]

The Facts: The real winners are drug companies and insurance plans.

Drug makers will be the big winners – pocketing a whopping $139 billion in new revenues from the taxpayers, according to the Health Reform Program analysis of the bill.

- The drug industry has spent about $650 million on politicians since 1997 – fully 80% to Republicans. Many millions more have been spent on sham "senior" groups who take drug company money to run television and print ads supporting the drug and insurance industry positions.[6]

In addition to the money that goes to drug companies, $12 billion will go directly to insurance companies and PPOs to keep them from leaving Medicare.

- Since 1997, more than 2.5 million seniors and people with disabilities have been dropped by many of these same insurance companies that will be handed billions under this deal.

President Bush isn't even trying to hide the big money behind this bad deal! Together with the Members of Congress who joined him on the stage during the signing ceremony – they have taken $14 million in political contributions from the health care industry!

From the *Wall Street Journal:* "Corporate lobbying groups are emerging as winners, having pushed hard for a bill in order to shift some of their costs to the government...companies can opt in, taking the proposed tax-free federal subsidy and shifting some costs to the government, or opt out and possibly cut or eliminate their own coverage altogether, a trend that is already under way." [7]. . . "For the drug industry, the legislation is good news...Drug makers believe individual private buyers are less able to push down prices than a centralized government purchaser with a pool of 40 million patients."

Bush says: My drug plan helps those who need it most. The new benefit provides for comprehensive drug coverage for people with low incomes.

The Facts: Millions of low-income seniors will be hurt by the Bush bill.

From the *New York Times:* "Millions of Medicare beneficiaries have bought private insurance to fill gaps in Medicare. But a little-noticed provision of the legislation prohibits the sale of any Medigap policy that would help pay drug costs after Jan. 1, 2006, when the new Medicare drug benefit becomes available." [8]

From a USA Today report: "The Congressional Budget Office estimates about 2.7 million seniors could lose benefits that may be more generous than those that will be offered under Medicare." [9]

The bill establishes a $6,000 ($9,000 for a couple) “assets test” for those under 135% of established poverty level which will disqualify 2.8 million very low-income seniors for assistance.

The Center on Budget and Policy Priorities reports "Several million of the nation’s poorest elderly and disabled beneficiaries will be made *worse off* by the new legislation, because they will have to pay more for drugs than they currently pay under Medicaid, will be denied coverage for some drugs they currently receive through Medicaid, or both." [10]

The Center’s report continues: “Medicaid beneficiaries currently receive prescription drugs free of charge or pay charges that are generally limited to no more than $1 or $2 per prescription per month. Under the new legislation, elderly and disabled Medicare beneficiaries who qualify for Medicaid and have gross incomes modestly above the poverty line will begin paying charges of $5 per month per brand-name prescription and $2 per month per generic prescription. (The charges are lower for those below the poverty line.) For those with few prescriptions, these differences may not matter much. For those with many prescriptions, however, the differences can be significant.

Of particular concern, these $5 and $2 charges will be increased each year by the percentage that *drug costs rise per Medicare beneficiary*, which the Congressional Budget Office projects will be about 10 percent per year. These near-poor elderly and disabled beneficiaries live primarily on fixed incomes that do not rise over time or on small Social Security checks that rise with the general inflation rate, which CBO projects will be about 2.5 percent per year. In other words, the drug co-payment charges these beneficiaries will have to pay will rise about *four times faster* than their incomes.

Still more troubling, Medicaid generally covers all drugs that a beneficiary needs. By contrast, the new legislation allows the private insurance plans that will deliver the Medicare drug benefit to beneficiaries in Medicare fee-for-service (as well as HMOs and PPOs that provide all Medicare benefits to their enrollees, including the drug benefit) to limit coverage to two drugs per therapeutic class. This means that many poor elderly and disabled beneficiaries who currently receive drug coverage through Medicaid may *lose* coverage for the drugs they have been prescribed.”[11]

Bush says: The new law protects existing retiree coverage.

The Facts: It doesn’t do much to prevent companies from dumping their drug plans for their retired employees.

"The Congressional Budget Office estimates about 2.7 million seniors could lose benefits that may be more generous than those that will be offered under Medicare," USA Today. [12]

The Alliance for Retired Americans reports: The law provides a subsidy to sponsors of qualifying private employer retiree health plans, but that amount is 28% of “allowable retiree costs” in excess of “cost threshold” up to amount of “cost limit.” For 2006, the individual cost threshold is $250 and cost limit is $5,000. Allowable retiree costs exclude administrative costs, net of rebates, charge backs, discounts, etc. The law only requires the plan to provide drug coverage that is “at least actuarially equivalent to the standard prescription plan” which means many companies could, and probably will, reduce current coverage. The Congressional Budget Office estimates that 2.7 million retirees who currently receive drug coverage through a former employer will lose those benefits. [13]

Bush says: The benefit will be simple. "Seniors happy with the current Medicare system should be able to keep their coverage just the way it is."

Bush's 2003 State of the Union Address, January 28, 2003[14]

The Facts: This bill creates a VERY complicated, confusing system.

Let's take a look at what faces those who choose to participate in the new prescription "benefit":

- The deal is a virtual roller coaster — you will be charged at least $420 per year in new premiums, have to pay a $250 deductible, a part of your drug costs up to $2,250, all of your drug costs from $2,251 to $5,100, and then a smaller portion of drug costs after that. [15]

- Once all of this is added up – the average person on Medicare will end up paying more out-of-pocket for their prescriptions after the new law goes into effect than they pay today, according to Consumer's Union.

- What does all of that look like in real time for real people? Here's what a year of coverage under the drug deal (including premiums) looks like for a Medicare beneficiary with $6,200 in annual drug costs – an average of $515 per month:

  January: she pays around $350
  February – April: she pays around $165 each month
  May – October: she pays around $530 each month (COVERAGE GAP LASTS 6 MONTHS!)
  November – December: she pays around $60 each month (catastrophic)
  AND THEN IT STARTS ALL OVER AGAIN!

Bush says: "We must work toward a system in which all Americans choose their own doctors, and seniors and low-income Americans receive the help they need. . . We must put doctors and nurses and patients back in charge of American medicine." Bush's 2003 State of the Union Address, January 28, 2003 [16]

The Facts: This bill subsidizes HMOs to take over Medicare.

Most people who have dealt with HMOs know that patients lose their choice of doctors and find bureaucrats and insurance clerks in charge of treatment decisions. But President Bush and his backers used this drug bill to inject HMOs into Medicare – even after the failure of the Medicare Plus experiment with HMOs.

- The drug deal starts Medicare privatization, subsidizes HMOs, means tests beneficiaries, and is designed to starve Medicare of necessary funds – making Newt Gingrich's goal that Medicare "wither on the vine," a reality.

- HMOs get billions of taxpayer dollars in "incentives" to sell the health care coverage that Medicare provides now. This false "competition" will wind up luring the healthy and wealthy out of Medicare and will threaten the program's stability.

- About a fifth of people on Medicare will find themselves in areas with higher Medicare costs as a result.

From the Alliance for Retired Americans: This law really undermines the traditional Medicare program by forcing it to compete, beginning in 2010, with private HMO insurance plans. Supporters tout this as "only a demonstration project," but it is the beginning of the privatization of Medicare. Private insurance companies will have the option to "cherry-pick" enrollees, that is they will accept healthier seniors, leaving sicker seniors in the traditional program . Unlike the traditional program, private insurers do not guarantee premiums, can drop patients and change coverage. The law also establishes a "means test" for the Medicare program under which higher income seniors will pay higher premiums for Part B, ranging from 40-220%.

In order to get such drug coverage you must either leave the traditional Medicare program and join a Medicare Advantage plan (this replaces the failing Medicare+Choice program that replaced the failed Medicare HMO program) or buy a stand alone policy from a private "Plan Sponsor." The private "Plan Sponsor" is either an insurance company licensed in the state or a company that meets the solvency standards established by the Centers for Medicare and Medicaid Services (CMS). [17]

- Deal also includes bogus "cost saving" measures that will starve Medicare of necessary funds. Despite the fact that the deal would force Medicare to pay skyrocketing drug costs and stops Medicare from lowering those costs, the deal also includes caps on Medicare spending – squeezing Medicare from both ends.

- The new law requires the President to cut Medicare spending (including benefit cuts) whenever the government projects that, seven years into the future, costs might go above an arbitrary threshold.

Bush says: The money in this bill goes to prescription drugs for seniors.

The Facts: Hidden in this law are more tax breaks for the rich.

As one might expect from a bill written by conservatives, the Bush Medicare law contains... another tax cut for rich people! This new $6.8 billion tax break has nothing to do with prescriptions – it allows wealthy Americans to shelter income in high-deductible health savings accounts that most Americans can't afford. Plus this tax break is only for Americans under 65 years old – eliminating the overwhelming majority of Medicare beneficiaries.

In *HSAs Won't Cure Medicare's Ills* Urban Institute health economists Leonard E. Burman and Linda J. Blumberg write: "This proposed set-up would primarily benefit those with high incomes for at least two reasons. First, the tax deduction is worth most to them. A $4,500 HSA contribution, the maximum permitted in the House legislation, would generate a tax deduction worth $1,575 per year to a household in the top income tax bracket. The value of the tax benefit would be less than half as much for a moderate-income family—much less if it could not afford to contribute much to the account.

Second, high-income people can afford the risk of a high deductible. $2,000 in unreimbursed medical costs is a huge burden for someone earning $30,000 per year, but chump change for someone earning $300,000. Employers may kick in part of the deductible out of their premium savings, but those savings are expected to be dwarfed by the deductible. Thus, modest-income families in these high- deductible plans may be tempted to skip preventive care or delay medical tests and services when illness strikes.

Tax cuts for rich people were never a cure-all, but this particular proposal is pure snake oil. Health savings accounts have nothing to do with Medicare and they are the wrong prescription for the uninsured." [18]

- So what could $6.8 billion get for seniors and people with disabilities on Medicare? 165.3 million prescriptions of Lipitor or 72 million prescriptions of Plavix at the price the Veterans Administration pays for prescriptions.

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[1] David Donnelly, "BUYING A LAW: Big Pharma's Big Money and the Bush Medicare Plan," January 2004.The study can be found online at http://www.pcactionfund.org/buyingalaw/.

[2] George W. Bush at Medicare bill signing ceremony, December 8, 2003. Full text of comments available on the Washington Post website at: http://www.washingtonpost.com/ac2/wp-dyn/A45709-2003Dec8?language=printer

[3] *Medicare Prescription Drug and Modernization Act 2003*, Public Law No. 108-173: "NONINTERFERENCE- In order to promote competition under parts C and D, the Administrator, in carrying out the duties required under this section, may not, to the extent possible, interfere in any way with negotiations between eligible entities, MedicareAdvantage organizations, hospitals, physicians, other entities or individuals furnishing items and services under this title (including contractors for such items and services), and drug manufacturers, wholesalers, or other suppliers of covered drugs. S. 1, Sec. 301."

[4] Gail Shearer, "Medicare Prescription Drugs: Too High a Price For Modest Benefit," Consumers Union, November 17, 2003. Available at http://www.consumersunion.org/1117%20medicare%20report%20final.pdf

[5] George W. Bush at Medicare bill signing ceremony, December 8, 2003. Full text of comments available on the Washington Post website at: http://www.washingtonpost.com/ac2/wp-dyn/A45709-2003Dec8?language=printer

[6] David Donnelly, "BUYING A LAW: Big Pharma's Big Money and the Bush Medicare Plan," January 2004.The study can be found online at http://www.pcactionfund.org/buyingalaw/.

[7] "A Guide to Who Wins and Loses in Medicare Bill," *Wall Street Journal*, November 18, 2003. Available at: http://online.wsj.com/article/0,,SB106910858582739700,00.html?mod=sp-rmkmedicare_1

[8] Robert Pear, "New Medicare Plan For Drug Benefits Prohibits Insurance," *New York Times*, December 7, 2003.

[9] Andrea Stone, "Benefits start in '06, but help available sooner," *USA TODAY*, November 25, 2003.

[10] Edwin Park and Robert Greenstein, "THE AARP ADS AND THE NEW MEDICARE PRESCRIPTION DRUG LAW," Center of Budget and Policy Priorities, December 11, 2003.

[11] Edwin Park and Robert Greenstein, "THE AARP ADS AND THE NEW MEDICARE PRESCRIPTION DRUG LAW," Center of Budget and Policy Priorities, December 11, 2003.

[12] Andrea Stone, "Benefits start in '06, but help available sooner," *USA TODAY*, November 25, 2003.

[13] Alliance for Retired Americans, "What older Americans should know about the Medicare law." Available at: http://www.retiredamericans.org/rxbill/facts_points.htm

[14] Bush's 2003 State of the Union Address, January 28, 2003. Full text available on the Washington Post website at: http://www.washingtonpost.com/ac2/wp-dyn/A45709-2003Dec8?language=printer

[15] Campaign for America's Future, "President Bush Puts Special Interests over Seniors," January 2004. Available at: http://www.ourfuture.org/issues_and_campaigns/medicare/index.cfm

[16] Bush's 2003 State of the Union Address, January 28, 2003. Full text available on the Washington Post website at: http://www.washingtonpost.com/ac2/wp-dyn/A45709-2003Dec8?language=printer

[17] Alliance for Retired Americans, "What older Americans should know about the Medicare law." Available at: http://www.retiredamericans.org/rxbill/facts_points.htm

[18] Leonard E. Burman and Linda J. Blumberg, "HSAs Won't Cure Medicare's Ills," The Urban Institute, November 21, 2003. Available at: http://www.urban.org/url.cfm?ID=1000578