



White Paper

September 8, 2000

The Medicare Drug War Escalates: Bush Opens Up a New Front -- Comprehensive Reform by Tom Miller

On September 5, Governor George W. Bush unveiled his Medicare prescription drug benefit proposal, and he couldn't "just say no" to subsidized Medicare drugs. However, compared to an earlier plan offered by Vice President Albert Gore, the Bush approach is more targeted, more flexible, and less costly. It is structured to fit within his broader proposal to comprehensively overhaul and modernize the current Medicare program as a whole.

Most important, the new Bush plan moves the stagnant Medicare debate away from simply pouring more money into an antiquated benefits structure and remaining oblivious to competing national priorities and the growing tax burden on working Americans. It shifts the focus to the key Medicare issues of beneficiary choice, long-term program sustainability, and overall health care quality.

Like all presidential campaign proposals, more legislative details would need to be fleshed out to analyze the likely consequences of the Bush initiative. Not surprisingly, the rhetoric of the Republican candidate's plan outruns its sketchy substance. The Bush proposal stops well short of the full market-oriented restructuring of Medicare that remains ahead. Nevertheless, it may help reignite the drive to liberate seniors from inadequate health care choices, free health care professionals from oppressive regulatory complexity, ease the mounting tax burden on younger workers, and providing hope for future generations.

The Bush plan would cost an estimated \$ 158 billion over 10 years. The Gore plan would cost an estimated \$ 253 billion over 10 years. Based on past history for Medicare program expansions, either scheme is likely to cost much more in practice.

Bush would deliver Medicare drug coverage in two doses.

Stage 1

- cover all costs of prescription drugs for seniors with incomes at or below 135 percent of the federal poverty level (approximately \$ 11,300 for singles and \$ 15,200 for couples);
- partly subsidize drug costs for seniors with incomes between 135 percent and 175 percent of poverty

(up to approximately \$ 14,600 for singles and \$ 19,700 for couples); and

- cover all catastrophic prescription drug costs in excess of \$ 6,000 annually for *all* seniors.

Stage 2

- cover the full cost of the *entire* Medicare premium for seniors with incomes at or below 135 percent of poverty;
- cover an unspecified part of the cost of prescription drug coverage for seniors with incomes between 135 percent and 175 percent of the poverty level;
- pay 25 percent of premium costs for prescription drug coverage for *all other* seniors (those with incomes above 175 percent of poverty); and
- pay *all* catastrophic Medicare-covered costs in excess of \$ 6,000 annually for *all* seniors.

The Bush Medicare plan also would add another \$ 40 billion in Medicare funding to increase payments to health care providers above the levels set in the 1997 Balanced Budget Act.

In comparison to the Bush plan, Vice President Al Gore's current Medicare proposal aims at shoring up and preserving the basic structure of the traditional Medicare program with more taxpayer funding, while adding on a new "voluntary" prescription drug benefit that is uniform and subsidized. The Gore Medicare drug benefit would:

- be phased in over 10 years;
- cover half of an enrollee's drug costs (50 percent cost sharing), with maximum drug benefits initially set at \$ 1,000 a year and eventually rising to \$ 2,500 in 2008;
- cover all prescription drug costs of seniors with incomes at or below 135 percent of poverty;
- partly subsidize drug costs of seniors with incomes between 135 percent and 150 percent of the federal poverty level; and
- cover all catastrophic Medicare-covered *prescription drug* costs in excess of \$ 4,000 annually for all seniors.

The Gore plan would charge uniform premiums for seniors who choose this additional layer of Medicare prescription drug coverage. Premiums would start at \$ 300 a year in 2002, and eventually rise to an estimated \$ 612 annual charge in 2009.

What Bush Got Right

It's not the Gore plan, which promises much, delivers little, and fights *against* working families who pay taxes. The Bush proposal reflects the lessons of earlier battles on the entitlement front -- like a nuclear war, a Medicare benefits bidding battle should never be fought and can never be won. The Texas governor

understands that the debate must shift from "how much" to "how."

The Bush plan attempts to sidestep the risks of permanently planting a volatile set of drug benefit promises inside the seemingly open-ended nature of traditional Medicare's defined benefit structure. Adopting the Gore approach would guarantee an early ticket to a rollercoaster ride of escalating demands for "cheap" drugs, followed by exploding costs, and a later wave of drug benefit coverage rollbacks through regulatory restrictions and price controls. The Bush plan hopes to short circuit this formula for jeopardizing the next round of pharmaceutical innovation and improved health care quality. It would rely on private insurers and (marginally) cost-conscious Medicare beneficiaries to hold down spending and keep politicians and bureaucrats from setting even more arbitrary limits.

Although he cannot resist the impulse to toss more taxpayer money around in the name of "a moral obligation" to seniors, Bush aims narrowly enough to limit the overall damage. It primarily targets coverage gaps at the outer boundaries of Medicare's current benefit structure (low-income seniors beyond Medicaid assistance, catastrophic costs unprotected by Medicare's cost-sharing rules).

The Bush plan also begins to simplify part of the outer shell of Medicare's *core* benefit structure. It would end the artificial trust fund accounting separation between Part A hospital insurance and Part B supplementary medical insurance. Instead of adding another premium charge for "voluntary" drug benefits on top of separate Part B premiums, it would bundle basic Medicare benefits together at a single price.

What Bush Got Wrong

When most Republican candidates begin to approach the Medicare reform issue, one is reminded of Samuel Johnson's observation regarding a dog's walking on his hind legs, "It is not done well; but you are surprised to find it done at all."

Nevertheless, a "gentleman's C" on the presidential campaign's mid-term exam won't earn a social promotion to the White House. Once the Bush campaign realized it could no longer refuse to answer questions about drugs, it accepted the mistaken premise that working taxpayers' wallets should be opened wider to address the unsatisfied wants of Medicare seniors. It just promises not to vacuum them empty as completely and as quickly as Vice President Gore would.

Perhaps it's the nature of campaign proposals to leave a number of important details vague, ambiguous, or simply missing. Even if one assumes that the Bush plan largely would track the legislative path primarily charted by Senator Bill Frist (R-TN) and Senator John Breaux (D-LA) on Capitol Hill, the full structure of health plan competition under MediCARxES remains fuzzy and uncertain. For example, it appears that all competing insurers -- including a restructured traditional Medicare program run by the Health Care Financing Administration -- would be required to offer both a basic benefit package and an expanded benefit package that included prescription drugs and stop-loss coverage. It's unlikely that, when the regulatory details are filled in, insurers will retain much operating room for more vigorous benefits variation and competition. After all, the Bush plan at best promises a premium support model of managed competition for a narrow range of defined benefits. As long as bureaucratic regulators still must pre-approve health plan benefits for seniors spending other people's money, don't expect a thousand points of innovative light. The Bush proposal pulls up well short of a full-fledged defined contribution (dare we say "voucher") system, in which seniors could simply take the money and run.

MediCARxES in theory might open up opportunities for private health plans to offer more differentiated products, with the additional market costs of more generous supplemental benefits available at higher, unsubsidized prices. But the Bush plan provides no effective protections against political pressure to reinvent HCFA-style regulation all over again, through somewhat altered mechanisms.

By recommending an across-the-board 25-percent subsidy for *any* Medicare drug benefits included within expanded benefits packages, the Bush plan guarantees a continuing federal financial interest in closely monitoring and regulating drug prices across the board. The federal government will not remain a docile and passive Medicare drug buyer for long.

The Texas governor also offered another dangerous guarantee that "every senior shall remain entitled to current Medicare benefits." This could be interpreted broadly to preclude any future reconsideration and modification of the scope of current covered benefits, Medicare eligibility standards, cost-sharing provisions, and fee-for-service insurance. If the core structure and benefit promises of traditional Medicare are to be preserved indefinitely, the narrow reform alternative left open will involve bribing seniors into more attractive private plan coverage under MediCARxES -- by outbidding "old" Medicare with even higher defined contribution payments (namely greater levels of taxpayer subsidies). On the other hand, maybe the above language is more elastic and it only promises *access* to current benefits, not guaranteed delivery at the same relative price.

Several short-term tactical considerations may have driven the Bush plan to prop up state-based drug assistance plans as a holding tank for its initial round of targeted Medicare drug subsidies. This interim policy option temporarily keeps the seeds of a permanent drug entitlement from developing deep roots within an unreformed traditional Medicare program, and it will dampen beneficiary participation levels and utilization rates for subsidized drug coverage. However, the sketchy, piecemeal structure behind subcontracting a national drug benefit through fifty individual states may not fully pass the political "straight face" test before audiences of senior voters.

Where Bush Gets Stuck in the Political Muck

Al Gore's Medicare drug plan offers the illusion of certainty -- a defined benefit available to all Medicare beneficiaries through a familiar, existing program. Of course, there's less there than meets the eye, a relatively limited subsidy is spread quite thin, and many seniors with lower annual drug costs will pay more in premiums and out-of-pocket drug costs than they can hope to receive in new drug benefits. But cautious seniors may start from the premise that it's better to deal with the devil they know -- traditional Medicare -- than more promises of an entirely new set of competitive private insurance choices, particularly after the recent contraction of Medicare+Choice private insurance options. "Wouldn't be prudent. Not gonna do it."

The Bush plan has to make the political case for seniors to prefer to have private insurers, rather than government bureaucrats, handle their future health insurance problems. Unfairly or not, the last two years of managed care bashing and patients bill of rights advocacy have damaged the reputation of the former and dampened fears of political intervention in health care markets. Until the Bush campaign can establish HCFA as an increasingly more abusive, less accountable monopoly gatekeeper behind deteriorating health care quality for many seniors, it will remain on the defensive for Medicare politics.

Getting Out of the Box and on the Right Path

The problems of inadequate access to essential drugs for Medicare seniors clearly have been overstated, and they could have been addressed more narrowly through targeted expansion of Medicaid assistance and reform of the mis-regulated individual Medigap insurance market. In any event, the Bush campaign needs to stop allowing the drug coverage tail to wag the Medicare modernization dog. Governor Bush should pull together his best aspirations for Medicare reform into a more coherent and consistent policy package. A more sustainable framework would narrowly limit any pre-comprehensive-reform spending initiatives to targeted low-income assistance plus caps on out-of-pocket exposure to *catastrophic* drug costs. It's simpler to cross one's fingers and incorporate across-the-board stop-loss protection within traditional Medicare coverage, rather than slap together quirky interim vehicles. However, under no circumstances should the door be

opened to universal subsidies to seniors for routine drug expenses.