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BILL CLINTON'S RISKY DRUG PLAN

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President Clinton's Medicare prescription drug proposal is a sweeping and ill-designed plan to address a limited problem. It would not give seniors real protection against potentially huge drug costs; it would subsidize the rich while leaving the poor with inadequate help; it would undermine existing insurance protections; and history suggests that it would cost taxpayers far more than the estimated ten-year cost of $118 billion. Fortunately, simpler alternatives are available to deal with the needs of seniors.

Under the Administration's plan, seniors would pay $24 per month for the program, which would reimburse them for 50 percent of up to $2,000 in drug costs in the year 2002. The cost would increase gradually to $44 per month by 2008 for 50 percent of up to $5,000 in drug costs.

There are several problems with this plan:

- **It would not give real protection to seniors who face the highest costs.** The Administration's proposal does not give catastrophic "stop-loss" protection. It also would give no help toward costs exceeding $5,000. Thus, seniors requiring costly drug therapy still could be unable to pay. Among seniors' greatest fears is a debilitating illness and the high medical/drug costs associated with it that threaten their homes or life savings. A responsible, targeted solution would address this need.

- **It would subsidize the rich at the taxpayers' expense.** The Clinton plan is not means-tested. If Ross Perot, for example, incurred $4,000 in drug costs in 2002, he could pay $24 per month and get a $1,000 subsidy from the taxpayers toward the cost of his medications. But seniors with very modest incomes would receive the same subsidy. Perot could afford the additional $3,000, but many other seniors could not. There is no reason for the rich to receive this subsidy when the poor would receive inadequate protection.

- **It would induce many seniors to give up better drug coverage that they already have.** Many seniors will assume mistakenly that Medicare benefits must be better than other coverage. This will discourage the inclusion of drug benefits in other coverage, be it employer-provided retirement benefits, Medicare+HMOs, or Medigap plans. Worst of all, many seniors likely would give up good drug benefit protections in a private plan for the Medicare coverage, leaving them exposed to unlimited out-of-pocket costs.

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- **Taxpayers would be at risk.** The vast majority of people who will choose to buy into this plan are those who actually will save money by doing so. Healthy seniors with low drug costs are less likely to sign up, leaving taxpayers to face the prospect of heavy costs for the seniors who do sign up.

- **The government would determine which drugs seniors may have.** The Health Care Financing Administration (HCFA) would be put in charge of choosing which drugs are available to beneficiaries. Although the Administration claims that doctors will have a major say in what they can prescribe, the government would introduce "formularies" and other restrictions in an effort to hold down costs.

- **HCFA's already heavy administrative burden would increase markedly.** HCFA already has great difficulty in processing 800 million annual claims from Medicare Part A and B. Its management of Part C, Medicare+Choice, has been harshly criticized, and HCFA itself has complained that it lacks the resources to educate beneficiaries properly. The additional administrative load involved in overseeing Medicare Part D (prescription drugs), with potentially over a billion claims, would be an administrative nightmare.

- **The taxpayer cost almost certainly will be higher than the Administration's projection.** If Congress and the President wish to use history as a guide for what happens when a drug benefit is added to Medicare, they need only to look at what happened ten years ago. In 1988, with overwhelming bipartisan support in both the House and Senate, Congress passed the Medicare Catastrophic Coverage Act. At its centerpiece was coverage for outpatient prescription drugs. Within weeks of the bill's passage, it became clear to seniors just what this meant for their pocketbooks. Not only were higher "supplemental premiums" charged to seniors more expensive than originally forecast, but they hit a far higher number of seniors than anticipated. Many became outraged, and the broad public support the bill so recently had enjoyed began to drop precipitously. The Congressional Budget Office doubled its estimate of what the program would cost. In late 1989, Congress was forced by furious constituents to repeal virtually the entire bill. The lesson of this debacle is clear: Cost estimates are likely to be wildly inaccurate, and when they are, seniors get stuck with the tab.

- **The President's sweeping plan ignores the fact that the problem is limited.** According to the Bureau of Labor Statistics' Consumer Expenditure Survey, the average senior spent $637 out of pocket on prescription and non-prescription drugs in 1997. This contrasts with the $1,193 that same senior spent on "dining out." The National Academy of Social Insurance, in a recent study, found that the *median* amount spent by seniors out of pocket on drugs is $200. This means, quite obviously, that 50 percent of America's seniors spend *less than $200 annually on drugs*. The average amount found by BLS is upwardly skewed by the 4 percent of seniors who spend in excess of $2,000 a year on their medications. Thus, the President's plan in many ways is a solution in search of a problem. Rather than concentrating help where it is needed, he would create a huge new program that does not solve the problem that exists now.

Congress can solve the problem that does exist with two simpler, far less expensive steps. First, it can change the rules governing Medigap insurance to permit insurers to offer drug-only coverage (with catastrophic protection). Currently, seniors are forced to pay for other expensive features just to get drug coverage. Second, it can provide lower-income seniors with a larger subsidy than President Clinton proposes to buy such Medigap coverage, giving better protection at far less cost to taxpayers. This makes far more sense than creating another costly subsidy for everyone, rich or poor, over 65.

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