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COURTING DISASTER: ADDING A PRESCRIPTION DRUG BENEFIT WITHOUT SERIOUS MEDICARE REFORM

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Prominent Members of Congress are poised to inflict serious financial damage on an already troubled Medicare program—the massive federal health care system that covers roughly 40 million senior and disabled citizens. Specifically, these legislators propose adding an expensive prescription drug benefit to Medicare without putting it on a sound structural and financial footing.

Tricky Design Problems. Adding a drug benefit to an already stressed program is not a simple task. As U.S. Comptroller General David M. Walker told the House Ways and Means Committee on April 17, 2002, any new drug proposal would have to be "carefully crafted." Even so, he continues,

> No matter how well designed a new benefit may be, adding benefits without fundamentally reforming the existing program will merely hasten the exhaustion of Medicare's Hospital Insurance (HI) trust fund and the draining of general revenues. Any benefit expansion will also serve to make our long-range fiscal challenge even greater. Ideally, Medicare reforms should be designed to improve our long range fiscal situation. At a minimum, they should be designed so as not to make our long range fiscal challenge worse.

Gambling With the Future. With the coming retirement of 77 million baby boomers, Medicare will face a doubling of beneficiaries coupled with a dramatic drop in the ratio of taxpaying workers to retired benefit recipients. In addition to these ominous financial challenges, Medicare is plagued with growing, costly, and seemingly intractable governance problems characterized by the relentless imposition of tens of thousands of pages of incomprehensible rules, regulations, guidelines, and related paperwork.

Medicare's governance problems have particular relevance for the prospects of a prescription drug benefit, which would require complex administrative procedures and intensify congressional micromanagement. If prescription drugs become a conventional Medicare benefit, their availability to seniors, the conditions regarding their delivery, and their pricing will be fixed within the webs of Medicare's complex rules. Consider, for example, the issue of medical technology. A 2000 study by the Lewin Group, a prominent econometrics firm specializing in health policy, found that it takes anywhere from 15 months to over five years for Medicare to provide seniors with access to new medical technologies. Medicare

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patients are thus denied new treatments that are routinely available to millions of Americans in private-sector health plans. Without substantive Medicare reform, seniors' access to drug coverage will likewise be compromised by the bureaucracy's sluggish regulatory processes and inefficient payment rules.

High-Pressure Pricing. If Congress adds a drug benefit to Medicare without any structural change in the program itself, the Medicare bureaucracy will make the detailed rules and regulations governing the financing and delivery of drugs through Medicare contractors. Whatever the precise form of Medicare administration may be, it is likely that many Members of Congress will favor setting beneficiary premiums at artificially low levels and will oppose incorporating deductibles, thus giving seniors the false impression that Medicare drug costs are low.

Based on Congressional Budget Office estimates, three-quarters of all seniors already have access to drug coverage, and approximately one-third of them get their prescription drug coverage through employer-based retirement coverage. With the institution of a Medicare drug benefit, many of these seniors are likely to lose their current coverage. Once employers realize that taxpayers are going to be forced to pay for the drug costs of retirees, they will have a powerful incentive to dump retirees from their private coverage, regardless of whether these seniors want to retain it. Making matters worse, with an expanded population of beneficiaries and an artificially low premium, government-administered pricing will guarantee a sharp increase in drug utilization. As with the drug provisions of the ill-fated Medicare Catastrophic Coverage Act of 1988, the real costs of Medicare's drug benefits will surely soar far beyond the official projections.

Unable to deal with an exacerbated fiscal crisis in the Medicare program, Members of Congress will likely respond by holding high-profile hearings that provide them with an opportunity to blame government actuaries or drug companies for the "unexpected" cost increases. Regardless of where blame is cast, Congress will then be forced to choose among unpleasant options: raising seniors' Medicare premiums or deductibles to cover the soaring drug costs, imposing higher taxes on younger working families, or enacting a combination of premium and tax increases. They may also resort to the worst alternative: reducing the supply of drugs through cuts in drug reimbursement, tightening drug formularies, or instituting some form of price controls.

A Better Alternative. Rather than instituting a drug benefit within Medicare, Congress would be wiser to act on the 1999 recommendation of the majority of the National Bipartisan Commission on the Future of Medicare and give all senior citizens a superior benefits package, including solid prescription drug coverage. The commission's recommendation is based on the model of the Federal Employees Health Benefits Program (FEHBP). In the FEHBP, beneficiaries can choose from a variety of health plans, all of which cover prescription drugs. Most health plans cover between 80 and 90 percent of the cost, and no patient has to go elsewhere to buy supplemental coverage to compensate for gaps in catastrophic or prescription drug coverage. Competition controls costs.

Conclusion. Seniors should have access to both solid prescription drug coverage and a superior health care system in their retirement. The former cannot be achieved without the latter. The FEHBP provides an attractive model for addressing these needs and reforming Medicare. It has provided health care and prescription benefits effectively for Members of Congress, the White House staff, and millions of federal employees and retirees and their families for more than four decades. There is no reason why Congress cannot create a similar system to meet the needs of retiring baby boomers.

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