



The Heritage Foundation Executive Memorandum

No. 885

June 13, 2003

THE MEDICARE DRUG BILL: AN IMPENDING DISASTER FOR ALL AMERICANS

STUART M. BUTLER, PH.D.

With the support of the Bush Administration, or at least with the White House's passive acquiescence, Congress appears on course to enacting a huge new entitlement aimed at middle-income Americans. President George W. Bush likely will sign whatever bill emerges; and as President Bill Clinton's Medicare administrator puts it, "In signing it, as he will surely be forced to do, he will preside over the biggest expansion of government health benefits since the Great Society."

The legislation makes a mockery of sensible budget control and prudent reform. Rather than combining steps to help some seniors with reforms of the Medicare program's unsustainable finances, Congress's "reforms" will reduce choice and innovation and impose staggering financial burdens on our children and grandchildren.

Congressional proponents of the legislation maintain that the new drug benefit will cost \$400 billion over the next 10 years. This, of course, is merely a guess. Since the program is an entitlement, there is no fixed budget. Moreover, the evidence in recent years from both the private and public sectors suggests that future costs are likely to exceed projections. But even if they are accurate, it is not the next 10 years that matter. It is the years after that when the full force of the baby-boom generation hits Medicare and Social Security. Within 15 years, Medicare will already face a Niagara Falls of red ink. Adding a drug benefit without serious reforms and constraints on future spending means massive tax burdens on generations to come.

The bill is needed, say leaders of both parties, to help seniors facing heavy prescription drug costs. To be sure, many lower-income elderly do need help. But today, about three-quarters of all seniors already have private insurance against onerous costs, and the pricing of that insurance does force seniors to strike a prudent balance between desire and cost.

It makes sense for our society to provide assistance targeted toward those who still face heavy burdens, chiefly because of their income. But Congress's approach would institute a government-sponsored drug program for all Medicare recipients, not just those who need help. For several reasons, that approach is unconscionable.

First, it will create powerful incentives for current and future middle-income seniors to forgo private insurance protection at realistic prices in favor of government-sponsored drug coverage at subsidized prices. Moreover, corporations and other entities facing high retiree health benefits will soon find creative ways to shift retiree drug costs to the taxpayer. As a result, taxpayer costs will rise further.

Produced by the
Center for Health Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., NE
Washington, D.C.
20002-4999
(202) 546-4400
heritage.org



This paper, in its entirety, can be
found at: [www.heritage.org/
research/healthcare/em885.cfm](http://www.heritage.org/research/healthcare/em885.cfm)

Second, proponents are naïve when they claim that seniors will have many choices of coverage under the legislation—private plans as well as traditional Medicare benefits. Hard lessons from the past, combined with the likely design requirements in the final bill, suggest that few private plans will join the program. Mass withdrawals of plans from the existing Medicare + Choice program show what happens when Congress imposes regulations and controls in an effort to cut costs. And in an effort to curb a surge in spending, the government will no doubt gradually tighten regulations on any private plans that do join the drug program, leading to fewer and fewer private plans. It remains to be seen how seniors will respond to this. When Congress last tried to provide a drug benefit that jeopardized the coverage many seniors already had—in 1988—the backlash was so severe that Congress repealed the legislation within a few months.

Third, despite claims that the new program is modeled after Congress's own health program, which includes drug coverage, nothing could be further from the truth. The Federal Employees Health Benefits Program (FEHBP) is open to virtually any private plan or insurer meeting some basic benefit requirements and consumer protections. Premiums for these plans vary and reflect the benefits included in the plans, and federal workers choose from among many competing plans.

By contrast, Congress will determine the benefits in the legislation moving through Congress, and the government will decide how many of the lowest-bidding preferred provider plans will be permitted to offer coverage to seniors in any area. Moreover, because Congress would take a prominent role in

influencing prices and benefits—unlike in the FEHBP—the political dynamics would work in the same way as they do today in Medicare. Politicians would be under relentless pressure to keep prices down for their constituents, while drug companies, doctors, and seniors would press for ever more generous coverage. The result would be larger and larger subsidies and costs to future generations. Thus, not only does the legislation contain no serious reforms to control costs without undermining quality, but it actually fuels taxpayer costs.

President Bush and congressional leaders had an opportunity to combine help for some Americans in genuine need with sensible reforms so that our children and grandchildren might look forward to an affordable and high-quality Medicare program. With the looming political and financial juggernaut of the baby-boom generation approaching retirement, this legislation probably is the last opportunity for hard decisions.

But rather than taking a firm leadership role in the legislative process, President Bush elected instead to send Congress a framework and then invited lawmakers to fill in the details. The result was predictable. The process is fast becoming a political feeding frenzy in which short-term partisan advantage trumps responsible action. While today's politicians may reap the benefits, future generations will have to pay for this unforgivable failure of leadership.

—*Stuart M. Butler, Ph.D.*, is Vice President for Domestic and Economic Policy Studies at The Heritage Foundation.