Privatization Plan Masquerading as a Drug Benefit

By U.S. Rep. John B. Larson

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The House on Saturday passed a bill that some claim is the answer to the high prices seniors are paying for their prescription drugs. That is far from true. The reality is that the proposal crafted by House and Senate negotiators is a Medicare privatization plan masquerading as a prescription drug relief bill. The big winners in this bill are not the seniors that desperately need relief, but pharmaceutical companies and big business.

The crux of what is wrong with the plan is that it specifically prohibits the Secretary of Health and Human Services (HHS) from doing exactly what the pharmaceutical industry does not want: Leveling the tremendous buying power of the federal government to negotiate lower drug prices for 40 million Medicare recipients. A provision like this would have allowed HHS Secretary Tommy Thompson to determine the maximum prices that pharmaceutical companies could charge Medicare drug providers for prescription drugs, passing the savings on to seniors. This is the same buying principle that the Department of Veterans Affairs currently employs to secure lower drug prices for veterans, with a great deal of success. Using government buying power would have translated into real savings for Americans, and would not have cost the taxpayers a dime.

When it comes to this bill, the question that seniors should be asking themselves is: “Why can't Secretary Thompson directly negotiate to lower prescription drug prices?”

The bill places the so-called drug benefit in the hands of HMOs and insurance companies, and creates a windfall for the pharmaceutical industry. As noted in the Wall Street Journal on November 18, drug makers believe individual private buyers are less able to push down prices than a centralized government purchaser, such as Medicare. According to the article, a Lehman Brothers report estimates that pharmaceutical companies might pick up about $3.5 billion in extra sales in 2006, when the plan takes effect. Of course, the industry is already

estimated to take in an estimated $250 billion in sales that year.

The article also notes that some of the biggest winners are corporate lobbying groups and the businesses they represent: Under the plan, companies can opt-in to a plan, taking the tax-free federal subsidies and shifting their costs to the government. Or, companies can opt out, and possibly cut or eliminate their own coverage altogether.

The root of the privatization scheme is the inclusion of a “premium support demonstration project.” That is the first step towards forcing all seniors to choose private insurers to get the prescription drug benefit they need, or to pay more to stay in the traditional Medicare program that they know and trust. The bill also destroys the universal nature of Medicare by adding asset-testing for low income assistance and income-relating provisions to Part B that could ensure that some seniors would not be included, should these private plans materialize.

Whether this plan has any affect at all is contingent upon the willingness of private industry to participate. The track record does not paint a positive outlook. We in Connecticut remember HMOs and insurance companies pulling out of Medicare Plus Choice plans because they simply could not make a profit. Aetna, for example, currently participates in only one-third the Medicare Plus Choice plans that the company did in the 1990s.

The fact remains that American seniors bear the burden of subsidizing pharmaceutical companies that are already making a tremendous profit on their backs. I have conducted two studies in the First Congressional District that show seniors here pay 00%[note: we’re digging up this number] more for their prescription drugs than any other nation in the world.

Aiming to address this issue, the House passed legislation this summer that would have allowed the U.S. to re-import low-cost FDA-approved prescription drugs from other industrialized nations, bringing savings to Americans. The bill that passed the House this week ignores this measure entirely by allowing for this only with approval of HHS officials, who are very publicly opposed to such a plan.

Seniors may be curious as to why, then, if this is such a poor bill, does the national AARP support it? Good question. In July, the president of AARP wrote in a letter to Congress to say that if several concerns were not addressed in the final bill, the organization could not support

it.

Those concerns included the premium support provisions that could require seniors to pay more. The final bill still includes this. AARP wanted the coverage gap created after coverage stops and before catastrophic coverage begins to be narrowed or eliminated. The final bill actually widens the benefit gap contained in the Senate bill. The letter said that AARP believes that a guaranteed “fall back” drug plan should be available for Medicare beneficiaries and noted the Senate provision in the original bill should be a “minimum.” The final bill weakens the Senate fallback provision. The AARP letter also stated that there should be no means testing for beneficiaries. The final bill includes means testing. The organization's leadership said that there should be a greater focus on price reduction of prescription drugs. The final bill weakens cost containment and blocks drug re-importation.

So, the better question would be, “Why does the national AARP leadership support a bill that meets almost none of their clearly stated needs and conditions?” Good question.

In the end, this is about politics and getting prescription drugs to seniors. The President's political strategist, Karl Rove, knows that seniors are crying out for the government to reduce prescription drug costs and that the administration must be seen as acting on this before the President is up for reelection next year.

The Republican Leadership in Congress sees this as an opportunity to pass legislation that claims to address the problem, but also serves as a Trojan horse to dismantle the Medicare program, a longtime goal of extreme House Republicans. In reality, the plan does not take effect until 2006, well after the next election and placates seniors with discount cards until then. The final goal, starting with a demonstration project in 2010, is to privatize Medicare.

Some seniors might have thought that Congress passing this legislation would mean some of their problems would be solved. Instead, they are faced with the reality that if this plan has any effect at all, it will hold little benefit for them, but will be great news for the pharmaceutical industry - the same industry responsible for the high prices they are paying to begin with. That is why I voted against this legislation. It does not address the real problem, the high price of prescription drugs, and it explicitly prohibits the government from negotiating a better price for our seniors.