Anna Richter
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To: Eric P. Liu/OPD/EOP@EOP

cc:
Subject: medicare

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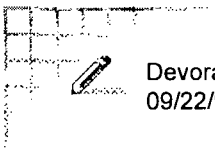

Devorah R. Adler
09/22/99 07:01:48 PM

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To: Erica S. Lepping/WHO/EOP@EOP

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thanks for your patience

MEDICARE REFORM

BACKGROUND

As the President vetoes the Republican tax bill, he will obviously attempt to re-ignite interest in broader Medicare reforms, including the addition of a prescription drug benefit. He will do this, however, in an environment in which Members of Congress on both sides of the aisle in both the Senate and the House have returned from their recess with little appetite for reform. The only Medicare initiative most Members seem interested is giving health care providers reimbursement relief in the wake of the Medicare cuts included in BBA 1997. Senator Daschle has already announced his intention to introduce a provider give-back bill of over $20 billion over 10 years (versus our $7.5 billion). Congressman Thomas has also indicated his commitment to advocate for a similar amount.

Unclear, however, is how the cost of these bills would be offset. Members are just beginning to realize that off-budget Social Security funds are the only surplus dollars available to fund the provider give-back provisions. Moreover, since alternative offsets are similarly unattractive, any provider give-back initiative may have to be pared down.

Earlier today, the Vice President released an HHS report documenting the benefit reduction

and plan withdrawal trends of Medicare managed care companies for the year 2000. The report detailed that Medicare HMOs are significantly constraining drug benefits (for instance, the proportion of plans with drug benefit limits of $500 or less has increased by 50 percent since 1994), increasing premiums, and in some parts of the country, have withdrawn completely from particular markets. We are utilizing this report to justify the need for the President's proposal to reform managed care payments and provide a prescription drug benefit option to all beneficiaries.

As Members of Congress begin to recognize their dilemma as it relates to inadequate funds for provider givebacks and the need to address the managed care shortcomings documented in the HHS report, it is our hope that we will be able to re-ignite their interest in broader Medicare reform as potential cover for a larger infusion of funds to help extend solvency (and buy down debt), fund a prescription drug benefit, and finance a significant provider give-back initiative. Such an approach would have the dual benefit of refocusing the Fall debate away from the "spending Democrats" vulnerability that we face in the upcoming appropriations battle.

Lastly, the Medicare debate, particularly the provision related to prescription drugs, occurs at a time when the Pharmaceutical Manufacturers Association (PhRMA) has initiated a multi-million dollar campaign We are evaluating options, but have been advised that a number of aging organizations are planning ways to highlight the inaccuracies and unfairness of the PhRMA ad campaign.

PRESCRIPTION DRUGS AND MEDICARE REFORM

Q: How do you respond to critics that charge that a new Medicare drug benefit available to all beneficiaries is not necessary because "two-thirds" of the population already have coverage?

A: Those who use the argument that "two-thirds" of beneficiaries do not need a Medicare drug option are out of touch and out of date. The two-thirds number -- inaccurately used by opponents of prescription drug coverage -- does not reflect current facts or trends in coverage of the elderly and disabled of this nation. All one has to do is go to any senior center around the nation to get a sense of the magnitude of this problem.

About 75 percent of Medicare beneficiaries lack decent, dependable, private-sector coverage. Less than one-fourth of Medicare beneficiaries have retiree drug coverage, which is the only meaningful form of private coverage. About one-third of Medicare beneficiaries - at least 13 million beneficiaries - have no drug coverage at all. Another 8 percent purchase Medigap with drug coverage - but this coverage is expensive and inadequate. About 17 percent have it through Medicare managed care, but plans are severely limiting coverage. The remaining beneficiaries are covered through Medicaid and other public programs.

The limited private coverage that exists is declining and becoming more unaffordable. The number of firms offering retiree health coverage has declined by a staggering 25 percent in just the last four years. Premiums for Medigap prescription drug coverage are extremely expensive and increase with age. The most frequently purchased Medigap policy is typically priced at two to three times the President's option, has a $250 deductible, and limits plan payments to $1,250. Medigap premiums usually increase dramatically with age, just when beneficiaries need the coverage the most and are least likely to be have the income to afford it. This is a particular problem for women who make up over 70 percent of those over age 85.

Public coverage is decreasing in value and becoming more unreliable. Nearly three-fifths of all Medicare managed care plans are reporting that they will cap their drug benefits below $1,000 in 2000. In fact, the proportion of plans with $500 or lower benefit caps will increase by over 50 percent between 1998 and 2000. Medicaid coverage is meaningful, but is available for only those with the lowest incomes (generally less than about $6,200 for a single elderly person). And, because of "welfare" stigma and other reasons, this program only enrolls 40 percent of the low-income elderly who are eligible.

The President's proposed drug benefit offers all beneficiaries another option. Beneficiaries can choose to take it, choose to keep their current coverage, or choose to remain uncovered. The same critics opposing this proposal are usually the

advocates of more health care choices. This is simply another option.

Q: Why should the Medicare program subsidize a drug benefit for people like Ross Perot?

A: This argument is nothing but a red herring used by those who are opposed to a prescription drug option for the millions of middle-class seniors who need it. People making this argument are seeking to cut off prescription drug assistance at only $12,750 for a single, $17,000 for a couple – leaving the millions in the middle class with no coverage or weak coverage out in the cold. This is the real issue: a debate between those who want to provide an option to all beneficiaries so that middle-class seniors have access to affordable prescription drug coverage and those who believe that seniors making over $17,000 are like Ross Perot and don't need any help.

Moreover, many beneficiaries who are sick -- regardless of income -- cannot access affordable insurance. Premiums in the private Medigap market increase with age and, except when beneficiaries initially turn age 65, are usually medically underwritten. As such, seriously ill patients without coverage today cannot get coverage at virtually any price. In the absence of a new Medicare prescription drug benefit option, we are sentencing too many seniors who have worked hard and played by the rules to a Medigap market that will not provide the coverage that they need.

Q: How do you reconcile a brand new entitlement with the need to constrain the growth of the Medicare program?

A: The prescription drug benefit is not a stand-alone initiative; it is part of a broader reform package that modernizes Medicare, makes it more competitive and efficient, and dedicates part of the surplus to Medicare to keep it solvent until 2027. It is simply not credible to suggest that the Medicare program can be modernized without adding the option for prescription drug coverage. Prescription drugs today are as important as hospital care was when Medicare was created. Having said this, the drug benefit is designed in a way that is affordable to both the program and the beneficiaries it serves.

Q: Does the prescription drug benefit impose an unfunded mandate on states?

A: The prescription drug benefit both relieves states from their current coverage of very low-income elderly and asks states to share in paying for the premiums and cost sharing for poor elderly, as they do for Medicare Part B premiums and cost sharing. All states currently provide prescription drug coverage to Medicare beneficiaries who also qualify for Medicaid (known as "dual eligibles"). Some states cover prescription drugs for all poor elderly. Since Medicare will take over primary responsibility for drug coverage, the states will receive a windfall that will be used to pay for the prescription drug benefits' premiums and copayments for all poor beneficiaries. The

Federal government would pay 100 percent of the cost of drug premiums and copayments for those beneficiaries with income between 100 and 150 percent of poverty.

Q: How do you respond to the Congressional Budget Office (CBO) testimony that concluded that the Administration underestimated the cost of the prescription drug benefit and overstated the plan's savings?

A: The Administration's economic team and the HCFA Actuary did a thorough and careful analysis in developing a cost estimate for the President's plan. The Medicare Actuary is the same independent and respected career expert who has been cited repeatedly by Republicans in the past for his estimates on the Medicare Trust Fund. The Clinton Administration's health and economic forecasts have been consistently more conservative than actual experience.

IS THIS REAL REFORM?

Q: What do you say to those who say that this is about politics not substance?

A: The President's plan represents a serious proposal to strengthening and modernizing both Social Security and Medicare. The surplus provides a golden opportunity for members of both sides of the aisle to contribute to the development of important reforms essential to these important programs. It serves no one's interest – Democrats or Republicans – to ignore challenges facing the program.

Q: Why don't you use structural changes rather than dedicating surplus to extend the life of Medicare?

A: Both structural reforms and new financing are needed to significantly extend the life of Medicare. We need to make Medicare a more competitive and efficient program – but all experts agree that it is impossible to rely only on provider payment reductions to extend the life of the Medicare trust fund for any significant length of time, given the doubling of Medicare enrollment that will occur as the baby boom generation retires. Medicare Part A spending growth per beneficiary would have to be limited to less than 3 percent per beneficiary in every year to get to 2027 without the surplus dedication. This rate is about 60 percent below projected private health insurance spending per person. Moreover, since this growth rate is below general inflation, the value of Medicare spending per beneficiary would erode. Providers are already concerned that the BBA cuts were excessive, making it highly unlikely that significant additional savings could be achieved.

Dedicating over $300 billion to Medicare solvency has the additional effect of buying down the debt faster – it contributes to eliminating public debt entirely by 2015. This would make America debt-free for the first time in the last 160 years.

RESPONDING TO THE PHARMACEUTICAL INDUSTRY

Q: Recently, a new study was released stating that President's Medicare reform plan would give employers an excuse to drop their current insurance coverage for retirees. It also says that if the President's plan were implemented, 75 percent of retirees would lose their private coverage. What is your response?

A: First, consider the source. The organization releasing this report is almost completely underwritten by the pharmaceutical industry, which has chosen to unfairly and inaccurately characterize the President's proposal. Secondly, the report masquerading as an independent analysis is inaccurate. In fact, the Congressional Budget Office testified that the vast majority of Medicare beneficiaries in retiree health plans would retain their coverage. This is because the President's plan provides for a new, currently unavailable multi-billion dollar tax incentive for businesses to establish or retain private prescription drug coverage. Lastly, even without a prescription drug benefit, all the trends illustrate that employers are dropping retiree health coverage - in fact, in the last four years, there has been a 25 percent decline in the proportion of firms offering retiree health coverage and its accompanying prescription drug benefits. That, precisely, is why we believe that the President's plan, which offers another option to retirees, is necessary.

Once again, we call on the drug industry to stop utilizing their vast resources to mischaracterize the President's plan. We would hope that they will refocus their efforts towards helping the millions of disabled and older Americans who have no, extremely limited, and/or unaffordable prescription drug coverage.

Q: The ads sponsored by the drug companies say that the President's plan will make it difficult for seniors to access the medications they need, reduce the options available to seniors, force private companies to drop their drug coverage, and implicitly suggest that the plan will lead to widespread price controls. What is your response?

A: First, the President's prescription drug proposal uses the best practices developed by the private sector to provide this new coverage option. Rather than limiting access to prescription drugs, it significantly expands access to these lifesaving medications. It assures that every therapeutic category of drugs is covered and that a physician can prescribe and pharmacists can dispense any medically necessary drug on behalf of his or her patient.

Second, the President's plan provides an affordable option for prescription drug coverage to all Medicare beneficiaries, but no beneficiary is required to take this option. The plan, simply offers a new option for Medicare beneficiaries at a time where most Medicare beneficiaries are seeing their prescription drug coverage options become increasingly limited or nonexistent.

Third, the President's plan provides billions of dollars through the tax code for businesses to establish or retaining private prescription drug coverage.

And lastly, there is absolutely no provision in the President's proposal that provides for price controls. It advocates the use of private contracting with pharmacy benefit managers (PBMs) or other entities to purchase medications and uses the best practices developed by the private sector to provide the appropriate, high quality care provided by private health plans today.

Q: How are you going to respond to the drug industry's campaign against the President's plan?

A: First, we hope to educate them about the President's plan and encourage them to drop any campaign that maligns the President's proposal. Certainly, we will continue to call on them spend their time and resources in a more constructive manner and to work with us to provide for a long overdue prescription drug benefit for the tens of millions of beneficiaries who either have no access to a prescription drug benefit or can only access an excessively expensive one.

Q: But how will you respond?

A: We're not ruling anything in or out, but all our options are being seriously considered. However, we certainly will not sit back and watch anyone mischaracterize the policy of the President.

WHAT'S THE MATTER WITH BREAUX-THOMAS?

Q: What is the problem with Senator Breaux and Congressman Thomas' proposal?

A: Although the plan outlined by Senator Breaux and Congressman Thomas in March has made an important contribution to the Medicare debate, it has serious flaws that must be addressed, including:

° No dedication of the surplus to strengthen Medicare, passing on the inevitable financing crisis to our children;

° Higher premiums for traditional Medicare in its so-called premium support program, which has the effect of implicitly, financially coercing beneficiaries into managed care;

° A totally inadequate, means-tested prescription drug benefit. More than half of beneficiaries without drug coverage today would not be eligible;

° Raising the age eligibility which would increase the uninsured;

- An unlimited home health and nursing home copay;

- Continuation of the Balanced Budget Act cuts without relief in the early years.

GETTING SOMETHING DONE

Q: How can you possibly believe this Congress will take on Medicare reform when members of both parties say that such an outcome is a fantasy and are focused primarily on leaving town?

A: The President strongly believes that we have an extraordinarily rare opportunity to address the undeniable demographic, health, and cost challenges facing the Medicare program. There is no requirement that the Congress leave early this year. In fact we believe that they should continue to work to address the numerous challenges facing the nation. We believe that the inevitable discussion about the appropriate use of the surplus and the growing recognition that the Medicare program today needs fundamental changes will convince Members of Congress that the time to strengthen and modernize the Medicare program is today. Putting off these difficult challenges will only make them more difficult and more expensive to address and will leave millions of disabled and elderly Americans without a modernized Medicare program and the medications they need.