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President Bush's Prescription Drug Benefit Proposal:

A Good Start on Meeting the Needs of Seniors in Need

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President Bush is proposing a $48 billion block grant to provide prescription drugs for low-income seniors, along with a catastrophic provision that would help seniors with very high drug costs. Although more attention needs to be given to the catastrophic portion, properly done, this combination would provide prescription drug coverage for those most in need without creating a new entitlement that could bankrupt Medicare.

A Safety Net, Not an Entitlement

Both the Republican and Democratic plans have a catastrophic provision. However, both also try to provide coverage for all seniors — even high-income retirees — with very low drug costs. Indeed, the Democrats' plan would provide first-dollar coverage. Such an approach would be both costly and unnecessary. What is needed is a safety net, not a new entitlement.

A Solution that Lets the Free Market Work

The public policy challenge in creating a prescription drug benefit is to let the market work for the vast majority of people while creating a safety for those most in need – i.e., poor seniors and those with the highest drug costs. The Bush plan has the potential for doing just that, especially if it uses state-based high-risk pools as a model for the catastrophic portion.

Currently, 28 states have high-risk pools. They allow people who have been denied health insurance to get a health insurance policy, usually for about 25 percent to 50 percent more than they would pay if they were healthy. Some work very well, others not so well. But those states that have created and funded them properly – including Bush's home state of Texas — have an affordable safety net that solves the problem of the uninsurable.

A drug benefit proposal that relies on a catastrophic provision attempts to accomplish the same goal. It provides a safety net that will cover seniors with very high drug costs — those most insurers don't want to cover, and for whom, if they did, the policies would be very expensive.

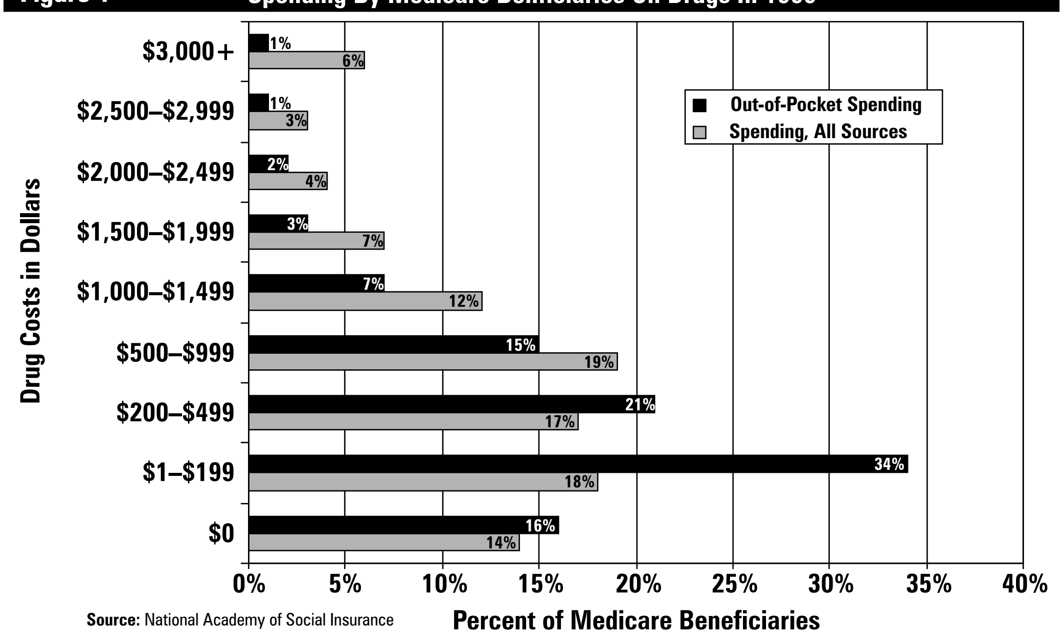
How High Should the Deductible Be?

Bush's plan calls for a $6,000 limit on seniors' out-of-pocket costs. However, he provides few details on how that provision would work, and it may be too high to gain much political support. The modification to his plan discussed here suggests a $3,000 deductible, though it could be more or less.

Seniors would cover the first $3,000 (or whatever the deductible is) out of pocket or with other insurance coverage. The deductible would grow with inflation. Those with comprehensive drug benefits — such as that provided by an employer — would likely not need to participate.

Is $3,000 too high? As Figure 1 shows, the National Academy of Social Science (NASS) says that

Figure 1 **Spending By Medicare Benficiaries On Drugs In 1999**



Source: National Academy of Social Insurance only 6 percent of seniors spent $3,000 or more on drugs in 1999, and only 1 percent spent that much out of pocket. Thus, only 1 percent of seniors would have to pay the deductible out of pocket. The rest would have insurance (private, Medicaid, employer, etc.) to cover the deductible. Also, MSAs should be encouraged as a way to fund the deductible.

Mechanics of the Catastrophic Provision.

- Any Medicare-eligible senior who is faced with high drug costs could join, and would leave when he or she no longer has high drug costs. Of course, most insurance needs a mix of healthy and sick people to function properly. However, safety nets, like high-risk pools, are created for the sick. They are a social program, not a for-profit venture.
- People enter a high-risk pool by demonstrating, usually with a letter from an insurance company, they have been denied coverage for health insurance. Seniors get in the drug program with a doctor's letter and prescription proving they will have to buy one or more very expensive drugs.
- Seniors who join would likely have to pay a premium, say $50 a month. Seniors could be required to make a co-payment, or the program could pay 100 percent above the deductible.
- Block-grant federal money to the states with minimal guidelines, essentially saying the states must create the safety net. Ideally, the program could be run through a high-risk pool organization. Or it could be run by the same department that distributes the block-grant money to low-income seniors.
- Ensure the federal government has no control over drug prices.
- Most high-risk pools are funded by imposing an assessment on insurers in the state. This program could be funded in part or in total in the same manner. But since the catastrophic provision is a social program intended as a social good, it would probably be best to fund it from tax revenues by the federal block grant.

Cost of the Program

There are about 37 million Medicare beneficiaries (excluding those on Supplemental Security Income). About 6 percent, or 2.2 million, will spend $3,000 or more on prescription drugs. Some of them (estimated at 20 percent) will have employer-sponsored or other private coverage that will pay for expenses above $3,000 and so would not join the program. That leaves about 1.75 million needing catastrophic coverage.

The average senior in the program would likely spend about $5,000 a year (at the 95th percentile, insured seniors spend $4,111 a year, and $6,600 at the 99th percentile). That means the program would be responsible for, on average, $2,000 per senior in the program. ($2,000 x 1.75 million people = $3.5 billion.) However, if each participant were paying premiums of, say, $50 per month, or $600 per year, that would reduce the program's financial needs by approximately $1 billion. So the program could be funded with $2.5 billion.

Benefits of the Program

President Bush's prescription drug plan has a number of benefits — benefits that are being ignored rather than discussed. For example, his plan:

- Meets the needs of those who need help most: the poor and those with the highest drug expenses. Only 1 percent currently spend $3,000 out of pocket. If they are poor, the Bush block grant would help them meet that deductible.
- Doesn't destroy the market for private or employer-provided drug insurance for retirees.
- Doesn't create a new Medicare entitlement program. Ideally, this would be state run.
- Would be a lot cheaper than what either the Republicans or Democrats are considering. Indeed, it might take only a slight increase in Bush's $48 billion block grant.
- Would help those in need immediately while Congress debates needed structural changes to Medicare (a debate that will likely take some time).
- Would encourage doctors and patients to choose the most effective therapy — drugs or surgery — without regard to which one is subsidized by Medicare and which one must be paid for out of pocket.
- Would keep the government out of the drug business — and out of seniors' medicine cabinets.

Conclusion

What is really needed is fundamental reform of the Medicare system. But that will take time. In the meantime, why is Congress considering saddling a financially troubled Medicare program with a prescription drug benefit that would pay half the cost of a $10 prescription drug for wealthy Americans? President Bush's plan takes a different approach. It is structured to meet the needs of seniors in need.

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