Profit-driven Medicare drug plan stirs confusion and anger

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Registration for Medicare new prescription drug plan opened November 15, provoking widespread anger and confusion among its potential beneficiaries. The drug benefit, also known as Medicare Part D, is a government-subsidized, privatized insurance program that covers a portion of prescription drug costs.

Under the new program's guidelines, eligible citizens must choose between dozens of private insurance plans, each offering access to a specific list of drugs and pharmacies, and each with its own distinctive premiums, deductibles, and co-pay rates. But first, beneficiaries must decide whether to participate in the plan at all.

In many cases, Medicare recipients could end up paying more for insurance coverage than they stand to benefit, but this option must be balanced against the fact that the price of coverage goes up permanently by one percent for each month that a recipient waits before joining the program after the official deadline of May 15, 2006. Thus, many elderly people are forced to decide whether they should purchase coverage that they don't need now, or risk paying more in the future for the same plan if their health declines.

Further complexity is added by the "donut hole" in the plan's benefits gradient. According to the model insurance plan proposed by the government, after paying a deductible and premiums, recipients must pay for 25 percent of their prescription drug expenses up to $2,550. Between $2,550 and $5,100—the donut hole—co-payments jump to 100 percent of expenses, before returning to 5 percent for expenses exceeding $5,100. According to the bill, insurers must offer a plan along these lines or one that is "actuarially equivalent." The explicit purpose of this provision is to force beneficiaries to still pay a substantial portion of their drug costs.

The plan's complexity is especially problematic for Medicare beneficiaries, a large percentage of whom have cognitive, hearing, and/or visual difficulties. Needless to say, Medicare recipients are finding themselves overwhelmed and frustrated by the absurd complexity of the benefit plans. Many are unable to effectively select between plans that will determine what kind of drugs they can take, which pharmacies they can go to, and how much of their limited income they must pay on premiums and deductibles.

The frustration that the plan has created for many of its potential beneficiaries is a reflection of the actual interests that the new bill was crafted to serve. The legislation was written largely by and for the pharmaceutical and insurance industries, which stand to gain billions of dollars.

In the short term, it is estimated that the program would cut the average senior's drug costs by only 25 percent. However, even these limited gains would be rapidly erased by rising costs.According to the AARP, drug prices rose 7 to 8 percent in 2004, three times faster than the general rate of inflation. The very structure of the program, including a prohibition against Medicare negotiating lower drug prices, is designed to prevent any curbs on cost inflation.

Moreover, some three-quarters of the 6.4 million beneficiaries who now qualify for both Medicare and Medicaid stand to pay more under the new plan, as it eliminates Medicaid coverage for premiums that must be paid under Medicare.

In addition to a direct handout to sections of corporate America, the new drug benefit is part of a longer-term strategy to privatize the Medicare program.

Medicare is a federal entitlement program that provides health insurance for over 40 million elderly and disabled Americans. The program was created in the 1960s as part of President Lyndon Johnson's "Great Society" reforms, which also included Medicaid and a variety of other social programs. At the time, many had hoped the program would grow to eventually form a universal healthcare system.

The Medicare program enjoys overwhelmingly support from the vast majority of Americans. However, a major shortcoming of the program has always been the absence of prescription drug coverage. Due to the high rate of drug price inflation prevalent in the United States since the 1980s, there has been popular pressure for a Medicare prescription plan to ease the financial burden on the elderly and disabled.

The Bush administration and its congressional allies are now exploiting this weakness in the program—the lack of prescription drug coverage—in order to promote their right-wing social agenda. Medicare Part D was created under the Medicare Prescription Drug, Improvement, and Modernization Act (MPDIMA). The US House of Representatives approved the measure by the narrowest possible margin in November 2003, amid allegations that the House Republican leadership participated in outright bribery and intimidation to secure its passage.

The cost of the plan over ten years, which was originally estimated at under $380 billion, has ballooned to $724 billion. The pharmaceutical companies have the most to gain from the bill. These corporations generate huge profits, while expending most of their resources on marketing and lobbying instead of researching innovative new drugs. In 2002, the ten pharmaceutical companies on the Fortune 500 list made more profit than the other 490 corporations combined ($39.5 vs. $33.7 Billion).

However, these profits do not reflect an underlying health within the industry as a whole, as the recent mass layoffs announced by drug giant Merck demonstrate. American pharmaceutical companies are in the midst of a crisis inherent to their method of doing business. Their primary focus is to patent and market "blockbuster" drugs, which become unprofitable once their patents run out. A cluster of such patents began expiring in 2001, a trend that continues through next year, when patents for blockbuster drugs from Pfizer, Merck, and Bristol-Myers Squibb are set to expire.

Nevertheless, the pharmaceutical industry has leveraged its profits to achieve enormous influence in Congress, and the industry also has close ties to the Bush administration. According to the consumer-advocacy group Public Citizen, "Drugmakers and HMOs hired 952 individual [federal] lobbyists in 2003—nearly half of whom had 'revolving door'

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connections to Congress, the White House or the executive branch. That's nearly 10 lobbyists for every US senator." With the new Medicare reforms, the millions that big pharmaceuticals have spent in lobbying will be paid back in spades.

In addition to assuring the big pharmaceuticals a profit windfall, the MPDIMA also banned Medicare from either negotiating lower drug prices from these companies or re-importing drugs from Canada, where prescription drugs are on average 50 percent less expensive due to price controls. Instead of regulating the pharmaceutical corporations' economically destructive price-gouging, the Republican right is directly supporting the inflationary trend in drug prices via the obstruction of trade, an action that flies in the face of all rhetoric about the importance of "free markets." For the political forces that pushed for Medicare Plan D, veneration of the free market is secondary to the drive to secure profits for their corporate sponsors.

Next to pharmaceutical corporations, the insurance industry will take home the biggest slice of the $724 billion pie. Medicare part D subsidizes dozens of private insurance companies to offer competing plans for prescription drug coverage. These corporations can count on even greater profits in the coming years, as other sections of Medicare become privatized.

Private insurance is inherently inefficient. According to Public Citizen, "The Medicare program [prior to the new drug plan] spends a mere 2 percent on administrative costs, according to the Medicare Board of Trustees. By contrast, according to the Inspector General of the Department of Health and Human Services (HHS), HMOs [Health Maintenance Organizations, which are privately-run health service providers and insurers] on average spend 15 percent of their revenue on administrative costs rather than on health care. Some HMOs spend as much as 32 percent of their revenue on administration."

While part of this 13 to 30 percent disparity is lost to the inefficiencies of competition (marketing, administration, etc), the remainder goes directly into the coffers of the stockholders and executives.

In addition, the managed care organizations (MCOs) that handle privatized Medicare decrease the efficiency of the entire medical economy by creating profit-driven restrictions as to which procedures, doctors, pharmacies, and drugs are covered. Managed care organizations (including HMOs) have final say over what procedures and medicines will be paid for, essentially superseding the decisions of doctors in judging the types of treatment patients require. Owing to their existence as profit-making entities, MCOs are innately stingy, paying for quick (often pharmaceutical) fixes at the expense of patients' overall health.

Pharmaceutical and insurance provider interests dovetail neatly with the plans of the most right-wing sections of the ruling elite to scrap Medicare altogether as an entitlement program. In 1995, former Speaker of the House Newt Gingrich bluntly stated the Republican right's agenda for traditional Medicare: "Now, we don't get rid of it in round one because we don't think that's politically smart and we don't think that's the right way to go through a transition. But we believe it is going to wither on the vine because we think people are voluntarily going to leave it—voluntarily."

For politicians who support Medicare privatization, the problem with Gingrich's proposal is getting people to voluntarily leave Medicare. The Balanced Budget Act of 1997 introduced the option of leaving Medicare for private managed care plans. Less than 10 percent of the Medicare population elected to exercise this option, known first as Medicare + Choice and now called Medicare Advantage. Even this percentage is rapidly shrinking. Medicare part D strengthens the thrust toward privatization by economically obligating seniors who don't have separate insurance to join private plans if they wish to have any protection at all from escalating drug costs.

One provision of the 2003 bill prohibits an increase in corporate or income taxes to fund future Medicare costs beyond a certain threshold. This means that, with the inevitable escalation of drug prices, either payroll taxes or premiums will be increased, or there will be cuts in other Medicare services. The future costs associated with the new drug plan will be used to justify scaling back the Medicare entitlement program as a whole.

Among those who favor the "reform" of Medicare, there are divisions over how this should be done. There is opposition to the prescription plan from those who see it as a distraction from the drive to privatize the whole system as quickly as possible.

A November 26 editorial in the *Wall Street Journal* highlighted the nature of these divisions. After noting the large number of insurance plans that have been offered by private companies to cover the drug benefit, the newspaper stated that "our more optimistic friends say this all shows that competition can work in Medicare and that the drug benefit will pave the way for systemic reform down the road," that is, that it will eventually lead to the destruction of Medicare as it exists today. However the editors expressed their doubts: "No matter how efficiently the private sector runs the drug benefit, it is still going to be a hugely expensive new taxpayer liability. And we suspect more direct price controls will be a first, not a last, political resort."

Instead of the drug benefit, the *Journal* pointed to Medicare Advantage, which it called the "model for overall reform" of Medicare. Rather than create a new benefit, no matter how limited, the *Journal* advocates new measures to push people off Medicare altogether.

The next step in the privatization agenda is the introduction of health insurance vouchers in six major metropolitan areas in 2010. In these areas, eligible citizens will be given a dollar amount to purchase medical insurance, and will have the choice of paying for either Medicare or private plans. Even though private managed care organizations are far less efficient than Medicare, insurance providers will inevitably cherry-pick the healthiest and least costly customers, much as they have in the Medicare Advantage program, where Medicare is left with twice the percentage of members with cognitive and physical disabilities in comparison to private plans.

The Bush administration is also pushing for the reduction of doctors' Medicare fees by 4.4 percent next year, even as medical costs are set to rise by 1.5 percent. As a direct result of this fee reduction, many doctors may deem it unprofitable to provide services to Medicare patients in the future.

Meanwhile, the other major medical entitlement program, Medicaid, is also on the chopping block. Most states across the country have enacted sharp cuts in eligibility and services, while the federal government is moving to cut billions from its spending obligations. In Florida, Governor Jeb Bush has gained federal approval for a Medicaid plan that resembles the new Medicare drug plan, substituting government-guaranteed services with subsidized private insurance schemes. This plan is being hailed as a model for other states to follow.

While the Republican Party has been leading the campaign to gut entitlement programs, including in the still on-going budget negotiation process in Congress, the attack on these programs is a decidedly bipartisan affair. The 1997 Balanced Budget Act was passed under the Clinton administration with significant bipartisan support, as was the 1996 welfare "reform" measure. At the state level, Democratic Party governors have participated just as much as Republicans in cutting Medicaid services. No section of the political establishment has offered any proposals that seriously address the immense social and medical needs of modern society.

The fact that the wealthiest nation in the world can find no reasonable way to provide for the basic health of its population is a scathing indictment of the obsolete and irrational nature of the capitalist system as a whole.

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