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Federal Update 2003-26

TO: NCTR Members  
FROM: Cindie Moore, Washington Counsel

Agreement on Medicare Drug Coverage Announced,  
but Final Passage not Guaranteed;  
Privatization Pilot Plan Part of Package

Republican Congressional leaders announced November 15 agreement on a federal subsidy for prescription drugs for people 65 and older who are willing to buy a new type of insurance policy or join a private health plan. The agreement also includes a Medicare privatization pilot plan, see below. A summary of the agreement is attached. As you will read, the details are sparse, but more information should be forthcoming.

Medicare began in 1965. It currently covers 40 million senior citizens and disabled individuals. Under current law, Medicare provides prescription drug coverage only for hospital stays. The agreement would expand such coverage to include drugs prescribed as part of a doctor's visit.

Under the agreement, the standard drug benefit in 2006 would be a \$250 deductible. The government picks up 75% of the cost up to \$2,250. Coverage would stop at that point unless an individual incurred out-of-pocket costs of \$3,600 or more. At that point, catastrophic coverage would kick in. (Note that when the conferees first released the details of the bill, the deductible was \$275 and the government would pay 75% of the cost up to \$2,200. When the Congressional Budget Office determined that the cost of the bill was under \$400 billion, the conferees approved the changes that amount to \$5 billion more in benefits.)

If Medicare beneficiaries wished to participate in the drug coverage, they would pay approximately \$35 per month. Beneficiaries would receive the coverage in one of two ways. First, they could buy insurance policies that covered drugs only. Second, they could join a PPO, HMO, or other private plan that furnished not only prescription drugs, but the rest of their care.

Republican leaders will bring the agreement to their respective chambers this week. They hope for final passage before the targeted adjournment date of November 21.

- General Item of Interest for NCTR Members:
  - If you provide your participants with information about Medicare's Part B premium, the premium will become income-based.

- The change in the premium relates to the level of subsidy.
  - Under current law, everyone receives the 75% subsidy and everyone pays the same monthly amount.
  - Beginning in 2007, the premium subsidy for Medicare beneficiaries with incomes of \$80,000 and up for singles (\$160,000 for couples) declines. (See page 5 of summary for declining subsidy rates.)
  - Although the threshold is quite high, you will need to explain it to your participants if you provide this type of information.
  - The change is phased in over five years.
- Specific Item of Interest for NCTR Members that provide retiree health care plans:
    - Congress was concerned that the new benefit would discourage employers that offer retiree health care with drug coverage from continuing to do so.
    - Consequently, the agreement provides that employer-sponsored drug plans for retirees that offer actuarially equivalent coverage would receive a 28% payment for drug costs between \$250 and \$5,000.
    - The subsidy for drug coverage is excludable from taxation.
    - The summary does not explain how the tax exclusion would apply to entities not subject to federal tax, such as state and local governments.

## Areas of Opposition

### Pilot Program for Medicare Privatization

In the Senate, thirty-six Democrats, seven Republicans, and the single Independent signed a letter opposing a pilot program in which Medicare competes with private health insurance plans on price. This issue is separate from the drug benefit. This competition is sometimes called Medicare privatization. The House version tried to encourage Medicare beneficiaries to leave the traditional, fee-for-service version of the program, to which nearly 90% belong, and join private plans. The agreement trims, but does not abandon the idea. Price competition would start in 2010 in as many as six metropolitan areas and last for as long as six years.

In the Senate, it takes 60 votes to end a filibuster. If all 44 letter signers decide to oppose the entire agreement based on privatization, they can prevent the passage of the agreement.

### Importation of Drugs from Canada

Many members, Democratic and Republican alike, want Americans to have the right to import lower cost prescription drugs from Canada. The agreement allows importation of drugs from Canada with safety certifications. When Congress passed a similar provision several years ago, the Food and Drug Administration (FDA) vetoed it,

saying it could not guarantee the safety of the imported drugs. FDA will likely do the same thing this time.

Some members favor an importation provision without the FDA involvement. Because the agreement did not include that approach, they might oppose it.

#### Other Issues of Interest

The agreement guarantees that every Medicare beneficiary have access to at least one Prescription Drug Plan (PDP) and one integrated plan in each region (to be set up under the agreement). Two PDPs are necessary if no integrated plan is available. An integrated plan is a private health care plan that is available to Medicare beneficiaries as an alternative to the traditional fee-for-service program. It would provide both drugs and other health care.

A Medicare-endorsed drug discount card would be available to all beneficiaries April 2004. The federal government estimates savings of between 15% and 25% per prescription.