

Chairman's Statement
Medicare Part D: Saddling future generations with debt
September 22, 2005

Today's hearing will examine the unfunded liabilities the Medicare Modernization Act imposes on future generations and whether the new legislation will actually meet the needs of seniors.

The Federal government has more urgent demands to make on the American taxpayers than ever before. Our nation faces a constant threat of terrorism, made more ominous by nuclear proliferation in Iran, China and North Korea. We know that these tyrannical governments could share their weapons with terrorists. Nothing about the so-called "security" at our borders and ports prevents the transport of these weapons into our back yards. The war on terror requires massive military, intelligence, and law enforcement resources.

We also face long-term, expensive and previously unforeseen financial obligations to rebuild Afghanistan and Iraq. There is no more important, appropriate or Constitutional use of taxpayer dollars than defending the nation from those who would destroy our cities and our citizens.

Now, we must also reconstruct a disaster zone in our own country that covers 90,000 square miles. Millions of families, homes and businesses were affected by Hurricane Katrina. Cities and towns 300 years in the making must be rebuilt out of the mud of the Mississippi delta. The Federal government is on the hook for every penny of it.

Americans are generous and proud, and so they will rebuild the Gulf Coast. Americans are far-sighted and security-minded, and so they will rebuild our new allies in the Middle East. What is unique, however, about these large new obligations is that they are occurring in the context of massive and unrestrained Federal deficits – already almost \$600 billion this year. Unlike their elected officials, Americans understand about priority-setting from balancing their own checkbooks. When unexpected financial obligations arise, priorities must be set. Sacrifices must be made.

Since 2001, non-defense discretionary spending has increased by 36 percent. Let me repeat that. Since 2001, when we were attacked by a vicious enemy and embarked on an expensive war on terror, we increased NON-defense discretionary spending by a record-setting 36 percent.

During those years, we were a nation at war. We were rebuilding lower Manhattan. Oil prices were on the rise. We were facing a recession and tentative economic recovery. Those were years where we should have seen belt-tightening for discretionary programs. It was during these same years that Congress passed the biggest expansion of a mandatory entitlement program in four decades.

Every senior wants and needs access to life-saving medications. But when I go home and participate in town hall meetings, I ask this question of the seniors in the audience: "How many of you would deny your grandchildren any health care when they grow old so that the government can buy you prescription drugs today?" Not a single hand goes up. Today's hearing will examine if this is indeed the trade-off we're facing.

Chairman's Statement
Medicare Part D: Saddling future generations with debt
September 22, 2005

With the drug benefit rolling out in January, I'm concerned if we can afford it. The President has identified "long term unfunded promises of our entitlement programs" as our greatest fiscal challenge.

Entitlement spending *already* accounts for over 60 percent of the federal budget. I understand that by 2040, the Medicare deficit alone, which is not the only entitlement program, will consume half of all federal-income tax revenues, before paying for other entitlements such as Social Security and Medicaid. I hope that our witnesses will confirm today if it is true that the new drug benefit will add \$8.7 trillion to the unfunded liability through 2078, bringing the total debt to \$29.7 trillion.

Today, the Federal deficit is nearly \$600 billion. Just this fiscal year, the unfunded liability of Medicare is \$126 billion. That means that after revenues kick in \$217 billion from payroll taxes, social security taxes for Medicare, and premiums, another \$125 billion must be taken out of the general revenues to cover the shortfall. Each year, the amount required out of general revenues will increase [SHOW POSTER 1].

When Congress passed MMA, over 76 percent of all seniors **ALREADY** had drug coverage. Some argued at the time against expanding the program to pay for even the wealthiest Americans. They suggested that a more affordable approach would be to means-test the program, providing drugs for the neediest seniors.

I'm concerned that Part D may have enacted a massive cost-shift from the private sector to the U.S. taxpayer. The consequence of MMA is to actually force Medigap carriers out of business. What's more, many private employers and unions are currently paying drug costs for their retirees. Come January, however, those private payers will simply drop coverage, or, if they retain coverage, they'll bill the Federal government for a large share of the cost.

There are plenty of reasons to worry about the fiscal outlook for Part D. However, just as worrisome is the potential effect it could have on patients. One of the best predictors of positive patient outcomes is the presence of private insurance. The reason is that you generally get better results when you keep the government out of the exam room. I worry that we are placing too much responsibility for a patient's treatment, especially his or her medication management, in the hands of a giant Federal bureaucracy instead of the important partnership between a patient, his or her doctor and family caregivers.

I'm also worried that as demand increases under this universal benefit, a natural response to contain the inevitable sky-rocketing costs will be price-fixing. Price-fixing often leads to drug rationing in the form of restricted formularies and onerous authorization requirements imposed on patients and doctors.

As Part D grows the Federal share of the U.S. drug market, there will be less competition – the **ONLY** downward pressure on prices. U.S. drug prices were high already, because American

Chairman's Statement
Medicare Part D: Saddling future generations with debt
September 22, 2005

taxpayers subsidize the price-fixing behavior of other nations' socialized medical systems. Once we ourselves fall into the price-fixing trap, I'm concerned that innovation will disappear. More disincentives for innovation in drugs could spell disaster for patients. As a physician, I worry all the time about drug resistance. What will we do when there is no new antibiotic around the corner – when pharmaceutical companies only develop new *lifestyle* drugs – specifically because these products won't be caught up in the new bureaucracy?

Today is a fact-finding exercise. I hope to hear from the experts and get some of the latest numbers out in the open and on the record. As we evaluate this new program, its role in our economy, and prospects for the future, I am grateful for the time and expertise of our witnesses.