

The Federal Government Negotiating and Rationing Medicare Prescription Drugs



Thinking Points, Vol. 1, No. 4

**Prepared by the Republican House Policy Committee
United States Representative Thaddeus G. McCotter, Chair
110th Congress**



Overture



*I went down to the Chelsea drug store
To get your prescription filled
I was standing in line with Mr. Jimmy
And, man, did he look pretty ill...*

**“You Can’t Always Get What You Want”
The Rolling Stones**



America's Challenge



By permitting private competition to help contain the costs and enhance the choices of prescription drugs for Senior Citizens, the Medicare Modernization Act created a Twenty-First Century paradigm for efficient and effective government programs. Today, precisely because of its revolutionary utilization of private sector market forces in a public sector entitlement program, the Medicare Part D prescription drug benefit is under ideological attack. For the sake of the 80% of Senior Citizens who are satisfied with their prescription drug benefit, this attack must be defeated.

When Medicare was created over forty years ago, its lack of a prescription drug benefit constituted an inconvenience. Over the ensuing decades, however, striking advancements in medical care provided Americans with both more health care choices and, blessedly, longer lives. Yet this salubrious development also ineluctably led to rising prices for prescription drugs, as companies continued the costly research and development needed to further advance medical frontiers, and as more Americans, who were living longer, healthier lives, increased their demand for health care. By the advent of this century, three facts were painfully evident: Medicare could not remain solely an acute care program in a medical world which had progressed to the long-term management of chronic conditions by interposing the availability of pharmaceutical agents; the economic squeeze on Senior Citizens had to be ameliorated; and, therefore,

the federal government should provide Senior Citizens a voluntary prescription drug benefit under Medicare.

True, the idea, which had been long in coming, was by no means novel: over the preceding forty years, Democratic administrations and Congresses made several attempts to include prescription drug coverage under the Medicare program. The crux of their problem, though, was how the federal government could both provide the prescription drug benefit and contain the program's costs, and for many years the answer proved evasive. Here, perhaps, is the novelty: in 2003, a Republican President and Republican majorities in the House and Senate crafted and enacted into law a plan which provides Senior Citizens voluntary prescription drug coverage at prices affordable to themselves and the government. What was the plan's key component which had proven so elusive in past failed attempts to provide such coverage to Senior Citizens? Succinctly, the solution – anathema to past Democratic Congresses - was to ensure competition and contain costs by incorporating private sector market principles within the public sector program's provision of prescription drug coverage to Senior Citizens.

Now, over one year since its enrollment commenced in January of 2006, the Medicare prescription drug benefit program (commonly called “Part D”) is firmly established and helping over 38 million Senior Citizens, especially the most economically distressed who previously lacked any drug coverage, by providing them the ability to lead healthier lives and keep their hard-earned savings. Under Part D, Senior Citizens have experienced better drug coverage at a lower cost than they have at any time in the past four decades.

The Center for Medicare and Medicaid Services (“CMS”) reports a full 90% of all Medicare beneficiaries are receiving comprehensive coverage either through Part D; employer sponsored retiree health plans; or “other credible coverage.” Moreover, the program’s cost for 2006 was \$13 billion below budget estimates, and fully one-half of these savings were directly attributed to market-based competition. The practical effect of these numbers was the decrease in beneficiaries’ average monthly premiums from \$37 to less than \$24. So too, approximately 92% of Medicare beneficiaries will not be impacted by Part D’s cost coverage gap, because they have prescription drug coverage from plans outside of Medicare part B or their coverage plans fill the any gap. To further remediate any prospective problems, when Seniors Citizens re-enroll for the program’s second year, the government’s Medicare web site will help them find plans which eliminate any coverage gap. Little wonder, 80% of the Medicare drug plan enrollees are satisfied with their coverage, and a similar percentage confirm their out-of-pocket costs have decreased.

What is curious, however, is why some individuals are so determined to tamper with a proven program. The answer is as obvious as it is unfortunate: political ideology. Yes, Senior Citizens are on the threshold of profound and detrimental changes to an efficient program effectively meeting their needs because it contradicts the welfare state ideologues’ theoretical dogma, which avers only an enormous, centralized federal bureaucracy can operate a government program. These welfare state ideologues, of all people, argue this increase in the federal government’s power will save taxpayers money. This perverse argument is best dispensed with by remembering big government costs

money, it doesn't save it. Nevertheless, unabashed and under the guise of "government negotiation," these welfare state ideologues seek to impose draconian price controls on pharmaceutical products, despite the fact the Congressional Budget Office warns no purported savings will materialize, and Senior Citizens worry the program's costs will actually escalate. At this precarious juncture, it remains to be seen whether or not the welfare state ideologues will succeed.

Republican Principles



It is imperative to expand the liberty of America's sovereign citizens, not the power of the state.



America's social safety net must be strengthened to prevent its fraying under the weight of increased beneficiaries and expenditures.



The free market and fair negotiations should determine workers' wages, not an arbitrary, unfunded mandate of the federal government.



Because it has the fiduciary duty to honestly, efficiently, and effectively serve as custodian of the American's tax dollars, government must continue to imagine and implement private sector market forces in a public sector entitlement program, in order to empower individuals, effectively deliver services and benefits, and contain costs.



Government “negotiations” with private entities and individuals are intrinsically inequitable; thus, every safeguard must be accord private entities and individuals to avoid such “negotiations” resulting in an infringement upon civil rights or an expropriation of private property.



Heedless of the laws of supply and demand, Government attempts to set wage and/or price controls invariably increase unemployment and prices; cause the rationing of affected products; and diminish the liberty of the sovereign American people.

Republican Policies



Given the overwhelming evidence and Senior Citizens satisfaction rates with Medicare Part D to date, Congress must continue its revolutionary incorporation of private sector market forces in a public sector entitlement program, in order to empower individuals and contain costs. While crafting the policy that ultimately became the Medicare modernization act of 2003, the concept of protecting the inclusion of market forces in the legislation was a critical aspect of the ultimate bill. This occurred because Congress mindfully emphasized helping those beneficiaries who were the least well off financially, and those who suffered the most onerous health burdens. The Republican policy trusted the marketplace, with some guidance, to be the most efficient arbiter of distribution to achieve the above goals. Understandably, then, the results are heartening: while there are decreases in the program's costs to beneficiaries and the government, there is a simultaneous maximizing of Senior Citizens' power to choose their medications, their doctors and their pharmacists; and to retain the hard-earned savings they must rely upon in their golden years.



Thus, Congress must resist calls to engage in the “negotiation” of Medicare Part D prescription drug prices. If an ideologically zealous Congress disregards all evidence to the contrary and sanctions government's “negotiating” prescription drug prices, it will constitute the imposition of government price controls on Senior Citizens' medicine. These

government price controls and, due to an absence of market forces, this policy's intrinsic need to ration medicine to contain costs will breed increased drug costs for Senior Citizens; decreased drugs available to Senior Citizens; restricted access to pharmacies for Senior Citizens; slashed budgets for private research and development into new medicines; reduced numbers of new prescription drugs available to all Americans; and impaired doctors' abilities to prescribe drugs to their Senior Citizens patients. Those inclined to dispute or diminish the prospects of such a policy's dire consequences are well served to examine the injurious excursion of the federal government into the area of public immunization. In this instance, similar policies led the government to dictate to private firms how many immunizations should be prepared; forced these firms to incur the losses from any unused immunizations; and, for their efforts, allowed these firms to be sued by trial lawyers. In the end, the federal government's number of immunization suppliers dwindled from about twenty down to three or four – most of these overseas. Sadly and expectedly, such disastrous results are of no consequence to welfare state ideologues, who covets the enactment of government negotiations for Medicare Part D prescription drugs, in order to pave the way for their redistributionist Utopia: a government monopoly on American medicine.



Frequently cited to advance the welfare state ideologues' argument, comparisons with other federal programs which negotiate for prescription drugs, such as the Veterans' Administration ("VA") or Medicaid, actually demonstrate the necessity of keeping market forces in the Part D program. According to Covance Market Access Services, Inc., Medicare formularies include coverage for at least 94% of 226 active ingredients. In comparison, the VA's national formulary covers 73% of active ingredients, and the three Veterans Integrated Service Networks cover between 77% and 81%

of active ingredients. In key drug classes for drugs to treat depression, high cholesterol, diabetes, and high blood pressure, the differences in formulary coverage between Medicare and the VA are even more striking. For instance, VA participants lack coverage of 35 antidepressant compounds available under the VA national formula. Consequently, if Part D were to emulate the VA's program, Senior Citizens' would lose their nearly universal access to the most commonly prescribed medications under the current Medicare prescription drug plan. In fact, studies have estimated nearly 25% of the medications available under the current Medicare plan would be outside the VA formulary and, thus, unavailable to Senior Citizens' and their physicians. Under a plan based upon Medicaid, too, Senior Citizens would face diminished prescription drug choices. Medicaid provides states with the power to contain costs in their Vendor Drug Programs by limiting the number of monthly prescriptions and contracting directly with dispensing pharmacies. The result, again, is the loss of prescription drug availability for Senior Citizens. Yet still the welfare state ideologues press their attempts to radically force Medicare Part D into resembling the VA and Medicaid programs. Senior Citizens' must never be forced to swallow such a bitter pill to slake the collectivists' thirst for socialized medicine.



In the worst case scenario, if Congress does permit the Secretary of Health and Human Services (“HHS”) to set the prices paid to manufacturers to provide medications covered under Medicare Part D, the Secretary must be required to certify the contract contains an assurance all pharmacies will be able to maintain their participation in the program and Seniors Citizens will retain adequate access to network pharmacies, including community pharmacists, based on the rate set by the Secretary. Should the Secretary find, however, price setting will result in a lack of access for seniors or

decreased participation by pharmacies in a specific Medicare Advantage (“MA”) region, then the Secretary shall have the authority to allow certified prescription drug plans in the MA region negotiate prices directly with manufacturers. The Secretary must further certify beneficiaries’ access to necessary prescription drugs and local pharmacies will not be diminished; and beneficiaries out of pocket costs will not increase. Finally, Congress should also adopt a research and development tax credit to offset any reduction in the private sector’s ability to fund initiatives to develop new medicines.

Advancing American Exceptionalism



In a New York Times article (no, seriously) of October 5, 2006, Tyler Cowan, writes “when it comes to medical innovation the United States is the world leader. In the past 10 years, for instance, 12 Nobel prizes in medicine have gone to American-born scientists working in the United States, three have gone to foreign-born scientists working in the United States and just seven have gone to researchers outside of the country.” He further notes five of the six most important medical innovations of the past 25 years have been developed within *and because of* the American system.

True the system is not perfect – a fact explicitly recognized by the enactment of the Medicare Part D prescription drug benefit for Senior Citizens – but Americans have grown accustomed to and rightfully seek to keep their multiplicity of choices when it comes to hospitals, physicians and pharmaceuticals. Because our experience is unique and different from that of other countries, such as Canada and England, this difference must be acknowledged when reforming either public or private health insurance programs as it was, again, in the Medicare Part D prescription drug benefit for Senior Citizens through the inclusion of free market forces within a government program to expand choice and contain costs. But if, ignoring these realities, the welfare state ideologues foist government controlled pricing upon Senior Citizens, it will limit health care choices for patients and their physicians by inserting bureaucrats into beneficiaries’

medicine cabinets and doctors' offices; and devolve an effective, efficient and popular benefit into a one-size-fits-all model where politicians ration Senior Citizens' and families' health care options.

This must not happen. The Medicare Part D prescription drug benefit's revolutionary incorporation of market forces into a government program to increase beneficiaries' choices and contain costs must be preserved and promoted for the world to emulate; and the American medical system must continue to stand at the forefront of patient care and medical advancement for the health of our citizens and all the world.



Contributing Republican House Policy Committee Members



Hon. Charles Boustany (LA)



Hon. Michael Burgess (TX)



Hon. Phil Gingrey (GA)

Hon. Thaddeus McCotter (MI)



Hon. Tim Murphy (PA)