Medicare Drug: “Step Toward Sobriety” January 18, 2007
By Froma Harrop

Seniors are happy with the Medicare drug benefit, so why change it? That's the line we keep hearing from Republicans opposed to letting the government negotiate Medicare drug prices. "Of course seniors are happy," says Alan Sager, a health-care finance expert at the Boston University School of Public Health. "They're getting a huge subsidy." The taxpayers pick up 75 percent of the drug program's mammoth bill.

Republican leaders once prided themselves as the taxpayers' friend. That was before they redefined "free-market solution" to mean a big government program that overpays private businesses with public money. Democrats and some like-minded Republicans have since taken up the taxpayer cause by proposing better controls on the Medicare drug program's exploding costs: They want the federal government to bargain for lower prices than the private plans have been getting.

The House recently passed a bill to do just that, though not by enough votes to overcome a threatened veto by President Bush. But, as Sager puts it, "This is a step toward sobriety."

The Department of Veterans Affairs has long negotiated drug prices with good results. A study by Families USA found that for the top 20 drugs prescribed to seniors, the VA's price is lower than the lowest price offered by any of the five biggest Medicare private insurers (who cover two-thirds of the program's beneficiaries). The median difference is 58 percent!

These lower prices would please beneficiaries, as well as taxpayers. For starters, their Medicare Part D premiums would fall. Better prices would also slow or even prevent their descent into the doughnut hole -- the gap in coverage where beneficiaries must pick up the full cost of their drugs at the prices charged by their private plan.

Families USA figured out how much a beneficiary who takes the five drugs most frequently used by seniors might save if she could get VA prices. For the comparison, it used the least expensive private plan that covers the same drugs. The result? Out-of-pocket savings of $2,217 a year.

Letting the government negotiate prices would also save beneficiaries the hassle and time spent studying dozens of competing plans -- each with its own drug list, premiums, deductibles and rules for the doughnut hole.

Foes of VA-style negotiated drug prices have developed an effective scare tactic. They point out that the VA has a formulary -- a list of approved drugs that doesn't include everything. "Washington bureaucrats will decide which drugs will be available for patients," warns Rep. Tom Price, R-Ga., in a typical line of attack.

He neglects to note that every private insurer has its own "bureaucrats" drawing their own restricted lists. It's true that different private plans offer different formularies, but seniors have no guarantee of finding a plan that covers all their drugs at reasonable prices.

The bigger point is that a well-made formulary, like the VA's, does the job. "The VA formulary has all the drugs that VA doctors think they need," Sager says, noting that a lot of drugs simply copy what others already do.

There are even cases where the VA formulary chooses a brand-name drug over a generic substitute, because it is considered better. And the VA makes it a lot easier to get drugs not on its list than does the typical private insurer.

Americans will spend $300 billion this year on drugs -- nearly half the world's total, even though they're only 4 percent of its people. Something is clearly wrong with the prices we've been paying.

Sure the seniors are happy with the Medicare drug benefit, but they'd be happier still if the prices were lower. And taxpayers would be ecstatic.

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