

May 2, 2003

Dear Senator/Representative:

On behalf of the undersigned members and supporters of the "Campaign to Preserve – Not Privatize – Medicare" we would like to express our strong opposition to the Medicare reform framework announced by President Bush in March of this year. Our primary objection to the President's outline is that in order to entice beneficiaries into leaving the traditional Medicare program it makes more generous prescription drug benefits available to them if they join a managed care plan. We also object to the President's proposal because he has not allocated sufficient resources in his budget to make a comprehensive drug benefit available.

Under the President's framework, beneficiaries would have three options: (1) Remain in traditional Medicare where they would not be eligible for taxpayer-supported prescription drug coverage for their routine drug costs. They would be offered only a drug "discount" card promising very limited discounts on prescription drugs and coverage for their drug costs once they had spent thousands of dollars out of their own pockets. (2) Move into an HMO where they would become eligible for taxpayer-subsidized prescription drug coverage for their routine drug costs. (3) Opt to join a preferred provider organization (PPO) under a newly created "Enhanced Medicare" program in which they also would become eligible for taxpayer-subsidized prescription drug coverage for their routine drug costs.

The principal problems with the President's Medicare reform framework, which aims at shifting more beneficiaries into HMOs and PPOs, are the following:

The President's proposal would leave Medicare beneficiaries dependent on unreliable private plans for their health care coverage. Under Medicare's existing experiment with private plans, the Medicare+Choice program, there have been 2.4 million occasions since 1998 where beneficiaries have been forced to look for new providers as a result of their HMO dropping out of Medicare or ceasing to provide service in their area. The President's framework attempts to stabilize private plan participation in Medicare by requiring participating PPOs to offer coverage in large areas of the country (multiple states) and not allowing them to selectively pull out of individual counties. This may mean that private plan participation will be more stable. However, because there is no legal requirement to remain in the program private plans will never be as reliable as the traditional Medicare program, which has never dropped a single enrollee in 37 years.

In addition to dropping beneficiaries from coverage, the private plans that participate in Medicare also have a history of instability in the benefits they offer. In 1999, less than a quarter of the HMOs that offered drug coverage provided no coverage for brand name drugs or capped their coverage at \$500 or less. In 2002 two-thirds of all plans capped their coverage at \$500 or less or offered no coverage for brand name drugs. If, instead of relying on private plans to offer beneficiaries health care

coverage, including coverage for prescription drugs, Congress were to enact legislation creating a drug benefit under the traditional Medicare program, it would be possible to guarantee beneficiaries' level of coverage in law.

Beneficiaries lured into HMOs and PPOs under the President's framework will no longer have the ability to see the doctor of their choice at a price they can afford. That HMOs restrict beneficiaries' choice of providers is well known. What is less well understood is that PPOs also effectively limit enrollees' choice of providers by exposing them to high out-of-pocket costs if they see a doctor or other provider not in their plan's network. In contrast, because of Medicare's market power, providers generally participate in the traditional Medicare program and agree to limits on what they charge patients. This keeps beneficiaries' out-of-pocket costs manageable.

Private plans are less efficient than Medicare. Medicare has very low administrative costs — only 2 percent of program payments go to administrative expenses. In contrast, HMOs have administrative costs of 15 percent. Therefore, shifting more beneficiaries into private plans would mean that money that could have gone into additional benefits will be wasted on administration.

The President's plan is seriously under funded. The administration has described its proposal as if it will make coverage comparable to FEHBP, the same coverage that members of Congress enjoy, available to Medicare beneficiaries. However, the amount the President has allocated in his budget, \$400 billion (not all of which will be dedicated to prescription drug coverage), is clearly inadequate to provide drug coverage as generous as that enjoyed by FEHBP enrollees. The Congressional Budget Office estimated last year that it would cost \$341 billion over 10 years to pay for drug coverage offered in legislation that passed the House. That legislation offered coverage that was considerably less generous than the benefit enjoyed by FEHBP enrollees.

We believe that the President's framework should be rejected and that instead a more generously funded drug benefit should be added to the traditional Medicare program. If this were done, it would mean that benefits would be guaranteed. They would be delivered efficiently, and beneficiaries would have access to prescription drug coverage without having to give up their ability to see their doctor of choice at a price they can afford. It is ironic that under the President's framework, which he touts as increasing their choices, beneficiaries would not be able to choose the option they most want: the ability to stay in the traditional Medicare program and get coverage for the high costs of prescription drugs.

Sincerely,

Advancing Independence: Modernizing Medicare and Medicaid (AIMMM)
AIDS Treatment Activists Coalition (ATAC)
American Friends Service Committee

American Medical Student Association
Americans for Democratic Action
The Arc of the United States
Center for Medicare Advocacy, Inc.
Center on Disability and Health
Center on Disability Issues & the Health Professions
The Children's Foundation
Church Women United
Consumers Union
Families USA
Gray Panthers
Medicare Rights Center
National Academy of Elder Law Attorneys
National Mental Health Association
National Partnership for Women and Families
National Priorities Project
National Senior Citizens Law Center
National Women's Health Network
NETWORK: A National Catholic Social Justice Lobby
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Public Citizen
Service Employees International Union
Union of American Hebrew Congregations
Unitarian Universalist Association of Congregations
United Cerebral Palsy
United Church of Christ Justice and Witness Ministries
USAction
World Institute on Disability