Information For Iowans About The Medicare Prescription Drug, Improvement And Modernization Act Of 2003

From U.S. Senator Chuck Grassley, of Iowa

The new law is the most significant improvement in Medicare in two generations, and the AARP offered its strong endorsement. The AARP stated that the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 is ". . . an important milestone in the nation's commitment to strengthen and expand health security for its citizens . . . ." The President signed the legislation into law on December 8, 2003. The measure greatly improves the Medicare program by providing access to voluntary, affordable prescription drug coverage for all Medicare beneficiaries. In so doing, it fills a major gap in health coverage for older Americans that has existed since the Medicare program was established in 1965, despite numerous efforts over the years since then to create such a benefit.

IMMEDIATE ASSISTANCE

Iowa Medicare beneficiaries will realize in 2004 an early benefit through the prescription drug card that will also have $600 for those with lower incomes to use to buy prescription drugs.

The program will begin in 2004 with the availability for all beneficiaries of a Medicare prescription drug discount card. Seniors who can afford it will pay an annual enrollment fee of no more than $35, and lower income seniors can receive the card for free. This discount card puts the purchasing power of 40 million seniors to work, which will enable beneficiaries to purchase drugs at a savings of 10 to 25 percent. Information will be available about the drug card program in April. Beneficiaries will be able to start signing up for the cards in May. Purchase of pharmaceuticals using the cards will begin in June.

In addition, in 2004 and 2005, between 10-12 million Medicare beneficiaries will receive a discount card that includes $600 that can be used to pay for the prescription drugs they need. Those who are eligible for this additional assistance will have 2003 incomes of less than $12,123 for individuals and $16,362 for couples. Altogether, that will provide an additional $100 million over the next two years for about 84,000 Iowans, according to the Centers for Medicare and Medicaid Services.

PRESCRIPTION DRUG COVERAGE - VOLUNTARY AND TARGETED

Starting in 2006, beneficiaries will have three basic choices for their Medicare benefits and voluntary prescription drug coverage, including the guaranteed right to remain in the current Medicare program.

The full-scale drug benefit program will begin in 2006. It is not possible to implement the drug benefit sooner because the Department of Health and Human Services (HHS) needs time to develop and obtain public comment on the implementing regulations for the new drug benefit. In 2006, both the new voluntary prescription drug benefit and the Medicare Advantage program will be up and running. When those programs begin, beneficiaries will have three basic choices.

The first choice is to remain enrolled in the traditional Medicare program and decline coverage for prescription drug benefit. Enrollment in the drug benefit is completely voluntary so that means that no senior who does not want or need this prescription drug coverage will be forced to buy it. Beneficiaries who do not enroll in the Medicare drug benefit also may keep any supplemental Medigap insurance in which they are currently enrolled. The plan assures beneficiaries that if they already have good coverage available to them that they can keep it, and if they need the additional coverage they can get it.

The second choice is to remain in the traditional Medicare program and enroll in a free-standing prescription drug plan. The free-standing drug plans will be offered by private health insurance carriers. The free-standing drug plans are established in the new law to provide access to drug coverage for those who remain in traditional Medicare. The kind of private health insurance carriers that will likely participate in this stand-alone Medicare prescription drug program currently administer prescription drug benefits to millions of Americans with private health insurance, including those in rural areas of the country, and, it is likely that there will be several options for such coverage for beneficiaries. These free-standing drug plans will compete to offer the best drug benefit and the lowest drug prices at the best premium. If private plans are unable to offer coverage in any part of the country, however, then the federal government will step in to provide the prescription drug benefit through a fallback plan. In this way, all beneficiaries are guaranteed to have access to the new Medicare drug benefit.

The third choice for beneficiaries is to enroll in the Medicare Advantage program. In the Medicare Advantage program, complete Medicare coverage, including coverage of prescription drugs, will be offered by Preferred Provider Organizations (PPO) or through Health Maintenance Organizations (HMOs). PPOs are networks of health care

providers set up by private health insurance companies. Millions of working Americans are currently enrolled in PPOs through their employers. PPOs, unlike most HMOs, offer those who enroll a wide choice of doctors and hospitals through which they may obtain their health care services. These new options in Medicare provide older Americans more choice and more control over their health care.

The Standard Prescription Drug Benefit

The prescription drug benefit is voluntary and available to all Medicare beneficiaries. The drug benefits offered will have the same value whether a beneficiary stays in traditional Medicare and enrolls in a voluntary, stand-alone prescription drug benefit, or enrolls in a Medicare Advantage program. This means that beneficiaries are free to remain in traditional Medicare if they choose while still having access to prescription drug coverage through Medicare. According to CMS, the new law will give about 145,000 Medicare beneficiaries in Iowa access to drug coverage they would not otherwise have and will improve coverage for many more.

The standard benefit specified in law has a $250 deductible, and then Medicare pays 75 percent of prescription drug costs between $250 and $2,250 in annual drug spending. If a beneficiary incurs $3,600 in out-of-pocket costs for prescription drugs in a given year, the stop-loss benefit protects all enrollees from catastrophically high annual drug costs. After reaching the stop-loss limit, beneficiaries will pay only about 5 per cent of incurred expenses.

Under the standard benefit, Medicare beneficiaries who would otherwise have spent $2,000 on their prescription drugs will save $1,313. That is a 66 percent reduction in out-of pocket costs all for the cost of the affordable monthly premium of about $35. Those with above average spending of $7,000 would save $3,305. That is a 47 percent reduction in out-of-pocket costs.

The private health plans-both the Medicare Advantage plans and the free-standing drug plans-have flexibility to design the drug benefit so that it is attractive and affordable for beneficiaries. The new law describes a standard benefit, which the plans are free to offer if they wish. It is expected, however, that the private plans will improve upon the standard benefit described in the law using the flexibility given to them by Congress. The plans must design a benefit package that is equal in value to the standard benefit and it must meet consumer protection standards specified in the law. The federal administrator of the program may terminate plan contracts or refuse to approve plans if the benefits are not actuarially equivalent or if they are designed to game the system. With this flexibility, the private plans will be able to design better benefit packages that will be attractive to beneficiaries. In turn, beneficiaries can select the benefit package that best suits their needs. The prescription drug benefit will be available to all Medicare beneficiaries for about $35 monthly, or about $1 per day.

Targeted Assistance For Those Who Need It Most

The program signed into law by President Bush provides more generous prescription drug coverage targeted to those in greatest need. Up to 14 million lower income Medicare eligible individuals and couples will receive this targeted assistance from the federal government, which will provide additional benefits and lower or no monthly premium. For these older Americans and individuals with disabilities, the plan will cover almost all their drug costs.

There are four main categories of eligibility for the low-income assistance. First, those with incomes below 135 percent of the federal poverty level and limited savings qualify for some of the most generous coverage. Those eligible for this assistance will have an annual income of $13,054 or less and below $6,000 in assets if they are single, and $17,618 in annual income or less and below $9,000 in assets for couples. These beneficiaries will pay no premium, incur no deductible, and will have cost sharing of just $2 for generic medications and $5 for brand name drugs. In addition, they will have no cost sharing at all for any expenditures above $5,100 in total drug costs or $3,600 in true-out-of-pocket spending. As a result, for these individuals, the Medicare benefit will cover more than 94 percent of the prescription drug costs. For example, those spending $6,000 (in 2006) would realize a 95 percent reduction in out-of-pocket costs. Altogether, about 133,000 Iowans will qualify for this comprehensive level of coverage.

The second category of lower income benefits is for those with incomes below 150 percent of the federal poverty level and minimal savings. Those eligible for this category of benefits will have annual incomes of $14,505 or less and below $10,000 in assets if they are single, and annual incomes of $19,577 or less and less than $20,000 in assets for couples. These individuals will pay a reduced monthly premium on a sliding scale from $0 to $35 and incur a $50 deductible. After meeting the deductible, Medicare will cover 85 percent of prescription drug costs between $50 and $5,100, or $3,600 in true out-of-pocket spending. For spending above $5,100, this group would pay minimal cost sharing of just $2 for generics and $5 for brand name medications. As a result, for these individuals, the Medicare benefit will cover 84 to 94 percent of their annual prescription drug costs. For example, those with above average out-of-pocket spending of $6,000 (in 2006) would realize an 86 percent reduction in out-of-pocket drug spending. Altogether, about 41,000 Iowans will qualify for this level of drug benefit.

The last two categories of beneficiaries receive the most generous targeted coverage. These last two categories include those who are eligible for both Medicare and Medicaid with incomes below 100 percent of the federal poverty level or $9,670 for individuals and $13,051 for couples and who have minimal assets as determined by the state Medicaid program. The last group includes these individuals who also reside in a nursing home. For those not residing in nursing homes, the program provides coverage with no monthly premium, no deductible, and $1 and $3 in cost sharing for the

purchase of generic and brand name medications respectively. In addition, for this group, there is no cost sharing for any drug expenses over $5,100, or $3,600 in true out-of-pocket spending. Those in this group with average drug spending would realize a 97 percent reduction in out-of-pocket costs.

For those in this income group residing in nursing homes, there will be no premium, no deductible and no cost-sharing. This represents a 100 percent reduction in out-of-pocket costs for any Medicare-eligible nursing home resident who also qualifies for Medicaid coverage and annual income below 100 percent of the poverty level.

THE MEDICARE ADVANTAGE PROGRAM

The Medicare Advantage program will provide expanded options for beneficiaries to enroll in a private Medicare plan to receive the complete Medicare benefit which will provide high quality, coordinated care and an array of preventive services.

If they so choose, beginning in 2006 beneficiaries may enroll in the Medicare Advantage program. Medicare Advantage will cover the full package of Medicare benefits and will offer a complete array of health care services, including prescription drug benefits, disease prevention services, and a range of other preventive services such as vaccinations, mammograms cancer screening, diabetes screening self-management tools, and glaucoma and cardiovascular screening will be offered by private health insurance companies through Preferred Provider Organizations. The country will be divided into at least 10 large regions and health insurance plans will submit bids to offer health care services in each region to the federal agency which will oversee the Medicare Advantage program. The requirement that plans serve entire regions will assure that those who reside in frontier and rural areas of the country will be able to participate in the program.

Medicare Advantage will also include Health Maintenance Organizations, which will primarily operate in urban areas. These plans will also cover the full Medicare package of benefits and will provide coordinated care and benefits. These new options are purely voluntary. Those who wish to stay enrolled in traditional Medicare can do so.

LOWERING DRUG COSTS

The prescription drug program will realize cost savings for Medicare beneficiaries by obtaining substantial price reductions from drug makers and by speeding up the delivery of generic drugs to the marketplace.

The new program will lead to substantial price reductions from the drug manufacturers for the prescription drugs needed by today's beneficiaries. These price reductions will be realized because the participating private sector drug plans will be negotiating with manufacturers, much as such private health insurance plans now do for the non-Medicare population. Today, seniors who have no drug coverage pay the highest prices for prescription drugs. The new Medicare bill puts the power of the marketplace to work to achieve lower drug prices because the private plans which will provide the drug benefit will be competing with each other to enroll Medicare beneficiaries, they will be highly motivated to drive hard bargains with drug makers so they can offer a drug benefit with a lower premium that will be attractive to prospective Medicare enrollees. The Congressional Budget Office concluded that the use of competing private plans was the most effective method to reduce drug costs among the options available and will result in cost reductions of up to 25 percent.

Furthermore, Medicare enrollees will benefit from lower drug prices not only for that spending which is covered by the benefit, but also for the spending that is not covered. This means that for the small percentage of beneficiaries who will have drug spending that exceeds the benefit limit of $2,250, they will still have access to the lower negotiated prices for prescription drugs.

The new law will also speed up entry of generic drugs to the marketplace, which will significantly reduce prescription drug prices. This legislation revises the drug approval process so that brand name drug companies cannot game the system by obtaining multiple delays in the approval of a new generic drug competitor. Now, the brand name companies will only have one 30-month stay on the approval of a competitor generic drug. Generic drug companies are also forced to give up a 180-day market exclusivity for a newly approved generic drug if they fail to bring the drug to market within a specified time period. These reforms are the most aggressive changes in the Hatch-Waxman Act since its enactment in 1984 , which largely created today's generic drug industry. The Generic Pharmaceutical Association and dozens of advocates for greater generic drug availability and lower drug costs endorsed these important reforms.

This legislation will also save Medicare beneficiaries on prescription drug that are already covered by Part B of Medicare. Before this legislation, Medicare paid for drug covered under Part B by using an Average Wholesale Price (AWP), which was a fictitious number reported by the manufacturers themselves. The HHS Inspector General and the General Accounting Office repeatedly concluded that Medicare was being overcharged for these drugs and that beneficiaries were forced to pay a higher coinsurance amount as a result. This new law eliminates AWP and installs a new system under which Medicare will pay for Part B drugs based on the actual prices paid by physicians.

Finally, Congress also authorized the Secretary of HHS to create a system for the reimportation of drugs from Canada by pharmacists, wholesalers and individuals. Before the reimportation system can be implemented, however, the Secretary must certify that the system is safe. The agreement also directs the Secretary of HHS, in consultation with appropriate government agencies, to conduct a comprehensive study that identifies the problems in current law that may inhibit the Secretary's ability to certify the safety of pharmaceutical products imported into the United States. This HHS study will ensure that there is an appropriate focus placed on why this law is not currently being implemented.

Finally, the new law also directs the Secretary of Commerce, in consultation with the International Trade Commission, the Secretary of Health and Human Services and the United States Trade Representative, to conduct a detailed study and report on drug pricing practices of foreign countries with respect to barriers in the trade of pharmaceuticals. These steps are all intended to make prescription drug more affordable for the American consumer.

PROTECTING RETIREE BENEFITS

The prescription drug program creates incentives for employers to continue offering retiree coverage.

About 30 percent of all Medicare beneficiaries have coverage through their former employers, according to the Employee Benefits Research Institute. It is well known that retiree health care coverage provided by businesses has been declining rapidly. Hewitt Associates have shown that the share of large firms offering retiree health coverage declined from 80 percent in 1991 to 61 percent in 2003. The authors of a Commonwealth Fund study released this year concluded that: "Worse still, there is nothing to suggest that the pullback in employer offers of retiree health benefits has reached bottom."

The Medicare legislation signed by the President provides substantial support to employers which will make the cost of offering health insurance coverage far lower that it is today, and will make it more likely, rather than less likely, that they will continue to offer retiree health coverage. The legislation provides employers a tax-free subsidy of 28 percent of the combined employer and employee prescription drug costs between $250 and $5,000 per employee. The total value of this support to employers will be $89 billion over ten years.

Under terms of the legislation, qualified retiree plans would have maximum flexibility of plan design, formularies and networks. Employers will be able to continue offering to their retirees the coverage they have today. Employers will also be able to provide premium subsidies and cost-sharing assistance for retirees who enroll in a Medicare drug plan and integrated plans.

FAIR TREATMENT FOR IOWA PROVIDERS

Iowa stands to gain with improved access to health care due to payment increases for Iowa's health care delivery system.

In addition to adding a prescription drug benefit and making other improvements to Medicare, the new program also increases Medicare funding for doctors, hospitals and other health care providers, especially in rural areas, where reimbursement levels are far below what is paid in other regions of the country.

The rural health package that is part of the Act is the most dramatic improvement in rural health care any Congress has ever considered. It is a $25 billion commitment over 10 years. The provisions are offset by other program changes, not by seniors' prescription drug money. Iowa hospitals and health care providers will receive an additional $438 million over the next 10 years from Medicare, and Iowa hospitals will receive an additional $141 million over the next 10 years from Medicaid. According to the Iowa Hospital Association, this legislation provided Iowa hospitals with the second largest percentage increase per Medicare beneficiary of any state. The Association said that this amounts to a per-beneficiary increase of $583, which is the 13th highest increase of any state in the Union.

The Medicare prescription drug legislation also makes certain chiropractic services for joint and neck pain available through the Medicare program for the first time. This component of the new law is a big step forward in Medicare recognizing the comprehensive value of chiropractic services.

U.S. Senator Chuck Grassley, of Iowa, is chairman of the Senate Finance Committee, which has jurisdiction over Medicare legislation.