
RESPONSE TO STATEMENT OF CMS ADMINISTRATOR McCLELLAN

Rep. Henry A. Waxman

Today, CMS Administrator Mark McClellan released a statement that confirmed the central point of the Waxman analysis: the Administration's claim that Medicare drug premiums are not increasing is based on a calculation that averages premiums for stand-alone Medicare Prescription Drug Plans (which Dr. McClellan refers to as "PDP" premiums) with premiums for Medicare Advantage Plans (which Dr. McClellan refers to as "MAPD" premiums).

This averaging of Medicare drug plans with Medicare Advantage plans is fundamentally misleading. The vast majority of seniors — nearly 90% — want to remain in traditional Medicare. They do not want to switch to HMO-based Medicare Advantage plans that can limit their access to doctors and hospitals. For seniors who stay in traditional Medicare, their only option is to enroll in a stand-alone Medicare drug plan. As the Waxman analysis shows, premiums for these stand-alone plans are rising by over 10% in 2007.

- McClellan Claim: "83% of beneficiaries currently in a PDP will have access to at least one plan with a lower premium than what they were paying in 2006."

Waxman Response: The vast majority of Medicare beneficiaries will, if they remain in their current plan, face rapidly increasing premiums. Overall, 11.6 million beneficiaries — 77% of beneficiaries in PDP plans — will face premium increases if they stay in their current plans.

Seniors who are enrolled in the plans with the lowest available premiums will face the largest increases. Plans that offer the lowest premium in each state will increase their premiums by an average of 44% in 2007. In several states, the cost of the plan offering the lowest monthly premium will increase almost six-fold, from \$1.87 per month to \$10.60 per month.

- McClellan Claim: "The Congressman's analysis is inaccurate and misleading because it is selective, measuring just one of the plan options beneficiaries can use to get their prescription drugs."

Waxman Response: The HHS analysis is inherently misleading because it combines premiums for stand-alone Medicare prescription drug plans (PDPs) with premiums for Medicare Advantage plans (MAPDs). The coverage offered by the HMOs that provide Medicare Advantage plans is fundamentally different than coverage offered by PDPs. The Medicare HMOs do not offer stand-alone drug coverage; they do not charge separate premiums for drug coverage; and they are heavily subsidized by the federal taxpayer. The numbers the Department reported were reached by lumping the actual premiums charged by the new Medicare drug plans together with artificially estimated prices of drug coverage in Medicare HMOs.

The Waxman analysis is the accurate estimate of the cost of drug coverage for the 90% of seniors who are enrolled in traditional Medicare. It shows that for these seniors, premiums will increase by an average of 13.2% in 2007.

- McClellan Claim: "The Waxman staff erroneously reports that LIS beneficiaries will face premium increases in 2007. ... By statute, these beneficiaries still have access to plans for a \$0 premium in 2007."

Waxman Response: The letter from Rep. Waxman notes that millions of beneficiaries receiving low-income subsidies (LIS beneficiaries) are in plans that are increasing premiums, but it also clearly states that these "premiums are paid for by government subsidies," rather than the low-income beneficiaries. Although the beneficiaries do not pay their own premiums, the cost of the increased premiums will be borne by federal taxpayers. Overall, increased premiums will cost beneficiaries and federal taxpayers an estimated \$650 million in 2007.

- McClellan Claim: "Costs for the Medicare prescription drug benefit have decreased substantially over time."

Waxman Response: The Administration has a history of misleading Congress and the public about the true costs of the drug benefit. When Congress was debating the legislation that created the new Medicare drug program, Department officials told the public that the program would cost \$400 billion over ten years. At the time, Department actuaries were estimating that the true cost of the program would be more than \$500 billion, over \$100 billion higher than the Department informed Congress and the public.

Over the next ten years, 2007-2016, the drug program is expected to cost an estimated \$1.2 trillion. To the extent that costs have been lower than expected, this is in large part because participation in the new drug program has been significantly lower than predicted by HHS.