# Health Policy Consensus Group

A broad-based group of health policy analysts
including researchers from major market-oriented public policy research organizations

**June, 2003**

***Consensus Group Statement***

## Medicare and Prescription Drug Coverage

The best way to add prescription drug coverage to Medicare is by updating the program to introduce competition and choice, allowing it to adapt to the continuing need for improved benefits.

In a Medicare program responsive to consumer demands, beneficiaries would have a choice of competing private plans that would cover a range of health care services, including prescription drugs. Integrating a drug benefit into an overall health plan – as nearly all health plans available to working Americans already do – would be more efficient and would avoid the conflicts of having two separate plans, one offering only drug coverage and another covering other medical expenses.

In addition to the need for a modernized benefit structure, the Medicare Trustees have warned that changes are essential to assure the long-term financial viability of the program, both to protect beneficiaries and taxpayers.

The following is a statement of principles and recommendations for Medicare and prescription drugs to point toward market-based reforms that we believe will result in greater access to affordable coverage for today's and tomorrow's beneficiaries.

Signatories are participants in the Health Policy Consensus Group, a task force of leading health care economists and analysts, including researchers at the major market-oriented think tanks. Participants in the group have been working together to provide policy advice on free-market health reform since 1993.[1]

### *Guiding principles:*

Any legislation enacted by Congress should abide by the following principles:

- **Responsibility**: Except for lower-income beneficiaries in need, Medicare beneficiaries should be responsible for the manageable costs of their routine medical care, including prescription drug purchases.

[1] Consensus Group members' positions on the broader issues of health reform are detailed in *Empowering Health Care Consumers through Tax Reform*, published in 1999 by the University of Michigan Press.

- **Targeted assistance**: Assistance should be based upon an individual's circumstances. The most generous subsidies should be targeted to those who experience the greatest financial burden in covering health costs.

- **True insurance**: A properly functioning private insurance market can protect people from the high costs of non-routine medical care. Insurance coverage for medical expenses, including prescription drugs, should be based upon the principles of true insurance. The purpose of insurance is to cover unexpected, large expenses associated with events that randomly strike only a portion of the population. Large numbers of individuals pay premiums in order to pool the risk of any one person's having to bear the full cost of such an event on his or her own.

- **Choice**: Beneficiaries should have a choice of private plans with different benefit structures, including various forms of drug coverage. Changes to the Medicare program should strengthen the private insurance market by offering greater incentives for plans to compete and offer diverse choices. Beneficiaries should be able to make their own choices to obtain the best quality and value to suit their needs. They should be able to join one plan and pay one premium for comprehensive coverage rather than obtaining supplemental coverage outside Medicare, as many do today.

- **Neutrality**: Subsidies for beneficiaries should be portable and level, i.e., they should apply equally to all plans and not be larger if someone chooses a more expensive plan.

- **Efficiency**: Market incentives should be developed to foster economically responsible behavior on the part of both suppliers and beneficiaries in the purchase and utilization of medical goods and services, including prescription drugs.

- **Management**: Health plans should be able to use tools, including cost-sharing, formularies, and other benefit management incentives, to encourage value purchasing of medical goods and services.

- **Market incentives**: The government should not use its purchasing and law-making power to impose price controls, directly or indirectly. Effective market competition is the best way to promote choice and quality so that beneficiaries can get the best value for their health care dollars.

- **Innovation**: Policymakers must guard against establishing politically determined prices or benefit structures to favor today's beneficiaries that would sacrifice long-range innovation and development of new medical products, procedures, and financing structures for tomorrow's beneficiaries and future generations.

- **Security:** During the transition to a new program, current beneficiaries should have the option of choosing a plan with updated benefits or remaining in traditional Medicare.

## *Recommendations*

Congress must not tack an ill-conceived drug benefit onto the already excessively regulated, financially unsound Medicare program. Adding a drug benefit to Medicare modeled upon its current benefit structure would dramatically increase the program's cost and impose greater and greater financial strains on taxpayers. Such an approach would do nothing to contribute to much-needed changes in Medicare, and would lead to price controls and restrictions on access such as those that already exist in the rest of the program.

To avoid placing unsustainable financial pressures on Medicare and taxpayers and imposing onerous benefit restrictions and reductions on beneficiaries in the future, any moves to add a permanent drug benefit to Medicare must be integrated into modernization of the program.

We believe that the following recommendations will assist policymakers in structuring Medicare improvements to meet the principles outlined in the previous section of this statement.

1. Participation in any specific Medicare benefit structure should be voluntary.

2. Beneficiaries should be able to choose from among competing private plans that offer a variety of coverage options.

3. The Federal Employees Health Benefits Program, which offers a choice of competing private plans, could serve as a model for an improved Medicare program.

4. The Medicare program should be run by an agency that has a genuine customer focus and the flexibility to manage the program effectively. Its role should be supervisory and should facilitate, rather than impede, competition.

5. Premiums for the plans should be set by negotiation, not government fiat.

6. The agency should provide information to beneficiaries, including prices, to facilitate cost-awareness.

7. Beneficiaries should be rewarded for selecting lower-cost alternatives and, conversely, face higher costs for selecting a more expensive plan.

8. Plans should have an incentive to coordinate the various aspects of a patient's care, and the incentives of the plan and the patient should be aligned to provide the most effective and cost-efficient diagnoses and treatments.

9. To encourage continued innovation, the government should not micromanage private plans by imposing explicit or implicit price controls, coverage restrictions, or mandates. Prices for all medical goods and services, including prescription drugs, should be privately negotiated.

10. Any new program should be designed to minimize the risk of adverse selection.

11. Catastrophic insurance should be an integral part of the health benefit provided by private health plans.

12. Private health plans or insurers, not government, should bear the risk of catastrophic drug expenses, with pricing for the coverage built into their premiums. Government-run catastrophic coverage is an open invitation to impose Medicare's administered pricing structure on benefits.

**Prescription drug coverage**

Some policy proposals would create a new prescription drug benefit for Medicare beneficiaries. In such a program, taxpayer subsidies should go to those who need help, not to those who can buy their own coverage or who have it from other sources. Any new drug benefit should not displace the coverage that seniors already have.

Lawmakers could target a drug benefit to lower-income Medicare beneficiaries that could include cash assistance earmarked for prescription drugs. To ensure that the program is a step toward reform and not a substitute for it, the benefit should be structured in such a way that it puts in place the foundations for future reform.

While we offer these recommendations for a drug benefit for Medicare, we believe Medicare modernization is essential to give beneficiaries the ability to choose private, integrated coverage in a competitive market and to protect taxpayers from unsustainable costs in the future.

## *Conclusion*

A health care system that puts patients at the center will be more responsive to individual needs, provide incentives for continued medical innovation, and promote greater access to more affordable and better care.

By loosening the bureaucratic noose around Medicare and providing a new set of financial incentives, a modernized Medicare system can focus on value and efficiency. In a health care system designed for patients, not providers or bureaucrats, beneficiaries will have greater access to the medical care they want and need and will have greater security and control over medical decisions.

All Americans, including seniors, deserve a system that ensures they receive high-quality care, that embraces innovations in medical technologies and medicines, and that provides incentives for continued improvements in medical care.

We believe that the measures outlined here would help to achieve these goals. By providing incentives for competing private plans to offer value and choice, Medicare beneficiaries will have greater freedom to select the health coverage that suits them best. Further, the model we envision would provide strong economic incentives for continued innovation in medical care, new technologies, and financing structures.

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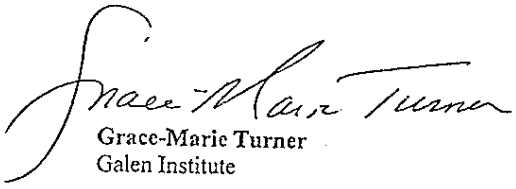

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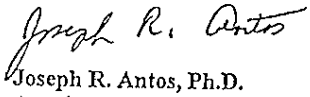

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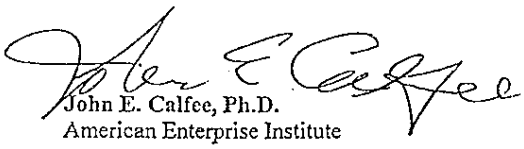

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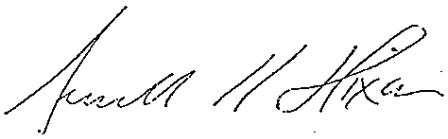

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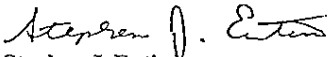

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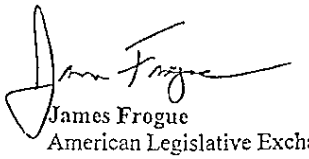

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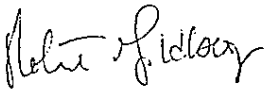

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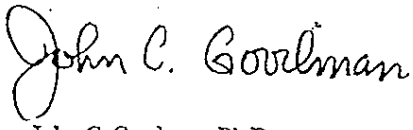

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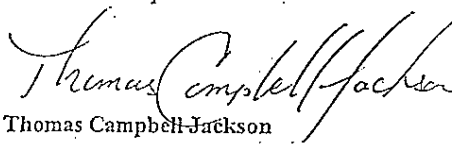

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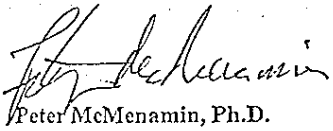

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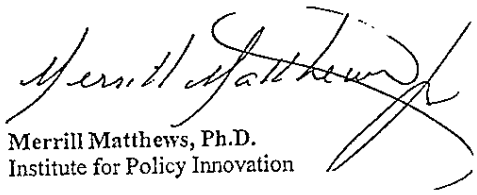
[2] The affiliations of signatories to this document are listed for identification purposes only and do not necessarily indicate an endorsement of this statement by these organizations.



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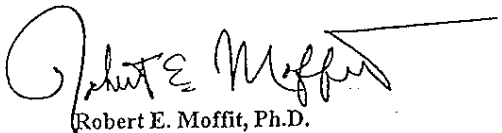

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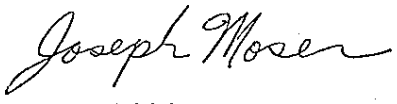

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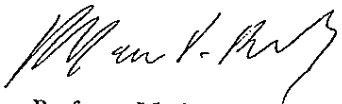

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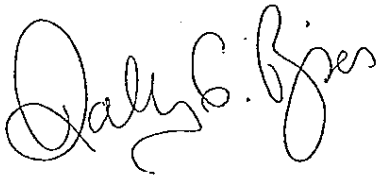

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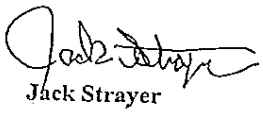

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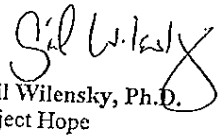

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