Medicare Part D, is it Good or Bad?

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The Medicare Modernization Act was passed by the House and Senate and signed by then President Bush in 2003, and took effect in 2006. This bill provided optional coverage for prescription drugs, but the monthly premiums only covered 25% of the cost of the program. The other 75% of the cost is paid out of the general funds and it has increased our national deficit by about $50 billion per year. Medicare is not allowed to negotiate for discounts from the drug companies, so the taxpayers end up paying much more for this program, while the drug companies reap a windfall at taxpayer expense. When Republicans claim to be fiscally conservative, this bill proves that they are not.

The Republicans have begun to try and defend this program. Let’s look at their defense, and we’ll use a 2013 paper written by Douglas Holtz-Eakin (a prominent Republican on healthcare policy) from The American Action Forum, a self-described center-right group.

http://americanactionforum.org/research/competition-and-the-medicare-part-d-program

“Beneficiaries display great satisfaction with Part D and in 2013 have at least 23 different plans to choose from in every region. Moreover, the system in which plans bid against each other for beneficiaries and negotiate directly with drug manufacturers to achieve lower pricing has generated affordable premiums”.

Well, we hope so! When you get a benefit and you only have to pay 25% of the cost? That is a great deal, and I’d be satisfied with that, never look a gift horse in the mouth.

“The ultimate cost of the new Part D benefit was also a fear. However, total program expenditures have come in far lower than initially projected. Part D’s 10-year cost (starting in 2006) was projected to be $957.3 billion in 2004, after the MMA was passed but before the program started. By 2011, the combination of five years of actual data and five years of projections totaled $499.4 billion”

In 2004, when this bill passed, it was projected that the bill would add $122 billion to the federal deficit in 2012, but we only added $55 billion! There was no tax passed to pay for this benefit (the 75% of Medicare Part D costs that were NOT COVERED by monthly premiums), it was simply added to the national deficit each year. As we see, the 10-year cost tacked on the deficit is now pegged at $500 billion, or $50 billion each year! This allows Republicans like Representative Culberson to claim fiscal responsibility these days.
Medicare Part D at its initial projection of $1 trillion for the first ten years was just as big as Affordable Care Act (ACA also known as Obamacare) cost projections, but there was no hue and cry against it since the “fiscally conservative” Republicans passed it. At a current projected cost of $500 billion, it will still cost one half as much as Obamacare in its first 10 years, yet you hear nothing about it.

We agree that there is an element of competition in the plan, and for it to come in below initial projection is a good thing; however, for such an expensive un-funded program, one should also ask if we couldn’t do better in reducing its cost to the taxpayers.

The problem is that the government is not using its power and the volume of business it pays for, to extract the best deal for the taxpayers. The VA pays lower prices for the same drugs, as does the British medical system. Why? They bundle all of their purchasing power up and negotiate one big deal, rather than sending out 50 or 100 insurance companies to negotiate smaller volume purchase agreements. Anyone who has ever negotiated a volume discount in the real world knows that to get the biggest discount, you have to hit the highest dollar possible. It is clear that the only entity that can do that is Medicare itself, not the 100 smaller insurance companies.

The cost paid for Statins in the U.S. for people younger than 65 years, who were insured by private companies, was approximately 400% higher than comparable costs paid by the government in the U.K. Available generic Statins were substantially less expensive than those that were still under patent in both countries.” [http://www.medscape.com/viewarticle/757132_1]

So we see that despite the claims that competition between the Medicare Part D participating companies is keeping the cost of the program lower than initially projected, the British government pays MUCH LESS than the US private sector! This can be attributed to several factors, most notably negotiating on behalf of an entire nation vs. just one insurance company.

Comparison of costs in Medicaid and the VA vs. Medicare Part D

“One argument is that billions of dollars of savings would be produced if the federal government negotiated for Medicare drug prices. While there are no current Congressional Budget Office (CBO) cost estimates for federal drug negotiation, a report from the Center for Economic and Policy Research (CEPR) estimates that savings to the U.S. government would range from $230 billion to $541 billion over 10 years. CEPR noted that the U.S. pays twice as much as other wealthy countries for prescription drugs because their governments are able to negotiate for lower prices.

An argument can be made that it makes sense for Medicare to receive the best price available for prescription drugs, just like Medicaid and the VA. “In Medicaid, the drug manufacturer provides the federal government discounts for drugs, which are shared with the states. The discount is either the minimum drug amount, or an amount based on the best price paid by private drug purchasers, whichever is less. Current law requires drug companies to charge Medicaid 23 percent less than the average price they receive for the sale of a drug to retail pharmacies. Drug companies also must provide another discount if a drug’s price rises faster than the rate of inflation”.

“Supporters note that Medicaid rebates, if applied to Part D, would save the federal government money. According to a 2011 study conducted by the Office of the Inspector General (OIG) for the U.S. Department of Health and Human Services, Medicaid rebates were three times greater than the
discounts negotiated by Part D for 100 brand name drugs. In 68 of these drugs, Medicaid rebates were twice as high as rebates granted by the drug companies for Medicare drugs. Similarly, a 2008 study of drug pricing information by the U.S. House Committee on Oversight and Government Reform found that Part D paid, on average, 30 percent more for drugs than Medicaid.

The Department of Veterans Affairs and the Department of Defense, which operates the military health plan known as TRICARE, also are permitted to negotiate for prescription drugs prices. In TRICARE, drug companies compete to be in the top tier of drugs with the lowest co-pays, resulting in significant savings for the government. Since 2009, TRICARE, which serves 9.6 million active duty military personnel, families and retirees, received $5.3 billion in negotiated discounts from pharmaceutical companies


The point is that while the drug price negotiations by the individual insurance companies providing benefits under the Medicare Part D program is better than nothing, it is not as effective as the British government, the Medicaid or VA programs in the US. This results in a substantial increase in the national debt annually, and higher unearned profits for the drug manufacturers. The US is paying higher drug prices. Why does Congress decide not to negotiate? Ask your Congressman or Senator!