



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

MEMORANDUM

To: Reporters and Editors
Re: Senate passage of Medicare legislation
Da: Thursday, June 26, 2003

Sen. Chuck Grassley, chairman of the Committee on Finance, made the following comment on Senate passage of the bipartisan *Prescription Drug and Medicare Improvement Act*, of which he was the lead architect.

“Both parties have promised a Medicare drug benefit for years. Tonight we took a key step toward delivery. I look forward to getting relief to the millions of people struggling to pay for prescription drugs. This means getting the private companies that want this business to work for it. It means giving older Americans more health care choices. If they like what they have, they can keep it. If they like a new option, they can take that. If they don’t like the new option, they can switch back to what they had before. That’s the way it works for federal employees. That’s the way it should work for people with Medicare. We’re not experimenting blindly. We’re having seniors follow a well-tested model.

“This bill is ten times better than what folks have now. They have almost no prescription drug coverage under Medicare. Now we’re catching up Medicare with the rest of the health care system. This is an exciting development.”

The Prescription Drug and Medicare Improvement Act

As chairman of the Senate Finance Committee, Sen. Chuck Grassley served as the lead architect of S. 1, *The Prescription Drug and Medicare Improvement Act*, steering the largest expansion and modernization of the 38-year old Medicare program through the narrowly divided Senate in June 2003.

Frequently Asked Questions

What are the highlights of the Senate bill?

The Senate bill creates a new, first-ever comprehensive prescription drug benefit; addresses rural health care equity; offers more choices for seniors to tailor their health insurance coverage to best suit their individual needs; and, cultivates better medical benefits, including disease management, preventive treatments and other services that welcome Medicare into the 21st century practice of medicine. After five years of talk about prescription drugs, this Congress is within reach to help

senior citizens afford life-enhancing medicines and strengthen Medicare for both consumers and taxpayers.

How would the prescription drug benefit work under the Senate bill?

For the first time since 1965, seniors will have the choice to sign-up for a standard prescription drug benefit under Medicare. It is a voluntary decision. People will not be forced to enroll in the new program. Moreover, seniors will have the opportunity to either stay with their traditional Medicare or choose to enroll in new Medicare Advantage to receive drug benefits. For a monthly premium estimated to be \$35, seniors would pay an annual \$275 deductible. Medicare would pay 50 percent of drug costs from \$276 to \$4,500 a year. The beneficiary would then pay all drug costs up to about \$5,800 a year. Medicare would pay 90 percent of drug costs exceeding \$5,800. The coverage is stable, predictable and secure. The drug benefit is budgeted to cost \$400 billion over 10 years. Low-income seniors would be eligible to receive extra help from the government, including subsidies to help pay for cancer treatments.

Does the prescription drug benefit have a rural-urban disparity?

As a lawmaker from Iowa, I'm particularly sensitive to how public policy will play out in non-urban areas of the country. Iowans for too long have been disadvantaged by an unfair reimbursement rate for Medicare services. The value of the Medicare stand-alone drug coverage does not vary based on where you live, or whether you've decided to join a private health plan. As chairman of the Senate Finance Committee, I insisted on equity for all Medicare beneficiaries.

What is Medicare Advantage?

In addition to adding a drug benefit in the traditional Medicare program, our bill goes to great lengths to make better benefits and more choices available to seniors. For the first time, preferred provider organizations would be able to fully participate in Medicare. Seniors would have the choice between staying with the traditional Medicare fee-for-service with a prescription drug benefit or switching to Medicare Advantage, which would offer new benefits and services through a PPO. Preferred Provider Organizations more closely resemble the type of plans accessed by federal employees and workers in the private sector. Nearly half of most working Americans receive health benefits through a PPO.

What are the benefits of enrolling in Medicare Advantage?

Remember, seniors make the voluntary decision to stay with their current Medicare or to enroll in Medicare Advantage. PPOs can offer a stronger, more enhanced benefit than traditional Medicare. Using an integrated, coordinated approach to healthcare, a PPO creates new opportunities for chronic disease management and access to innovative therapies. And everyone agrees we need more preventive care in Medicare as five percent of beneficiaries consume at least 50 percent of what's spent today.

PPOs also will have a unified deductible and protect against high out-of-pocket costs.

When would drug coverage begin?

The comprehensive drug benefit begins in 2006. However during this transition, starting January 1, 2004, seniors can take advantage of a Medicare-approved drug discount card with which they should be able to realize discounts of 10 to 25 percent. Low-income seniors would be eligible for a \$600 subsidy.

How does the Senate bill help get generic drugs to market more quickly?

The Senate adopted the *Drug Competition Act of 2003* as part of the overall Medicare bill. As a co-sponsor of the amendment I strongly supported this effort to strike a better balance in the prescription drug market.

A 1984 patent law known as Hatch-Waxman was designed to give drug companies the financial incentive to develop and research breakthrough medicines American consumers have grown to depend upon. However, some brand-name companies and generic drug manufacturers are taking advantage of the law and entering into secret agreements that delay a generic product from hitting the market. The Federal Trade Commission cited one deal where a brand-name drug maker paid a competitor \$90 million to delay a generic alternative for heart patients. In turn, the FTC says consumers were forced to pay \$100 million in higher prices because the cheaper drug was kept off the market for years. Such clandestine pay-offs disrupt the normal flow of competition and keep drug prices for consumers at a premium. Now pharmaceutical companies would be required to file disclosure documents with the Federal Trade Commission and the Justice Department upon entering such agreements. Plugging this legal loophole should help folks who rely on drugs to manage hypertension, heartburn, asthma or allergies to get faster access to affordable prescription medicines. Drug makers still have a hefty profit incentives built into the system to research and market their next blockbuster. As policy makers, we also need to help consumers get the best for less.

Does the Senate bill allow U.S.-made pharmaceuticals to be re-imported from Canada?

In another effort to help bring costs down, the Senate approved by a wide margin an amendment that would allow U.S. pharmacists and pharmaceutical distributors to import medicine that was manufactured in the United States from their Canadian counterparts. Similar to a proposal passed by the Senate last summer, reimported drugs would be restricted only from our northern neighbor. Canada has drug-handling rules similar to those in the United States. The re-importation amendment would establish the program for a one-year trial. The Health and Human Services Department would need to certify, drug by drug, whether reimportation would be safe and save money.

How does the Senate bill improve Medicare for Iowa and other rural states?

My legislation helps to end Medicare's historic discrimination against states that do more with less. Medicare's complex funding formula penalizes states such as Iowa for practicing high-quality, cost-effective medicine. The penalty is an unfair reimbursement rate. Health care providers and hospitals in 30 rural states get less money from Medicare for the same procedure performed in Florida or New York. That's not right. For starters, it creates a disincentive for physicians to practice medicine in these states. This affects young and old alike. Moreover, Iowans pay the same Medicare payroll tax as everybody else and get less in return. My proposal would mean Iowa gets \$391 million more in Medicare payments over the next 10 years.

What are the specifics of your lifeline to rural health care providers?

The Senate bill would:

- Eliminate the disparity between large urban hospitals and small urban and rural hospitals by equalizing the inpatient base payment starting in 2004. The current unfair formula costs Iowa \$14 million a year.
- Revise labor share of the wage index. Because of the inequity built into the wage index, Iowa

hospitals aren't able to offer the kinds of salaries and benefits to attract and retain health care workers.

- Improve and expand Critical Access Hospital program.
- Remove the penalty on those physicians who practice in rural states. The value of a physician's service is the same regardless where they live.
- Assist other critical rural health providers, including ambulance services and home health agencies.

A similar rural Medicare amendment didn't survive Senate-House negotiations on the tax bill in May. Why would it survive this time?

Opposition in May came from the House of Representatives. This time, the House rural health caucus is mobilized and building support in the House of Representatives for rural equity legislation. In addition, I have full backing by the White House. The president endorsed these provisions in a May 22, 2003, letter he wrote to me after my Medicare amendment was dropped from the Jobs and Growth package.

How do you address concerns regarding employers scaling back or dropping pharmaceutical coverage for their retired workers if Medicare adds a drug benefit?

We've worked hard to strike a balance that keeps existing sources of prescription drug coverage viable. Our goal is not to replace private dollars with public dollars. Iowans know I don't take lightly the tax burden already borne by hard-working families struggling to make ends meet. We've tried to help employers retain their retiree health plans by including several provisions which would encourage employers to retain their prescription drug programs for retirees. Employers can wrap their existing benefits around the Medicare benefit, meaning that Medicare pays first leaving employers responsible only for the remaining cost. Employers could also pay retirees' premiums under traditional Medicare instead of offering a separate plan. Finally, they may offer a Medicare Advantage plan of their own, which allows them to share the cost of care with the government.

Congress has tried for years to add a drug benefit to Medicare. What makes this year different from other years?

As some observed this spring, the stars are aligned in the Congress to finally get the job done. I attribute the breakthrough to a long-standing bipartisan coalition of members serving on the Finance Committee, heavy encouragement by the White House to act and resounding demand from the grassroots to add a drug benefit to Medicare. Medicare is outdated and unfit to serve the medical needs of an aging American society. At long last, public policy will soon meet the pent-up political demand for improvements to the public health program that serves 40 million elderly and disabled.

The Senate overwhelmingly passed the bill. So, what's next?

The House of Representatives is hammering out its own version on the other side of the Capitol. After passage by each chamber, the two bills must be reconciled by a House-Senate conference committee to iron out the differences. I will serve as the top negotiator for the Senate. From this position, I will fiercely protect the rural health care provisions included in the Senate bill. Each chamber must then approve the conference agreement before it's sent to the president for his signature. President Bush is eager to break the gridlock on this issue and sign the bill into law.