Insight

Medicare Part D, We Really Liked You…

GORDON GRAY | SEPTEMBER 22, 2015

Liberals are beginning to agree that the Affordable Care Act (ACA) could use a bit of improvement. Recently two plans were released from leading liberals that would change the law. A hallmark of both plans is to change the way Medicare drug prices are negotiated, moving it from the private sector's forces to a government-controlled negotiation. That change would cost seniors dearly.

It's The End of Part D As We Know It

Medicare Part D has been cited a number of times as a plan that "saves money and lives." One of the secrets to its success is how drug companies, plan sponsors, and pharmacies all negotiate drug prices that eventually find the lowest costs for consumers. This model has been so successful that ten years after its passing, costs were under half of the original estimates. Those enrolled give the program a 92 percent satisfaction rating. Again, this is a government program that actually comes in under budget. So why mess with success?

The new proposed plan to change the negotiation process, will amount to the government setting prices for drugs within Medicare Part D. The current competitive structure of Part D is tailored in a way to force plan sponsors to offer low-cost, high-quality plans and challenge others for market share. When the government sets the same price then the incentive for companies to price their plans better than rivals disappears, effectively taking competition out of the drug market for Part D. This incentive is what has driven costs down for seniors enrolled in Part D over the past 12 years. According to Tara O'Neill, AAF Health Care Policy Analyst, if these changes are made "…plan bids will increase for the next program year. This would mean increased costs for both seniors and the federal government…"

There is little novelty in this attempt to introduce artificial price controls on pharmaceuticals. Congressional Democrats and the administration have sought additional rebates and other measures in the past. Even though the idea of offering rebates for drugs sounds great, it will actually drive costs up in the end, masking the true effects of the program. One estimate of a previous proposal to introduce Medicaid-style rebates into Medicare Part D, for example, would have actually increased drug premiums paid by seniors by 20-40 percent.

These changes to a successful program will have little impact on the overall budget and, far worse, likely rise costs of prescription drugs for seniors.

Paying More with Single-Payer

The Wall Street Journal recently calculated that a liberal candidate's single-payer proposal would cost $15 trillion dollars over the next ten years.

The U.S. has already had some experience with single-payer health care in the form of the Veterans Health Administration (VHA) AAF research has shown that if the VHA provided all of its enrollees' care, it would cost

80 percent more than the private sector charges. From the study, “The VHA not only delivers worse access to care than its official figures indicate; it also spends more money providing that substandard care.”

In another example close to home, the state of Vermont tried to implement a single-payer system and was forced to abandon the idea after the costs mounted to double the size of the state’s entire budget in the first year alone.

With the national debt totaling over $18 trillion, nearly doubling it with a single-payer system doesn’t make sense.