HOW MEDICARE CURBS WILL AFFECT PRESCRIPTION DRUGS

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Aug. 19, 2011: Mounting deficits pose a real threat to the U.S. economy, and modernizing Medicare will be an important element in addressing this challenge. However, one of the key elements in Obamacare's Medicare modernization, the Independent Payment Advisory Board, serves as an egregious example of how careless assumptions and wishful thinking lead to harmful policy. The board will harm Medicare, and limit beneficiaries' access to lifesaving prescription drugs.

Obamacare created the board to target certain Medicare spending, and take it away from congressional oversight. The law gives unprecedented authority to a panel of 15 unelected officials who will face no judicial or administrative review. The law does give Congress a way to override the board's recommendations, but it raises the bar so high that legislative review is unlikely. This is how it works: The faster Medicare spending grows, the more the board has to cut.

In order to make the panel politically palatable, the administration used unrealistically low Medicare growth assumptions. Factoring in a few commonsense assumptions, Medicare spending in 2019 will be $75 billion higher than officially estimated.

In addition to making deeper-than-expected cuts, the board will have to make these cuts in a very narrow slice of Medicare spending. The board is barred from targeting hospital spending, and because Obamacare subjects Medicare Advantage to $145 billion in cuts this decade, it is highly unlikely that the board will be able to make further cuts there. That leaves prescription drugs. But because 8 out of 10 retail prescriptions are filled with generic drugs, which often cost less than $10 for a month's supply, the brunt of the cuts will fall on newer, innovative drugs.

This could dangerously reduce access for patients and stunt pharmaceutical innovation.

Here is how Obamacare fudges the Medicare growth figures:
First, Obamacare assumes dramatic cuts to Medicare physicians' fees cuts that are unlikely to materialize. Specifically, the administration assumes that Congress will allow physician reimbursements to revert to the formula encoded in the Balanced Budget Act of 1997 a move that would cause the fee schedule to drop 28 percent.

There is simply no way Congress will allow that to happen. Beginning in 2003, Congress has "fixed" Medicare to prevent reimbursement rates from reverting to this formula 13 times.

Second, Obamacare imposes various measurements of "value" and "productivity" on hospitals and other providers that are supposed to save more than $200 billion this decade. It is extremely naive to assume that all these cuts will take effect.

Hospitals enjoy strong political support - they operate in every congressional district and can mount strong lobbying efforts when their revenues are threatened. Because they also spend a lot locally, they enjoy an even stronger natural coalition of allies in

congressional districts than physicians do.

These are only two of the many false assumptions underlying the panel. It's clearly not the backstop the administration makes it out to be.

President Obama used to say that the government would save money by implementing the principle that if the "red pill" works just as well as the "blue pill," but costs half as much, patients should use the red pill.

That is a dangerously simplistic metaphor, and the board is built on equally simplistic assumptions.

In reality, it will limit Medicare beneficiaries' access to certain medical goods and services especially new prescription drugs. To preserve patient access to care, the board should be abolished, and a new solution crafted.