

Opening Statement
Chairman Dan Burton
Subcommittee on Human Rights and Wellness
Committee on Government Reform
Title: "A New Prescription Drug Benefit: Is It Good for Seniors?"
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Today's hearing is the fourth in an ongoing series of hearings this Subcommittee has held to examine the problem of the high prices charged for prescription drugs in the United States. American consumers pay a higher price on average for prescription drugs than citizens of any other country in the world. And the prices continue to go up and up. Drug costs have been the fastest growing component of healthcare expenditures for the past several years, climbing more than 17 percent annually from 1998 to 2001. This double-digit rate of growth is twice the rate of growth for healthcare costs in general, and approximately 5 times the growth rate of inflation. Thanks to this astronomical growth in prices, we now have a situation in this country where more than 1 in 5 American adults are unable to take their drugs as prescribed because they simply cannot afford to buy them.

I do not dispute that the prescription drug industry has discovered some truly remarkable and life-saving drugs. What I cannot understand though, is why an industry purportedly in the business of improving people's health and quality of life would price their products so high that people simply cannot afford to buy them. The fact of the matter is that drugs, even miracle cures, which are priced so high that they are unaffordable in actuality save no lives. It's just that simple.

One solution to this problem, currently being advanced through Congress, is to add a prescription drug benefit to the Medicare program. In essence, this approach would shift the financial pain from the individual consumer onto the backs of all American taxpayers. That means you and me.

At the Subcommittee's last hearing on this subject, just prior to the vote in the House of Representatives on adding a prescription drug benefit to the Medicare program, I cautioned my colleagues that by voting for the bill we would be creating the conditions for an unprecedented budget disaster if we did not include some mechanism to restrain the high price of prescription drugs in any new Medicare prescription drug program. I believe the bill voted on by the House failed to do that - and as a result, I voted against it.

"The Medicare Prescription Drug Modernization Act" (H.R.1) passed by the House of Representatives on June 27th represents the single largest expansion of Medicare since its inception in 1965 and the bill is estimated to cost \$380 Billion over the next 10 years.

However, the history of Medicare has always been one of financial chaos, with the actual costs always far exceeding the projected costs. When the program was first launched in 1967 at a cost of \$3.4 Billion, it was estimated that by 1992 it would only require Federal funding of up to \$15 Billion annually. In reality, Medicare expenditures reached nearly \$90 Billion for Fiscal Year 1992, almost six-times as much money as was originally predicted. Just ten years later, according to the Heritage Foundation, those costs have ballooned to an astounding \$267 Billion each year. And the figures for FY 2003 will surely be even higher still, with estimates ranging in the \$299 Billion range.

The financial picture gets even bleaker in the years beyond 2013. A research team with the Private Enterprise Research Center at Texas A&M University recently concluded that a prescription drug benefit with an annual growth rate of 12 percent would create an unfunded liability of \$7.5 Trillion over the life of the Medicare program. That figure represents almost TWICE the currently held public debt in the U.S. Unfortunately, drug costs are already increasing faster than a 12 percent annual growth rate. As I mentioned earlier, prescription drug costs have been the fastest growing component of healthcare expenditures for the last several years, climbing more than 17 percent annually from 1998 to 2001, not a mere 12 percent.

The numbers do not lie -- without significant reform and restructuring of the Medicare program and some way to responsibly restrain the amount of money spent by the government to buy prescription drugs, there are only two possible results -- huge tax increases or massive new budget deficits.

Reform could be as simple as allowing various Federal agencies to compare notes on how much they spend for prescription drugs. In testimony before the House Budget Committee, Dara Carrigan, Acting Principal Deputy Inspector General of the Health and Human Services Department noted “...that in 2000 Medicare payments for 24 leading drugs were \$887 Million HIGHER than actual wholesale prices available to physicians and \$1.9 Billion higher than prices available through the Federal Supply Schedule used by the Veterans Affairs Department.” We could have saved the American people \$1.9 Billion if officials with Medicare had simply compared drug prices with officials at the Veterans Affairs Department. That is outrageous and unacceptable.

Another possible way to restrain Medicare spending on prescription drugs is to open up the prescription drug market to competition through a mechanism known as parallel trade or re-importation. The Subcommittee has heard testimony in the past from several witnesses regarding the increasing number of Americans turning to Canada for low-cost prescription drugs. Re-importation was one of the most contentious issues discussed by the House of Representatives during the recent Medicare debate, and the House Leadership has promised to hold a stand-alone vote on re-importation legislation prior to the August recess.

The U.S. Food and Drug Administration estimates that nearly 1 Million American consumers already purchase between \$500 Million and \$1 Billion dollars worth of prescription drugs from Canadian pharmacies annually. The reason they do so is simple:

the price for a prescription drug in Canada can be a half or one quarter or even one-sixth of the price charged for that exact same drug that is sold here in the United States.

The debate over re-importation has been raging being played out in the media and through intense Member-to-Member discussions for the last several weeks. At times it has been heated, and on other occasions it has bordered on destructive and personal. I personally support re-importation. I believe that a system can be created that utilizes technology already available to produce tamper-proof packaging and computer tracking to allow for the safe importation of FDA-approved drugs. In fact, many of the drugs on store shelves today are made in FDA-approved facilities in other countries. The drugs are then imported into this country and packaged for final sale. If we can create a system where the drug companies can safely import drugs from manufacturing plants overseas, why is it so unthinkable that we could create a similar system to allow wholesalers, pharmacists and individuals to safely import drugs?

We will hear briefly this afternoon from Representatives Gil Gutknecht (R-MN) and Rahm Emanuel (D-IL), two of the principle sponsors of the “Pharmaceutical Market Access Act” (H.R. 2427), the bill most likely to be the vehicle for a House vote on re-importation next week. I appreciate both gentlemen taking some time out of their busy schedules to be here with us this afternoon to respond to some of the questions and concerns surrounding H.R. 2427.

Responsible Medicare reform must also include sound financial planning. We owe it to tomorrow’s seniors as well as today’s to give them a Medicare prescription drug benefit that is both responsive to their needs and fiscally responsible. We must do something about the high cost of prescription drugs, and not simply pass the financial burden on to our children and grandchildren. The Subcommittee will also hear testimony this afternoon from experts with the Heritage Foundation and American Enterprise Institute about the projected long-term financial costs of adding a prescription drug component to the Medicare program. I thank both gentleman for being here today.

Finally, it does us no good to have a fiscally-responsible Medicare prescription drug program if it does not benefit the people it was intended to help. If seniors end up paying more for their prescription drugs under Medicare than they would pay on their own or through an employer-sponsored health plan, then we have failed the American people.

We will hear today from witnesses with the Alliance for Retired Americans, the Consumers Union, and the Washington Business Health Group about the potential impact to retirees and the business community should a Medicare Prescription drug benefit be enacted.

If we are to avoid making prescription drug coverage the Trojan Horse that destroys Medicare, we must learn from the mistakes of our past. In 1988, reacting to what it saw as an overwhelming public demand for increased health-care protections, Congress passed sweeping legislation expanding catastrophic healthcare coverage for seniors. However, when the public realized that the new protections came at a significant price, Congress and the White House felt its wrath. House Ways and Means Chairman Dan

Rostenkowski, Illinois Democrat, was actually accosted by more than 50 angry senior citizens on the streets of Chicago, who blocked and violently shook his automobile. In a dramatic and unusually speedy turnaround, Congress subsequently repealed that legislation within a year.

Before we find ourselves in a similar situation again, I believe Congress needs to take a step back and look at the bigger picture. It is my sincere hope that in the next phase, the joint House-Senate conference will be able to produce a far better bill which protects our Nation's financial stability, provides a prescription drug benefit for the needy, and finally opens up the prescription drug market fully and completely. We owe it to our children and grandchildren to leave behind a legacy of sound financial planning that includes responsible healthcare coverage.