

policy points

Medicare's Drug Deal Congress seems determined that Medicare should cover at least some prescription drugs. The details of the coverage and how it is to be administered are sticking points. Then there's the biggest problem: how to pay for it.

BY JEFF ATKINSON



Republicans and Democrats in Congress agree that prescription

drugs should be covered under Medicare. They disagree, however, on how and how much coverage should be provided. Even members of each party are not uniform in their beliefs. Consequently, more than 25 bills have been introduced in Congress to deal with the issue.

Key issues that still need to be resolved include: the scope of coverage; the amount Medicare beneficiaries will have to pay; use of

formularies; the power of the government to set prices; and determination of who will strike deals with the drug companies—purchasing entities in the private sector or the government.

Current coverage

Under current law, Medicare (Part A) pays for drugs while a patient is hospitalized. It also

will pay for a limited supply of drugs for use outside the hospital if the drugs are medically necessary for the period of time needed for the patient to acquire a continuing supply.

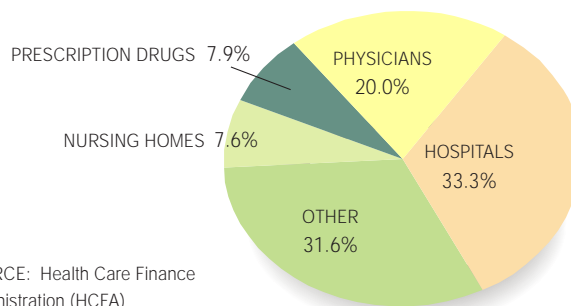
When a patient is not hospitalized, however, Medicare does not cover prescription drugs and biologicals. (There are some narrow exceptions to that rule: Medicare will

pay for oral anti-cancer drugs, immunosuppressive drugs for transplant patients, and antigens.)

Thirty-nine million people are covered by Medicare. At least half of those recipients already have insurance coverage for prescription drugs, some through plans provided by current or former employers, others through HMOs. According to a study by Dr. Earl Steinberg, published in *Health Affairs*, the average person over age 65 spends \$1,100 per year on drugs, but 18 percent do not buy any prescription drugs.

For those who have insurance coverage or comfortable financial means, payment for prescription

Distribution of National Health-Care Expenditures (1998)



SOURCE: Health Care Finance Administration (HCFA)

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drugs usually is not a major burden. For others, however, the cost of drugs imposes a significant hardship. Members of Congress hear regularly from constituents who have had to choose between buying food and buying drugs.

Coverage for the poor

There seems to be agreement on Capitol Hill that the government should pay all or most of the cost of drugs for Medicare recipients who are poor. Several bills before Congress would require the government to pay for drugs for persons over 65 whose income is at the poverty level or up to approximately 200 percent of the poverty level. In 1999, the average poverty threshold in the U.S. for a single person over age 65 was \$7,991. For two persons over 65 living together, the poverty threshold was \$10,080.

A more controversial issue is how to price drug coverage for persons who are not at or near the poverty level. Some would like a sliding scale, figuring that people who are more well off should pay for their own coverage. Others believe the Medicare system should be uniform—as it is now—and all persons should be eligible for the same benefits at the same rates.

The American Association of Retired Persons (AARP) supports the latter view. In testimony before the House Ways and Means Subcommittee on Health, Beatrice Braun, a member of AARP's Board of Directors and a retired physician, said, "Medicare should continue to be available to all older and disabled Americans regardless of their health status or income. . . . Denying Medicare coverage to individuals based on income threatens this principle."

Cost of the program

The cost of drug coverage for the gov-

ernment and for individuals will depend on several parameters. In addition to the issue of whether all persons over 65 would be covered, other issues include:

- **Cap on coverage.** Should the maximum benefit per year stop at a certain level (such as \$1,000 or \$2,500 per person)?
- **Stop-loss coverage.** Conversely, should the program protect recipients from very high drug costs by covering all or most of the cost of drugs that exceed a certain amount per year (such as \$3,000)?
- **Deductibles.** How much should the recipients have to pay before the insurance plans pay (such as \$100, \$500, or nothing)?
- **Copayments.** Each time a recipient fills a prescription, how much should the recipient have to pay (for example, \$5, \$10, or half the cost)?

President Clinton has proposed a program that would begin with maximum coverage of \$1,000 per person per year in 2003 and raise that amount to \$2,500 per year by 2009. He also would allocate funds to cover persons with low income who have extraordinarily high drug costs. President Clinton estimated his program would cost \$118 billion over ten years. The Congressional Budget Office said the cost would exceed \$168 billion over the same time period.

Prescription drug sales in the United States now total approximately \$125 billion per year. Health-care expenditures in the U.S. reached \$1.09 trillion in 1997, and prescription drugs represent 7.9 percent of that amount. (See chart on page 15.) The federal Health Care Finance Administration (HCFA) projects that prescription drugs will account for 9.6 percent of health-care dollars by 2003.

Concerns of drug companies

The two issues closest to the heart of the drug manufacturers are: With whom will drug manufacturers have to deal and will the government be setting prices? The drug industry strongly opposes the government setting prices and would much rather deal with a variety of private entities that would purchase drugs on behalf of the recipients.

Depending on one's viewpoint, the drug manufacturers' position can be described as "divide and conquer" or "promoting marketplace efficiency" (or both). The drug industry argues that setting prices leads to economic inefficiencies and that reduction in the ability to earn profits would reduce the incentive to develop new drugs. When new drugs come on line, they generally promote quality of life and help hold down other health-care costs, particularly hospitalization and nursing home care.

In 1999 in the United States, the pharmaceutical manufacturers which were members of the Pharmaceutical Research and Manufacturers of America (PRMA), based in Washington, D.C., (and represented about two-thirds of the industry) spent \$24 billion on research, which was the equivalent of 20 percent of sales revenues.

PRMA notes that although there may be lower drug prices in Canada and other countries in which the government sets prices and determines formularies, residents of those countries also have less access to drugs and longer waits for drugs.

A broader approach

Of the many bills before Congress that would provide coverage for prescription drugs, the bill with the most promise of passage is the Medicare Preservation and Improvement Act (S. 1895) introduced by Sen. John Breaux

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(D. La.). This act, which is generally favored by the pharmaceutical industry, would utilize private entities rather than a government agency to provide outpatient prescription drugs.

The act would provide up to \$800 of basic drug benefits for each Medicare recipient beginning in 2003. It also would provide Medicare recipients with an option of stop-loss coverage if an individual's out-of-pocket drug expenses exceeded \$2,000 in one year. The amount of basic coverage and stop-loss coverage would be adjusted each year for inflation.

The act also authorizes the establishment of a seven-member Medicare Board appointed by the President and approved by the Senate. The Board would make recommendations regarding the amounts that beneficiaries would pay for drug benefits and also would oversee other aspects of the Medicare system, including payments to Medicare health plans in different geographic areas.

In addition, the act would reorganize parts of HCFA in order to provide tighter coordination of programs related to Medicare, Medicaid, children's health, support for graduate medical education, and support of hospitals that serve a disproportionate number of low income patients.

AMA says "Wait and see"

The American Medical Association (AMA) is taking a wait-and-see approach to specific proposals regarding coverage of prescription drugs. The AMA House of Delegates passed a resolution stating that the association "advocates the Medicare coverage of pharmaceuticals be addressed in the broader context of transforming Medicare into a fiscally solvent program."

If Congress enacts a program for

Prescription drugs in the United States (1999)

- Sales of prescription drugs in the U.S. **\$125 billion**
- Sales of over-the-counter drugs in the U.S. **\$19.3 billion**
- Research and development by U.S. drug manufacturers: (this amount is 20% of sales) * **\$24 billion**
- Proportion of health-care dollars spent on prescription drugs (1998 figure) **\$7.9 billion**

Additional fact: Persons over 65 make up 12 percent of the U.S. population, but utilize 33 percent of the prescription drugs.

* This figure is based on research and development expenses of members of the Pharmaceutical Research and Manufacturers of America, Washington, D.C., an organization that represents approximately two-thirds of U.S. Drug manufacturers. SOURCES: Pharmaceutical Research and Manufacturers of America, Health Care Finance Administration (HCFA), and ACNielsen

coverage of prescription drugs, physicians can worry less about whether low-income Medicare patients can afford the drugs the physicians prescribe. The degree to which physicians will be burdened by new paperwork or limited in what they can prescribe by formularies will depend on the details of the final act and regulations.

Funding the plan

Many politicians hope that coverage for outpatient prescriptions can be funded from permanent budget surpluses of the federal government. That way, taxpayers would not feel additional pain, and other government programs would not have to be cut. Continued growth of the U.S. economy, however, along with a steady stream of surpluses, is not a realistic assumption. Drains on Medicare funds will increase, not only from potential coverage of prescription drugs, but also from the increasing number of Medicare enrollees. A realistic long-term solution to the impending shortfalls is likely to require an increase in the Medicare payroll tax or the federal income tax.

Pharmaceuticals are a vital part of modern medicine, and payment for pharmaceuticals should be a part of any comprehensive health-reform plan. The

challenge, as in most areas of health-care reform, is to strike a balance between providing needed coverage with incentives for cost containment that do not seriously undermine the quality of care. The value judgments that will be made when determining the scope of coverage for prescription drugs should be consistent with the value judgments regarding other services for which Medicare will pay. ■

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