

BRIEF ANALYSIS

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A Prescription for Medicare Disaster

Suppose you're just turning 65 and you want to make sure that you have prescription drug coverage in addition to Medicare. You have four possibilities:

- Your former employer may provide a supplemental policy that includes prescription drugs.
- You can buy one of the standardized Medigap policies that include prescription drugs.
- You can enroll in a Medicare HMO that includes prescription drug coverage.
- If you are too poor to buy a supplemental policy, you can get drug coverage through Medicaid, the federal-state health insurance program for low-income people.

The fact that all seniors have at least one of these choices when they enroll in Medicare hasn't stopped President Clinton and several members of Congress from calling for a new entitlement to prescription drugs — even as the president has proposed setting aside 15 percent of the budget surplus in an effort to slightly delay Medicare's imminent financial collapse.

Seniors and Prescription Drugs.

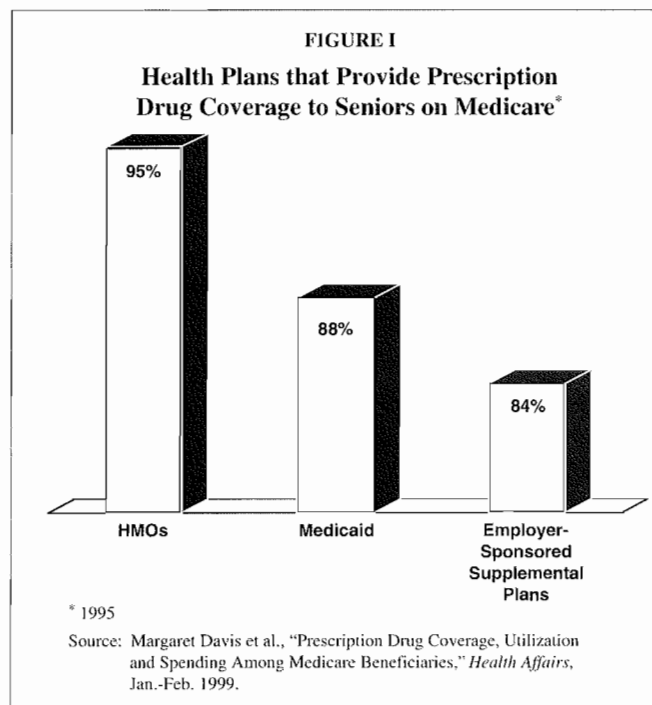
Congress rejected an outpatient prescription drug benefit when Medicare was created in 1965 because proponents wanted to keep the cost of the program low in order to increase its chances of passing, and only a few expensive drugs were available.

Today, the situation is quite different. According to a recent study in *Health Affairs*, national spending on drugs increased 51 percent between 1990 and 1995, reflecting the important role prescription drugs now play in health care. And the elderly are disproportionately affected. The study estimated that in 1995, 86 percent of

seniors used at least one prescription, and the average senior consumed 18.5 prescriptions.

However, 65 percent of seniors had prescription drug coverage to help them with the costs. As Figure I shows, in 1995:

- 95 percent of Medicare HMOs provided their enrollees with a prescription drug benefit.
- 84 percent of seniors with employer-sponsored supplemental insurance had drug coverage.
- And 88 percent of low-income seniors who received Medicaid coverage in addition to Medicare (i.e., dual eligibles) had prescription drug coverage. (12 percent did not because of differing state policies on Medicaid coverage.)



Do We Need a Prescription Drug Entitlement? Do the remaining 35 percent of seniors who don't have prescription drug coverage warrant a new federal entitlement that is estimated to cost between \$20 billion and \$40 billion a year?

Average annual drug expenditures for all seniors was only \$637 in 1997 — or about \$53 a month, according to the Bureau of Labor Statistics' Consumer Expenditure Survey. That works out to about 3 percent of the average senior's total spending in 1997 (\$24,413), not that

much considering:

- Seniors spent \$696 on entertainment such as admission fees, television and sound equipment.
- They spent almost twice as much (\$1,193) eating out.
- They spent \$353 on alcohol and tobacco products, about 55 percent of what they spent on prescription drugs. (See Figure II.)

Although paying for prescription drugs may be difficult for some seniors with fixed incomes — especially if they have higher-than-average drug costs — the poorest

can turn to Medicaid to help pay for coverage. In addition, at least 11 states have special programs to provide supplemental prescription drug coverage, and other states are considering similar programs, funded by the tobacco settlement money.

Creating a Moral Hazard. As health policy analysts recognize, covering any medical procedure or product creates a moral hazard: the more people are insulated from the cost, the more they use.

Not surprisingly, those with drug coverage will, on the average, spend more. According to the *Health Affairs* study, those with drug coverage spent an average of \$691 in 1995, while those without coverage spent \$432. However, while some may have fared better, there is no evidence that seniors who did have coverage necessarily had better health outcomes than those who did not.

Unlimited drug coverage, as included in the Massachusetts-based Harvard Pilgrim Health Care Plan's HMO, can run up costs even more than standard coverage. According to a recent article in the *New England Journal of Medicine*:

- The average outpatient drug expenditure for seniors enrolled in the Harvard Pilgrim HMO was \$1,153 per enrollee in 1998.
- And patients in the top 10 percent of drug use had an average annual expenditure of \$3,953.

Why Seniors Are Losing Their Drug Coverage. Congress passed Medicare+Choice in 1997 to give seniors several new health care options. Medicare enrollees could stay in traditional Medicare, but they could also join an HMO or a PPO, get a traditional fee-for-service policy or sign up for a Medicare Medical Savings Account. The idea was to let private-sector health insurers compete for Medicare dollars by offer-

ing seniors more comprehensive health care packages, including prescription drugs.

Initially, private-sector health plans argued that they would provide more comprehensive coverage than Medicare for less money than the government was spending per person on Medicare. But there is a limit to how much a health plan can reduce its costs without reducing its level of care.

Last year the Health Care Financing Administration (HCFA), the federal agency that manages Medicare and Medicaid, decided to cut back on reimbursement rates. Some managed care plans would get only a 2 percent increase in 1999, even though health care costs have

been rising about 7 percent. As a result, many of the largest HMOs announced plans to cut benefits or drop out of the program, leaving some 500,000 seniors, many with drug coverage, scrambling to find a Medicare HMO that would cover them. Some had to switch back to traditional Medicare. But since Medicare beneficiaries are guaranteed enrollment in any supplemental policy only for the first six months after they reach age 65, they may have been unable to get a policy offering prescription drug coverage.

Conclusion. Most seniors who do not have

prescription drug coverage have chosen not to take it. Many were healthy when they retired and chose to spend their money on other things. Others had coverage and voluntarily dropped it or were forced to lose it because of Clinton administration policies.

The solution to this problem is to increase private-sector involvement. It is the private sector that is providing seniors with prescription drug options. It's the Clinton administration that's taking the options away.

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