

# Access to Rx Medications in Medicare Act of 1999

## Fact Sheet

The greatest gap in Medicare coverage is the lack of a prescription drug benefit. The time has come to modernize Medicare's benefits by including coverage for outpatient prescription drugs.

### Coverage

- C When Medicare was enacted in 1965, outpatient prescription drug coverage was not a standard feature of private insurance policies. Today, however, virtually all employment-based policies provide prescription drug coverage.<sup>1</sup>
- C Approximately one-third of Medicare beneficiaries have absolutely no prescription drug coverage whatsoever. Coverage among the remaining beneficiaries is usually inadequate, unaffordable and uncertain. Approximately 12 percent receive limited coverage through individually purchased Medigap policies, which are extremely expensive and often difficult to obtain. About six percent of Medicare beneficiaries have limited drug coverage through Medicare HMOs, but many plans are cutting back or eliminating drug coverage. Only about one-third of beneficiaries have reasonably comprehensive coverage, through an employment-based retirement plan or through Medicaid -- and the proportion of employment-based coverage is declining.<sup>2</sup>

### Spending and utilization

- C Purchase of prescription drugs accounts for the largest single source of out-of-pocket health costs for Medicare beneficiaries.<sup>3</sup>
- C About 85 percent of the elderly use at least one prescription medicine during the year. The average senior citizen takes more than four prescription drugs daily and fills an average of eighteen prescriptions a year. It is not uncommon for seniors to face prescription drug bills of at least \$100 a month.<sup>4</sup>
- C The elderly, who make up 12 percent of the population, are estimated to use one-third of all prescription drugs.<sup>5</sup>
- C Lack of Medicare coverage disproportionately increases the financial burden on women, rural residents, low-income beneficiaries and older beneficiaries.<sup>6</sup>
- C A 1993 study, before the most recent surge in drug costs, reported that one in eight senior citizens said they were forced to choose between buying food and buying medicine.<sup>7</sup>
- C Medicare beneficiaries without supplemental private coverage for prescription drugs spend twice as much on prescription drugs as their counterparts with private insurance.<sup>8</sup>

- C Increasingly, the miracle cures of the future will depend on pharmaceuticals developed through new breakthroughs in biology and biotechnology. These cures will generally save money overall, but the individual products will be expensive. The dollar volume of drug sales last year increased 16.6%, but most of the increase was due to greater use of costly new drugs, rather than price increases.<sup>9</sup>
- C Medicare beneficiaries pay exorbitant prices for the drugs they buy, because they generally do not have access to discount programs available to other buyers. A study of five commonly prescribed drugs found that Medicare beneficiaries paid twice as much as the drug companies' favored customers.<sup>10</sup>
- C Elderly persons without drug coverage are among the last purchasers who pay full price. According to a recent Standard and Poor's report on the pharmaceutical industry, "[d]rugmakers have historically raised prices to private customers to compensate for the discounts they grant to managed care consumers." Because Medicare beneficiaries are among the only private patients without additional coverage, they shoulder most of the burden generated by the industry's preference for cost-shifting.<sup>11</sup>

### **Adequate coverage and improved utilization are wise investments**

- C Assuring Medicare beneficiaries access to drugs in a well-managed program can produce immense savings for the Medicare program. Savings arise because seniors are able to afford to take the drugs that have been prescribed for their condition and because it is easier to encourage compliance with drug regimens and avoid complications or interactions because of inappropriate use. Improper use of prescription drugs costs Medicare more than \$20 billion annually, primarily through avoidable hospitalizations and admissions to skilled nursing facilities.<sup>12</sup>
- C One study found that hospitals costs for a preventable adverse drug event run nearly \$5,000 per episode.<sup>13</sup>
- C GAO reported in June 1996 that Medicaid's automated drug utilization review system reduced adverse drug events and saved more than \$30 million a year in just five states.

### **Research and development**

- C The pharmaceutical industry spent more than \$21 billion in research and development in 1998.<sup>14</sup> Ensuring access for the elderly through this proposal will provide a natural market for new and innovative therapies, thereby promoting additional investments in research and development.

## Endnotes

1. Department of Labor, *Employee Benefits in Small Private Establishments*.
2. The Lewin Group, "Current Knowledge of Third Party Outpatient Drug Coverage for Medicare Beneficiaries," November 9, 1998, cited in staff documents, Medicare Commission; Margaret Davis, et al., "Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries," *Health Affairs*, January-February, 1999.
3. AARP, "Out-of-Pocket Spending."
4. Stephen H. Long, "Prescription Drugs and the Elderly: Issues and Options," *Health Affairs*, Spring 1994.
5. AARP Public Policy Institute, "Overview: Lack of Coverage Burdens Many Medicare Beneficiaries," September 1998.
6. Jeanette Rogowski, PhD, et al, "The Financial Burden of Prescription Drug Use Among Elderly Persons," *The Gerontologist* 37:4 (August 1997).
7. *American Pharmacy*, October, 1992; HCFA Office of Strategic Planning, Data from the Current Beneficiary Survey, cited in staff documents, Medicare Commission; Department of Health and Human Services, unpublished data; Committee on Government Reform and Oversight, U.S. House of Representatives, Minority Staff Report, "Prescription Drug Pricing in the United States: Drug Companies Profit at the Expense of Older Americans," October 20, 1998.
8. Rogowski, *The Gerontologist* 37:4 (August 1997).
9. Elyse Tanoye, Wall Street Journal, November 16, 1998.
10. Committee on Government Reform and Oversight, "Prescription Drug Pricing."
11. Ibid.
12. Prescription Drugs and the Elderly: Many Still Receive Potentially Harmful Drugs Despite Recent Improvements (GAO/HEHS-95-152, July 24, 1995); 60 FR 44182 (August 24, 1995).
13. David W. Bates, Md, MSc, et al, "The Costs of Adverse Drug Events in Hospitalized Patients," *JAMA*, January 22/29, 1997.
14. Pharmaceutical Research and Manufacturers of America, "The Value of Pharmaceuticals," 1998.