Drugs and Money
Figuring out prescription drug coverage for seniors

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Photo: PhotoDisc
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Ask just about anyone, and you'll hear the same thing: It's important for seniors to have prescription drug coverage. But that's where the agreement ends. Ask how the coverage should be provided, how much the government should pay for, and how tightly such benefits should be controlled, and you'll get a hodgepodge of answers.
President Clinton's Medicare reform proposal is providing a focal point for the debate. But Democrats, Republicans, pharmacists, activists, senior citizen groups, drug manufacturers, and assorted others want to be sure that their ideas become part of the discussion that will shape national policy. "I believe there is a real chance that the election of 2000 will be a referendum on this issue," said Jeff Eagan, healthcare representative for the Congress Watch division of Public Citizen, a Washington, D.C.-based consumer advocacy group.

A problem for millions

Here's why everyone's paying attention to the issue: Of the nation's 39 million Medicare beneficiaries, 15.5 million have no prescription drug coverage. And although Medicare recipients are 12 percent of the population, they purchase a third of the drugs. Also take into account the fact that the healthcare industry, very much hospital-based when Medicare began in 1966, is shifting more and more to outpatient care, and you can see why the outpatient drug benefit is central to any debate on Medicare reform.

Clinton's proposal to add a prescription drug benefit is just part of the administration's plan to overhaul Medicare. Critics of the president's plan, particularly Republican lawmakers, argue that adding a benefit that could cost up to $168 billion over 10 years will only make the situation worse. Many analysts think the program will become insolvent in about 15 years.

HMOs pull out

The government has already been trying to bring down the cost of the Medicare program. Seniors have been allowed to use their Medicare benefits to pay for membership in HMOs, many of which offer drug benefits, a big draw for seniors. But just this month, the Health Care Financing Administration (HCFA) disclosed that Medicare HMOs will begin charging millions of Medicare beneficiaries higher co-payments for prescription drugs and will put caps on annual drug coverage. "The plans have made these changes grudgingly," said Susan Pisano, spokesperson for the American Association of Health Plans. "They did not have a choice, because they really were not being paid enough to cover their costs."
California will be particularly hard hit because about 40 percent of California Medicare recipients are enrolled in HMOs, compared to a national average of about 15 percent.

Just days after HCFA's announcement, PacifiCare, the nation's largest Medicare managed care company, declared its intention to increase its non-Medicare business by 47 percent, leading some to speculate that the company may eventually get out of the Medicare business altogether. Several HMOs have already discontinued their Medicare programs.

Drug companies under fire

These changes may add momentum to the president's plan, but not if the drug companies can help it. On the face of it, it seems logical that drug companies would be first in line to support the addition of prescription coverage. But instead, they fear that making drug coverage part of Medicare would mean heavy regulation. Lower reimbursements would mean lower revenues, pharmaceutical firms say, and that would mean less money for research and innovation.

Drug companies are right to worry that price control will be part of the reform debate. Consumer advocates maintain that no discussion about prescription drug coverage is meaningful without addressing the issue of spiraling drug prices. "For a prescription drug benefit to work, we have to take on the issue of drug prices," said Public Citizen's Eagan.

The drug manufacturing industry has been the most profitable U.S. industry for three decades, and U.S. drug prices are rising 2.4 times faster than the Consumer Price Index, according to a report from the Access and Affordability Monitoring Project at the Boston University School of Public Health. The report, presented to the Prescription Drug Task Force of the House of Representatives, also says that manufacturers charge more for the same pills in the United States than they do in other countries, that more revenue goes toward profit than toward research at the top 10 U.S. drug firms, and that 10 drug company CEOs received a total of $229 million in compensation in 1997 alone.

Expensive innovation


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For their part, drug companies say that while total expenditures for drugs rose 15.6 percent in 1998, actual drug prices went up only 3.2 percent, and increased use of medicines accounted for the other 12.5 percent. And "that CEO salary issue is a red herring," said Jeff Trewhitt, spokesperson for the Pharmaceutical Research and Manufacturers of America. "The fact is if you added up all the salaries and bonuses, it would equal the cost of R and D of only one or two new drugs."

The industry also points to the high cost of bringing a new drug to the marketplace. "In the course of 15 years, the industry has gone from $4 billion to $24 billion in research and development," said Trewhitt. "It takes an average of $500 million to research a new drug and, since 1985, the percent of sales going into R and D has risen from 10 percent to 21 percent." Decreases in pricing would be detrimental to future research and innovation, Trewhitt said.

Proposals aplenty

The president, in the meantime, appears firm in his resolve to add this benefit, and to do so this year. The administration's plan has been sent to Congress, said White House spokesperson Victoria Valentine, "and we hope the Finance Committee will start on it this fall."

While debating the Clinton proposal, legislators are also working diligently on their own plans for prescription benefits or Medicare reform.

Popular with Democrats is the Prescription Drug Fairness for Seniors Act (HR 664/S 731) carried by Sen. Edward Kennedy, D-Mass., and Rep. Tom Allen, D-Maine. The legislation would allow pharmacies that serve Medicare recipients to purchase prescription drugs at the low prices currently charged to "favored customers," such as HMOs and the Veterans Administration.

A study commissioned by Congress and released last year showed that Medicare paid from 15 percent to an astonishing 1,600 percent more than the VA for certain drugs. At last count, 126 congressional representatives and 12 senators, all Democrats, have signed on as co-sponsors of the bill.

Others working on the problem include Sens. Ron Wyden,
D-Ore., and Olympia Snowe, R-Maine, who have proposed a tobacco tax increase to subsidize drug benefits.

Sen. John B. Breaux, D-La., and Rep. Bill Thomas, R-Calif., are calling for sweeping reforms in which the government would simply pay a fixed amount to each beneficiary to purchase a public or private health plan. This proposal came out of work done by a 17-member Medicare reform commission, co-chaired by Breaux and Thomas. After working for a year, the commission disbanded in March, unable to formulate a proposal that was agreeable to at least 11 members, the number needed to approve a final report.

Some legislators support a scaled-down version of prescription benefits that would go only to the most needy. "New drug benefits should go to those who need them—roughly a third of retirees—not to the two-thirds who are already covered," said Sen. Phil Gramm, R-Texas. "President Clinton's answer to make the fix universal is a political answer to a medical question."

But the American Association of Retired Persons, a powerful lobbying group, does not support a plan that limits coverage to a particular population. "That breaks the social insurance contract," said Mila Becker, legislative representative. "Medicare is very successful because everybody pays in and everybody gets something. In addition, the data that says two-thirds of beneficiaries are covered is easily misunderstood. Much of that coverage is expensive, limited, and unreliable."

Support for the Clinton plan has come from a variety of sectors, among them the American Nurses Association. "We have been a long-time supporter of prescription drug benefits," said Reed Franklin, associate director of government affairs for the ANA. "If [the government] were putting together a health program now, they wouldn't dream of not including prescription drugs. This is an example of law and public policy not keeping up with health care. You cannot say you're providing comprehensive healthcare coverage and exclude prescription drugs."

The debate seems sure to continue, with facts and counter-facts flying. By the end of it all, many analysts think it's likely that some kind of prescription drug benefit will be legislated. But there's one problem with Medicare: the legislation won't be able to fix: 60 percent of Medicare

recipients report often "feeling confused" about what is going on in health care, according to a survey by the California Medicare Project in Oakland. Thirty-nine percent say they are "overwhelmed" and 26 percent know "none or little of what they need to know" about the Medicare program.