



AMERICAN ACADEMY *of* ACTUARIES

June 20, 2002

Dear Senator:

Congress is currently debating a range of proposals to expand prescription drug coverage for Medicare beneficiaries. The increasing cost of prescription drugs, high utilization by the elderly, and declining access to affordable coverage are key issues in the debate on how best to provide such a benefit.

In recent years, this issue has been a priority not only for Congress, but also for the American Academy of Actuaries' Health Practice Council. We have met with policy-makers, sponsored informational briefings, and published a number of papers analyzing these issues, with a particular focus on the actuarial implications of a new Medicare prescription drug benefit.

As the debate has unfolded, we have examined various aspects of benefit design, as well as the overall condition of the Medicare program, which faces increasing financial pressures. Adding any additional benefits, in particular a prescription drug benefit, without addressing the financing of the entire Medicare program would be unwise given the uncertainties for future funding of the current benefit structure. To keep the cost of a prescription drug benefit to a manageable level, beneficiary cost-sharing is crucial.

The potential for adverse selection is also a critical challenge for any voluntary Medicare prescription drug benefit, since seniors can more easily predict the level of their drug costs from year to year than their other health care expenditures. There is a concern that seniors with the poorest health, who may have the highest drug costs, would enroll in disproportionately higher numbers than healthy seniors. That outcome would drive up the premiums for the benefit. Many factors, including enrollment restrictions and level of government funding, will affect adverse selection's negative impact.

The following documents on Medicare and prescription drugs have been published by the Academy's Health Practice Council and are available on the Academy's website:

- *Providing Prescription Drug Coverage for Medicare Beneficiaries* (July 2000) – This monograph lists several critical issues that must be addressed when considering a prescription drug benefit and is available at <http://www.actuary.org/pdf/medicare/drugs.pdf>.
- *Providing Prescription Drugs to Seniors: A Patchwork of Coverage* (Spring 2001) – This issue brief outlines the programs currently available for seniors to obtain prescription drug coverage and is available at http://www.actuary.org/pdf/health/issue_drug_040601.pdf.
- *Statement Regarding 2002 Trustees Report* (April 2002) – This statement contains the Health Practice Council's comments on the 2002 Trustees Report and is available at http://www.actuary.org/pdf/medicare/trustees_april02.pdf.
- *Prescription Drugs for Seniors: What You Need to Know* (May 2002) – This briefing addressed various issues related to a Medicare prescription drug benefit including drug trends, premium and delivery system considerations, and risk issues. The slides from the briefing are available at http://www.actuary.org/briefings/drugs_0502.htm.
- To view all of our work on Medicare and prescription drug issues, please visit the "Medicare Issues" Web page at <http://www.actuary.org/medicare/index.htm>.

The Academy has not endorsed or opposed any of the specific legislative initiatives under consideration; rather, we seek to provide objective actuarial analysis of the issues. We appreciate your efforts to deal with these complex and important issues and hope you find our materials helpful as this debate continues.

If you or your staff have any questions, or if you would like copies of any of our publications, please feel free to contact me through the Academy's Federal Health Policy Analyst, Holly Kwiatkowski, at (202) 223-8196 or Kwiatkowski@actuary.org

Sincerely,

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Vice President, Health Practice Council