



AMERICAN ACADEMY *of* ACTUARIES

THE BOTTOM LINE ON PROVIDING PRESCRIPTION DRUGS TO SENIORS: A PATCHWORK OF COVERAGE

Prescription drug coverage for seniors is a predominant topic being debated at both the federal and state levels. Increasing costs of drugs, high utilization by the elderly, and declining access to reasonable and affordable coverage highlights the debate on what to do about providing prescription drug coverage for seniors.

The American Academy of Actuaries' prescription drug work group developed an issue brief outlining the programs available in the private sector that provide prescription drugs for seniors and further discussing issues related to prescription drug coverage for this population. This issue brief complements the monograph, "Providing Prescription Drug Coverage for Medicare Beneficiaries," which was released in July 2000 and is available on the Academy's website at www.actuary.org.

The prescription drug work group believes congress and the administration should study data on prescription drug coverage further before adding such a benefit to Medicare. The desire to move quickly to provide a Medicare prescription drug benefit should be considered against the financial impact it will have on the program, which faces urgent financial problems that will continue to accelerate if not addressed.

There are a number of possible alternatives to adding a prescription drug benefit to Medicare such as continuing or encouraging prescription drug coverage through existing mechanisms, or considering a rollout of a pilot program to assess the impact of plan designs, adverse selection and pricing on the overall costs of providing prescription drug benefits to Medicare beneficiaries.

Following are some of the key points examined in this issue brief:

- The current status of prescription drug coverage is a "patchwork" that is frequently determined by employment history, income, and geography. Seniors may be able to participate in one of the following six major types of programs: retiree medical benefits from prior employers, Medicaid, Medicare+Choice HMOs, individually purchased Medicare supplement policies, Veterans Administration or Department of Defense coverage or state drug subsidy programs.
- Major factors contributing to high drug trends are a shift in the proportion of prescription drug expenditures paid by consumers to private insurers, greater drug utilization, price increases for established drugs, and high prices for newly approved drugs.
- Prescription drug utilization is increasing due to the aging of the population, an increased number of providers prescribing drugs as an alternative to invasive procedures, and sales calls by pharmaceutical manufacturers to promote prescription drugs and stimulate demand.
- Compared to the rest of the population, seniors generally suffer from a much higher prevalence of chronic health conditions that are usually controlled by a long-term regimen of often expensive drugs. Individuals with high drug costs associated with chronic health conditions are able to predict their prescription drug costs with more certainty than others, which can result in severe adverse selection in any voluntary or optional prescription drug benefit program for seniors.

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