



AMERICAN ACADEMY *of* ACTUARIES

Statement of the American Academy of Actuaries

**Prescription Drug Coverage for Seniors
Hearings Before the House Committee on Commerce
Subcommittee on Health and Environment
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The American Academy of Actuaries appreciates the opportunity to comment on an important issue for seniors in this country - - the availability and affordability of coverage for prescription drugs. The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

The cost of prescription drugs is a major component of the overall health care expenses paid by Americans. According to the Health care Financing Administration, prescription drug costs accounted for 7.1 percent of the total national health care costs in 1997.¹ Prescription drug prices are rising faster than cost increases for consumer goods or for medical services. The consumer price index (CPI), which measures the cost of consumer goods and services such as food, housing, clothing and medical services, increased 2.3 percent from August, 1989 to August, 1999 while the CPI for medical services alone rose 3.4 percent.² In comparison, the CPI for prescription drugs and medical supplies increased 5.9 percent during the same period.³ Costs for prescription drugs are also increasing if measured on a per capita basis. Employers questioned in

¹ Health Care Financing Administration, Office of the Actuary, National Health Statistics Group.

² Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers, U.S. City Average (Not Seasonally Adjusted).

³ Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers, U.S. City Average (Not Seasonally Adjusted).

a recent poll by a benefits consulting firm indicated that prescription drug costs for retirees covered under employer health plans were expected to increase by 15.7 percent over the next year.⁴ Clearly the cost of prescription drugs can have a significant impact on seniors, many of whom are on fixed incomes.

Congress is considering a wide range of proposals to help seniors with prescription drug costs. In considering how to best address this issue, policymakers should keep the following factors in mind.

How Do Seniors Pay For Medical Care?

Almost 98 percent of the population age 65 years or older in this country are covered by Medicare.⁵ For those Medicare beneficiaries, 62.3 percent of their health care costs were paid by traditional Medicare, 15.2 percent came from out-of-pocket spending, 11.5 percent was paid by supplemental insurance, 4.8 percent was paid through managed care, 2.5 percent was paid by Medicaid and 3.7 percent was covered by other sources such as the Veterans Administration.⁶

Proposals to increase the availability and affordability of prescription drugs for seniors must be viewed in terms on their impact on these various sources of funding. For example, any expansion of Medicare coverage will ultimately impact the private health insurance market (Medicare Supplement insurance, long-term care insurance and employer health plans for retirees).

What Health Care Needs Do Seniors Have?

Seniors have their own specific health needs and patterns of utilization of medical services that are different from the general population. While it is helpful to look at data regarding the

⁴ Wall Street Journal, July 13, 1999

⁵ Medicare Payment Advisory Commission, *Report To The Congress - Selected Medicare Issues*, June 1999.

⁶ Medicare Payment Advisory Commission, *Report To The Congress - Selected Medicare Issues*, June 1999.

cost and usage of prescription drugs from other sources, such as information showing the cost of medical services provided in the employer group health insurance market, care should be taken when applying this data to seniors. It is important to consider data showing what types of prescription drugs are used by seniors, the cost of those drugs and the extent to which drug therapies may or may not help control related medical costs.

Who Benefits From Proposals To Extend Prescription Drug Coverage?

It should be expected that most seniors who lack prescription drug coverage through some source, such as a Medicare+Choice plan, Medicare supplement insurance or employer sponsored health plan, would opt for such a benefit if offered through either Medicare or an expansion of Medicaid. For a given population, people who do not have to spend their own money on services will have a tendency to use more of those services. Seniors will choose the drug coverage option that will provide them with the most “bang for the buck.”

How Will Plans Currently Offering Drug Coverage For Seniors React?

Undoubtedly some individual and employer sponsored plans will drop prescription drug benefit for those seniors who are able to obtain coverage through a government funded plan such as Medicare or Medicaid. If the drug benefit in those private plans was more generous than that offered by a government plan, the affected individuals will be worse off. This is also true if the level of the benefit subsidy for prescription drug coverage is lower in the government plan than the private coverage. To the extent that private plans drop prescription drug benefits for seniors, this represents cost shifting from premium payers to the general taxpayer.

Who Pays For Prescription Drug Coverage For Seniors?

If a new prescription drug benefit for seniors is offered through Medicare or an expansion of Medicaid, taxpayers will pick up a significant portion of the cost. Unlike funding for Social Security, which relies on employer and employee financing, general revenues provided by taxpayers have always been a significant part of Medicare and Medicaid financing. It should be

noted, for example, that when Part B of Medicare was originally enacted, it was intended that participants' premiums would pay 50 percent of the cost, and general revenues 50 percent. Those ratios are now 25 percent and 75 percent respectively.

What Is The Total Cost Of A Prescription Drug Benefit?

The ultimate cost for a prescription drug benefit is highly speculative in light of the many uncertainties about how individuals and health plans will react to the choices they must make. The resulting uncertainties concerning cost create a risk that should be born in mind. For example, the administration's estimate for the cost of its Medicare prescription drug benefit for the first ten years (2000-2009) is \$118 billion. The Congressional Budget Office estimate for the proposal is \$168 billion, which is not a small difference. One factor to consider is the extent that a government sponsored program would be able to negotiate price discounts with prescription drug manufacturers.

Conclusion

In summary, public policymakers evaluating proposals to provide prescription drug coverage for seniors, have the difficult task of deciding whether such proposals will result in the improvement of the health care outcomes of older Americans at an acceptable cost borne by the appropriate people. Key issues to consider are:

- Who ultimately benefits from such coverage?
- Is the benefit design optimal?
- Will existing plans drop coverage for the elderly?
- What is the total cost and who pays?

