

## MEDICARE BENEFICIARIES AND PRESCRIPTION DRUGS: COSTS AND COVERAGE

### Prescription Drug Costs Are Rising

- On average, total prescription drug spending in the U.S. grew by 13% per year between 1993 and 2000.<sup>1</sup> It is expected to grow by about 12% per year through 2011.<sup>2</sup>
- About one-fourth of the increase in total prescription drug spending between 1997 and 2000 was due to price increases, and another 28% was due to shifting from older, lower cost drugs to newer, higher cost drugs. The remainder was due to greater use of prescription drugs.<sup>3</sup>
- Between 1998 and 2000, prices for all prescription drugs rose at more than triple the rate of inflation. Brand-name drug prices rose nearly four times as fast as the rate of inflation.<sup>4</sup>

### Medicare Beneficiaries Have High Out-of-Pocket Drug Costs

- Medicare beneficiaries made up almost 15% of the population in 1999, but accounted for about 40% of total U.S. prescription drug spending. Nearly 90% of Medicare beneficiaries filled at least one prescription in 1999.<sup>5</sup>
- Together, aged and disabled Medicare beneficiaries are estimated to spend an average of \$860 out-of-pocket for prescription drugs in 2002, according to the Congressional Budget Office.<sup>6</sup> Medicare beneficiaries age 65 and older spend more each year out-of-pocket on prescription drugs, on average, than on physician care, vision services, and medical supplies combined.<sup>7</sup>

### Many Medicare Beneficiaries Lack Reliable and Meaningful Drug Coverage

- About 40% of Medicare beneficiaries lack prescription drug coverage at some point in the year; most of these beneficiaries lack coverage for the entire year.<sup>8</sup>
- Medicare beneficiaries with supplemental drug coverage are at risk of losing that coverage.
  - 24% of employers with 200 or more employees offered health coverage to their Medicare-age retirees in 2001, compared to 31% in 1997.<sup>9</sup>
  - 50% of Medicare beneficiaries nationwide have access to a Medicare+Choice plan with prescription drug coverage in 2002, compared to 65% in 1999.<sup>10</sup>
  - 51% of Medicare+Choice plans providing drug benefits only cover generic drugs in 2002, compared to 18% in 2001.<sup>11</sup> Yet Medicare beneficiaries may have a clinical need for a medication that is available only in brand-name form.
- Only 3 of the 10 types of standardized private Medigap policies offer prescription drug coverage. Those policies have high deductibles, high cost-sharing, and benefit caps. Average monthly premiums for Medigap policies with drug coverage for a 65-year-old male ranged from \$195 to \$255 in 2000.<sup>12</sup>

- Nearly 40% of Medicare beneficiaries with annual incomes below \$10,000 lacked prescription drug coverage in the fall of 1999.<sup>13</sup> In the fall of 1999, among Medicare beneficiaries with incomes below \$10,000 who did not have drug coverage through Medicaid, nearly 60% lacked prescription drug coverage.<sup>14</sup>
- In addition, about 44% of Medicare beneficiaries with incomes between \$10,000 and \$20,000, and about one-third of beneficiaries with incomes at or above \$20,000, lacked prescription drug coverage in 1999.<sup>15</sup>

### **Lack of Drug Coverage Threatens Access to Needed Medications**

- In 1998, Medicare beneficiaries who lacked drug coverage filled 31% fewer prescriptions than did beneficiaries with drug coverage, but spent an average of 40% more out-of-pocket on prescription drugs.<sup>16</sup>
- Beneficiaries with high blood pressure who lack drug coverage are less likely to fill prescriptions for blood pressure medication which, when used appropriately, reduces their risk of heart attack, heart failure, stroke, and kidney failure.<sup>17</sup>
- Lack of drug coverage among chronically ill lower income Medicare beneficiaries increases the risk of nursing home admission and hospitalization.<sup>18</sup>

### **Current State Programs Provide Some Help, But Do Not Meet the Needs of All Medicare Beneficiaries**

- In July 2001, only 19 states had pharmacy assistance programs that subsidized the cost of prescription drugs in operation. However, only 3% of Medicare beneficiaries nationwide were enrolled in such programs in 2001.<sup>19</sup>
- Most state pharmacy assistance programs have strict eligibility limits. Some exclude disabled Medicare beneficiaries who are under age 65. Others target only low-income beneficiaries, and do not help beneficiaries with moderate incomes who also need drug coverage.<sup>20</sup>

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<sup>1</sup> AARP Public Policy Institute analysis of Katherine Levit et al., "Inflation Spurs Health Spending in 2000," *Health Affairs* 21:1, January/February 2002, p. 173.

<sup>2</sup> Center for Medicare and Medicaid Services, Office of the Actuary, *Table 2: National Health Expenditure Amounts, and Average Annual Percent Change by Type of Expenditure: Selected Calendar Years 1980-2011*.

<http://www.cms.hhs.gov/statistics/nhe/projections-2001/t2.asp>

<sup>3</sup> David Kreling et al., *Prescription Drug Chartbook: An Update* (Menlo Park, CA: Kaiser Family Foundation), November 2001, p. 40.

<sup>4</sup> Retail prices for all prescription drugs rose at an average annual rate of 2.4 times the rate of inflation from 1998 to 2000, while retail prices for brand-name drugs rose at an average annual rate of 2.8 times the rate of inflation during the same period. AARP Public Policy Institute analysis of Kreling, et al., p. 28.

<sup>5</sup> Congressional Budget Office (CBO). *Projections of Medicare and Prescription Drug Spending*, Statement of Daniel L. Crippen, Director, before the Committee on Finance, United States Senate, March 7, 2002.

<http://www.cbo.gov/showdoc.cfm?index=3304&sequence=0>.

<sup>6</sup> Congressional Budget Office, personal communication. CBO assumes that total prescription drug spending by Medicare beneficiaries will average \$2,150 in 2002, and that an average of 40% of this is amount is spent out-of-pocket. Others have assumed a higher share of out-of-pocket drug spending by Medicare beneficiaries. See, for example, Henry J. Kaiser Family Foundation, *Medicare and Prescription Drugs: A Chartpack*, June 12, 2002. <http://www.kff.org/content/2002/6048/>.

<sup>7</sup> David Gross and Normandy Brangan, *Out-of-Pocket Spending on Health Care by Medicare Beneficiaries Age 65 and Older: 1999 Projections*. AARP Public Policy Institute publication IB#41. (Washington, DC: AARP), December 1999.

<sup>8</sup> Mary Laschober et al., "Trends in Medicare Supplemental Insurance and Prescription Drug Coverage, 1996-1999," *Health Affairs* (web exclusive, <http://130.94.25.113/readeragent.php?ID=/usr/local/apache/sites/healthaffairs.org/htdocs/Library/v21n2/s4.pdf>), Feb. 27, 2002, p. W136.

<sup>9</sup> AARP Public Policy Institute analysis of Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits: 2002 Annual Survey*, pp. 144, 147; Kaiser Family Foundation, Health Research & Educational Trust, and The Commonwealth Fund, *Erosion of Private Health Insurance Coverage for Retirees: Findings From the 2000 and 2001 Retiree Health and Prescription Drug Coverage Survey*, April 2002, p. 2.

<sup>10</sup> Center for Medicare and Medicaid Services, *M+C Changes in Access, Benefits, and Premiums, 2001-2002*, p. 10.

<sup>11</sup> Lori Achman and Marsha Gold, *Medicare+Choice: Beneficiaries Will Face Higher Cost-Sharing in 2002*. (New York: The Commonwealth Fund), March 2002, Table 3.

<sup>12</sup> AARP, *Beyond 50.02: A Report to the Nation on Trends in Health Security* (Washington, DC: AARP), pp. 52-53.

<sup>13</sup> Laschober et al.

<sup>14</sup> AARP Public Policy Institute analysis of Laschober et al.

<sup>15</sup> Laschober et al.

<sup>16</sup> AARP Public Policy Institute analysis of John A. Poisal and Lauren Murray, "Growing Differences Between Medicare Beneficiaries With and Without

Drug Coverage," *Health Affairs*, March/April 2001, pp. 74-85.

<sup>17</sup> Jan Blustein, "Drug Coverage and Drug Purchases by Medicare Beneficiaries with Hypertension," *Health Affairs* 19:2, March/April 2000, pp. 219-230.

<sup>18</sup> S.B. Soumerai et al., "Effects of Medicaid Drug Payment Limits on Admissions to Hospitals and Nursing Homes", *New England Journal of Medicine*, October 10, 1991, pp. 1072-1077; S.B. Soumerai et al., "Effects of Limiting Medicaid Drug-Reimbursement Benefits on the Use of Psychotropic Agents and Acute Mental Health Services by Patients With Schizophrenia," *New England Journal of Medicine*, September 8, 1994, pp. 650-655.

<sup>19</sup> AARP Public Policy Institute analysis of Kimberly Fox, et al., *State Pharmacy Assistance Programs: Approaches to Program Design*. The Commonwealth Fund, May 2002, Table 3 (p.13).

<sup>20</sup> Ibid.

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