



Medicare Prescription Drug Coverage

Drug benefits can help senior citizens stay healthy

The increasing cost of prescription drugs is a tremendous financial burden for many senior citizens, who comprise approximately 13% of the U.S. population but account for over a third of the nation's total drug expenditures. Between 2000 and 2003, total drug spending per Medicare beneficiary increased from an average of \$1,610 to \$2,322. Out-of-pocket drug spending per beneficiary rose from an average of \$644 to \$999, and is expected to reach \$1,454 by 2006. Because many seniors cannot afford these high drug costs, many choose to skip doses of medication, cut pills in half or fill fewer prescriptions.

Congress acted to help solve this problem by approving a Medicare prescription drug coverage benefit in 2003. The President signed the benefit into law in December 2003 and it goes into full effect in January 2006. For a monthly premium of approximately \$37, as well as a small co-payment for each prescription, most Medicare beneficiaries will have access to a "standard drug benefit," which will cover prescription drug costs up to \$2,250 per year. After that, Medicare won't cover prescription costs until the beneficiary's out-of-pocket expenses reach \$3,600. Low-income seniors will receive the drug benefit at a very reduced cost.

The American Public Health Association firmly believes that prescription drugs can be efficiently and effectively provided through the Medicare program, where proper management and appropriate cost-containment can be assured. However, the prescription drug benefit—as it now exists—does not require Medicare to negotiate with drug companies to lower the cost of drugs for seniors. A comparable drug benefit administered by the Department of Veterans Affairs negotiates with drug companies and achieves significant savings of up to a 50% reduction in costs to beneficiaries.

What is needed:

- **Require Medicare to negotiate with drug manufacturers to achieve savings for seniors and access to prescription medications.**

Why it is important:

- Prescription drugs are an important part of health care delivery. New drugs are bringing more effective, safer treatments for a variety of ailments. The use of prescription drugs can reduce or eliminate costly and risky inpatient procedures and, for some conditions, introduce effective treatment for the first time. Increasingly, the right to good health care becomes inextricably linked with access to prescription drugs.
- A frequent response by insurers or employers to rising prescription drug expenditures has been to reduce utilization, commonly by increasing co-payment requirements, or to reduce or withdraw coverage.
- The drug price burden is distributed unfairly among Americans. For those who have insurance coverage that is provided by a large purchaser of drugs, there is the benefit of markedly lower prices.
- Brand-name drug manufacturers are pricing their products in this country at between a third and a half higher on average than they are selling them for in other developed countries. The governments of those countries protect their people against high drug prices by negotiating the prices at which the drugs will be imported.
- The estimated price tag for the prescription drug benefit has almost doubled since it was first passed. When Congress passed Medicare prescription drug coverage in 2003, the President said the benefit would cost about \$400 billion over 10 years. Medicare's chief actuary revealed that the White House estimates were closer to \$534 billion, and included fiscal years 2004 and 2005, when the drug benefit wasn't offered. In early 2005, the administration released a new forecasted cost of \$724 billion and the Congressional Budget Office estimated the cost closer to \$795 billion.