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Medicare Outpatient Prescription Drug Benefit Fact Sheet

(This “Fact Sheet” is based upon statistics and summaries researched and made available through the Bilateral Commission on the Future of Medicare, the Health Care Financing Administration, and the Agency for Health Care Policy and Research. The numbers are from the latest government fiscal years that have been publicly reported. The “findings” reflect the views of these government agencies and do not necessarily reflect the position or the policies of the National Data Corporation. This “Fact Sheet” is made available as a courtesy by health-politics.com to its customers and friends.)

The current Medicare benefit package does not include outpatient prescription drug coverage. The Bureau of Labor Statistics estimates that 80% of persons employed in medium and large firms have prescription drug coverage.

Prescription Drug Supplemental Coverage

In 1995, 65% of Medicare beneficiaries had prescription drug coverage through employer-sponsored retiree plans (43.7%), Medicare HMOs (10.0%), Medicaid (16.9%), Medigap (16.0%), and/or other programs. **(1)**

Eighty-four percent of beneficiaries with employer-sponsored supplemental insurance have drug coverage.

Ninety-five percent of Medicare HMO enrollees have prescription drug coverage. **(2)**

Sixty percent of Medicare HMOs have a maximum benefit on prescription drug coverage with lower copayments than Medigap plans and no deductibles. **(3)**

Twenty-nine percent of beneficiaries with individually purchased private Medigap plans had drug coverage from the Medigap plan. Three of the ten standardized Medigap plans offer prescription drug coverage with \$250 deductibles, 50% coinsurance, and maximum benefit payments of \$1,500 (\$3,000 under plan J).

At least eleven states have implemented special programs to provide drug coverage for low-income elderly or persons with disabilities. **(4)**

High-income beneficiaries (\$50,000+ incomes) are more likely than low-income beneficiaries (-\$10,000) to have prescription drug coverage, 71% versus 36% in 1995. **(5)**

Spending on Prescription Drugs Among the Elderly

The average drug expenditures per beneficiary in 1995 was \$600. Total average spending per person for those with drug insurance was 60% higher than for persons without coverage (\$691 versus \$432). The lowest average level of total spending per persons with insurance was for beneficiaries enrolled in Medicare risk HMOs (\$458). **(6)**

Out-of-pocket spending was lower for people with insurance (\$232 versus \$432 for people without coverage), but because the research has not included premium payments in the calculation, it is an inadequate comparison.

Medicaid paid the highest average drug insurance payment per person (\$577) while Medigap plans paid the lowest (\$112). **(7)**

The average Medicare beneficiary paid half of the cost of prescription drugs in 1995. By contrast, for the entire U.S. population, the national average share of prescription drug expenses paid out-of-pocket was 34 percent. Beneficiaries with drug coverage pay about 34% out-of-pocket.

According to AARP, beneficiaries averaged \$440 out-of-pocket for prescription drugs in 1997. **(8)**

Purchasing prescription drugs accounted for 11% of beneficiaries' out-of-pocket medical

expenses. **(9)**

New, expensive prescription drugs are likely to increase beneficiaries' out-of-pocket expenses, especially those beneficiaries with chronic conditions and severe disabilities.

Beneficiaries without coverage pay more for prescription drugs than most Americans because insurers negotiate discounts with pharmaceutical companies. **(10)**

Prescription drug expenditures are expected to continue growing at a relatively high rate due to increased investment in pharmaceutical research and development, growth in FDA new drug approvals, reduced FDA approval time, direct-to-consumer advertising, and bolstered marketing efforts. **(11)**

According to The Lewin Group's analysis of 1995 MCBS data, 19% of beneficiaries had no drug expenditures, 28% spent between \$1 and \$99, 35% of beneficiaries spent between \$100 and \$499, and 11% of beneficiaries spent between \$500 and \$999. Seven percent spent over \$1,000. Bear in mind that because this data is several years old and is not adjusted for possible under-reporting, it likely understates expenditures for many beneficiaries today. The Lewin Group notes that past studies of self-reported prescribed medication use have found substantial under-reporting between 23 and 34% of expenditures.

Prescription Drug Utilization

In 1995, 86% of Medicare beneficiaries used at least one prescription drug. **(12)**

Beneficiaries with drug coverage averaged 20.3 prescriptions per year, whereas those with no drug coverage averaged 15.3 prescriptions per year. **(13)**

Beneficiaries risk their health by not buying or rationing their prescribed medications because they cannot afford to buy the appropriate supply. **(14)**

Source

(1) Davis, Margaret, et al., "Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries," Health Affairs, January-February, 1999, p.23

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(2) Davis, p.231

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(3) Davis, p.241

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(4) Davis, p.233

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(5) “Current Knowledge of Third-Party Outpatient Drug Coverage for Medicare Beneficiaries,” The Lewin Group, November 9, 1998, p.8

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(6) Davis, p.238

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(7) The Lewin Group, p.11. The analysis did not include coverage provided by 11 state only Medicaid programs for low-income beneficiaries.

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(8) “FYI: Outpatient Prescription Drug Coverage Among Medicare Beneficiaries,” AARP.

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(9) OACT, based upon the 1995 Current Beneficiary Study. Out-of-pocket includes Part B, supplemental insurance and HMO premiums.

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(10) National Journal, October 31, 1998.

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(11) Smith, Sheila et al., “The Next Ten Years of Health Spending: What Does the Future Hold?,” Health Affairs, Vol. 17, No. 5, pp.135–136.

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(12) Davis, p.237

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(13) Davis, p.237

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(14) Stuart, Bruce and James Grana, "Ability to pay and the Decision to Medicate," Medical Care, Vol. 36, No. 2, pp.202–211.

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