



HEALTH SERVICES AGENCY
ADMINISTRATION

COUNTY OF SANTA CRUZ

HEALTH SERVICES AGENCY

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September 1, 2000

AGENDA: September 26, 2000

BOARD OF SUPERVISORS

County of Santa Cruz

701 Ocean Street

Santa Cruz, CA 95060

SUBJECT: MEDICARE PHARMACY BENEFIT FOR SENIORS

Dear Board Members:

At the June budget hearings, your Board requested a report back on the status of a Prescription Drug Benefit through Medicare and proposed federal strategies to address this escalating problem impacting seniors and persons with disabilities.

Background

Improving prescription drug coverage for Medicare beneficiaries promises to be the biggest health care issue of November's presidential election. The high cost of prescription drugs is impacting Santa Cruz County residents locally, as well as Medicare beneficiaries nationwide.

As your Board is aware, prescription drugs are very expensive with prices continuing to rise. Spending for prescription drugs has increased steadily over the past several years, rising a record 17.4% last year. National spending on drugs is growing at twice the rate of overall health care spending and over four times the rate of inflation. Major factors that contribute to this increase are: costs of new products, increased utilization, inflation, and profits. In addition, leading U.S. biotechnology firms are subject to stricter regulation and bear a disproportionate share of research and development costs compared to the rest of the world, resulting in a high cost to U.S. consumers. The burden of rising prices is especially difficult for Medicare beneficiaries, who represent 12 percent of the population but account for 33 percent of prescription drug spending.

Below is a chart of the growth in expenditures for prescription drugs, based on Health Care Financing Administration figures. 0226

Growth in Prescription Drug Expenditures

Year	Dollar Amount (\$ Billions)	Percent Increase over Prior Year
1993	\$50.6	8.7 %
1994	\$55.2	9.0 %
1995	\$61.1	10.6 %
1996	\$69.1	13.2%
1997	\$78.9	14.1 %
1998	\$90.0	14.0%
1999	\$105.7	17.4 %

Most Medicare beneficiaries don't have prescription drug coverage. Some seniors are fortunate to have coverage through their employers, but the majority of seniors do not. Some seniors are able to purchase "Medigap" policies that can include prescription drug coverage, and other Medicare Beneficiaries enroll in Medicare HMOs in order to obtain a prescription drug benefit. However, not all Medigap policies or Medicare HMO policies offer a prescription drug benefit. Secure Horizons, the only Medicare HMO available to residents of Santa Cruz County, does not provide a prescription drug benefit as part of its policy. Drugs can be even more costly if people don't have coverage; a Health and Human Services (HHS) study showed that seniors who do not have prescription drug coverage pay an average of twice as much out of pocket than those with coverage.

The rampant costs of prescription drugs coupled with the limited availability of insurance coverage means that seniors can go without needed prescriptions. HHS data indicate that as many as 1 in 10 Medicare beneficiaries without drug coverage did not fill a prescription last year because they could not afford it.

The problem is especially bad for seniors on fixed incomes. For those on SSI, with the high cost of housing and other necessities, prescription drugs can be unattainable. This problem has been echoed locally. For example, during interviews with Watsonville citizens, some citizens described personal instances of having to choose between obtaining prescription medications and purchasing food.

The State has taken action to aid Medicare beneficiaries without prescription drug coverage in the meantime. Due to a new California law that became effective February 1, Medicare recipients in California without prescription drug coverage can receive the same prices as Medi-Cal rates if they show their Medicare card at the pharmacy. This new law could save recipients approximately 40% in prescription drug costs, but many seniors do not know

about this benefit. The Health Services Agency is committed to educating local seniors about this service in partnership with other agencies.

Federal Proposals

While there is broad consensus on the need for a pharmacy benefit in Medicare, there remain major differences among policy makers on how best to achieve that goal. Essentially, the proposals that have been debated in congress represent two divergent strategies.

The Republican proposal favors partnering with private insurers to create programs providing pharmacy benefits to seniors, with subsidies for low-income seniors and seniors with extremely high costs. The cost of the proposed Republican plan would be approximately \$158 billion over 10 years. Proponents of the plan cite the voluntary nature of the program and insurance companies' ability to control costs through aggregate purchasing. Those opposed to the plan argue it would leave out many middle-class seniors and disabled beneficiaries who would be unable to afford monthly premiums.

The Democratic proposal would provide a benefit through Medicare for all seniors, regardless of income. Low-income seniors would have full coverage. Other seniors would pay a \$250 yearly deductible, after which the government would pay part of drug expenses up to \$4,000 and all expenses over that amount. The proposal would rely on Pharmacy Benefit Managers (PBMs) to control prescription costs. The cost of the proposed Democratic plan would be \$240 billion of the next 10 years. Proponents of the plan praise its inclusiveness. Opponents of the plan question the ability of PBMs to control pricing, and claim the plan will be too costly to sustain.

Skeptics of both plans worry that without price controls on the pharmacy industry, prices will soar if there is a guaranteed buyer through a government plan. Analysts also caution that if the government adopts a prescription plan, companies that currently provide a drug benefit to former employees may drop coverage, shifting a heavy burden from private industry to the federal government.

With the complexity of this problem and the magnitude of its policy implications, it is unlikely that it will be solved this year. Any meaningful solution will undoubtedly involve strong leadership and substantial investment from the Federal Government, along with innovative collaboration at the State and County levels. Among the many possible roles for local government, County leaders can help to shape policy by providing accurate input on the needs of our citizenry.

It is therefore, RECOMMENDED that your Board:

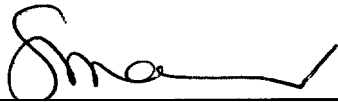
1. Accept and file this report on Medicare pharmacy benefits.
2. Direct the Health Services Agency to put efforts into educating local seniors on the state option for buying prescription drugs at Medi-Cal prices. In addition, HSA will continue to monitor and report on federal changes as they occur, and work with federal officials to promote the needs of our local seniors and others on Medicare.

Sincerely,



Rama Khalsa, Ph.D.
HSA Administrator

RECOMMENDED:



Susan A. Mauriello
County Administrative Officer

cc: CAO
Auditor- Controller
County Counsel

HSA Administration
HRA Administration
Long Term Care Integration Pilot Project