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SPICE: Not the Right Prescription

By Robert Goldberg

About 65 percent of the people on Medicare also have some kind of prescription drug coverage. Some obtain it from a former employer. Some buy private supplemental (Medigap) insurance. Others are covered through Medicaid. But about 12 million have no coverage. Sens. Olympia Snowe (R-Maine) and Ron Wyden (D-Ore.) have proposed a new federal program, the Seniors Prescription Insurance Coverage Equity (SPICE) Act, to subsidize prescription drugs for all Medicare beneficiaries.

Is SPICE the right prescription for this "drug problem"? Let's take a closer look.

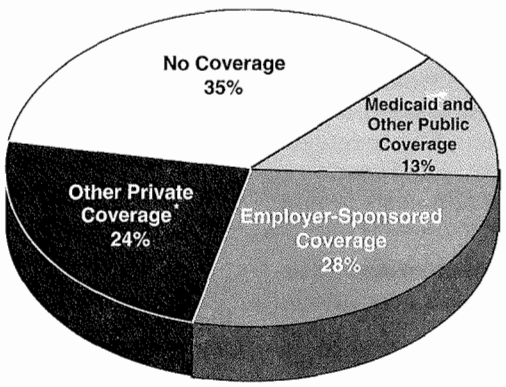
The Benefits of Drugs. Increases in the use of drug therapy and increased costs of prescription drugs have sparked political agitation about coverage for the elderly. But rather than looking at the growth in pharmaceutical spending as a problem, policymakers should regard it as a triumph of medical progress over disease and disability. In many cases prescription drugs are replacing more expensive and more invasive medical procedures. One of several prescription drug studies in the March/April 2000 issue of *Health Affairs* found that the two most important drivers of overall drug costs are new science and better medical practice. The result has been earlier detection, more treatment, treatment with newer drugs — and an increased volume of drug consumption. For example:

- Total spending for cholesterol-lowering drugs rose nearly 80 percent from 1994 to 1997.
- However, the average price per day of cholesterol-lowering drugs already on the market in 1994 *fell* over the three-year period and most new drugs cost the same as or less than those already on the market.
- Two-thirds of the increase in spending — 54 percentage points — came from a rise in volume as more people were treated with drug therapy.

The Benefits of SPICE. The Snowe-Wyden bill provides subsidies to Medicare beneficiaries who purchase private prescription drug coverage. The policies are called "stand-alone" because they would not necessarily be connected to any other insurance product. Moreover, every SPICE drug plan would have to meet standards set by a new agency, the SPICE board, including standards governing deductibles, copayments and premium levels.

Every senior's premium would be subsidized on a sliding scale, ranging from 100 percent for those with incomes below 150 percent of the federal poverty line (currently $12,525 for an individual and $16,875 for a couple) down to 25 percent for those with incomes more than 175 percent of the federal poverty line. The subsidies would be paid with revenues from new tobacco taxes and by using part of the anticipated budget surplus.

Medicare Drug Coverage



* Includes Medicare HMOs, individually purchased coverage and those who switched coverage during the year.

Source: Margaret Davis et al., "Prescription Drug Coverage, Utilization and Spending Among Medicare Beneficiaries," *Health Affairs*, January/February 1999.

Seniors would become eligible for SPICE when they become eligible for Medicare. Those entering the program later would pay an unspecified penalty, but the penalty would be waived if the late entry were caused by a loss of drug coverage from a Medicare HMO or retiree group health plan.

Many members of Congress find the SPICE Act attractive because it has bipartisan support and avoids significant government regulation. It simply provides seniors with cash to buy stand-alone drug coverage. And, as the *New York Times* has written, the SPICE Act's "... hidden virtue is that the same structure that offers retirees a choice of competing drug plans can be expanded later to offer a choice of competing health plans, much as the Federal Employees Health Benefits Program offers a choice to members of Congress and other federal employees."

Shortcoming of SPICE: No Integration of Treatment. Last June, the Clinton administration proposed

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prescription drug coverage for Medicare patients at an estimated cost of $118 billion over 10 years. This year the White House said the plan would cost 35 percent more than originally estimated. The reason, according to another *Health Affairs* study: as a stand-alone benefit, the plan would not capture the savings from replacing older technologies with new, high-priced drugs and treatments. In other words, drugs lower other health care costs, but this doesn't lower the cost of drug coverage.

SPICE has the same problem. For example, a $10,000 drug treatment may be more effective than a $100,000 heart bypass operation. But whereas a health insurer covering a patient's prescription drugs along with other care would benefit from the switch to the drug treatment, an insurer whose policy covered only drugs would view the treatment as merely a $10,000 outlay.

Shortcoming of SPICE: Duplication of Coverage. As the figure shows, 28 percent of all seniors now receive prescription drug coverage through their former employers. Another 24 percent purchase coverage as part of private Medigap insurance. Because SPICE would subsidize drugs for all seniors, regardless of other coverage, the bill would provide employers with a perverse incentive to drop coverage. It also would induce those with private insurance to purchase less expensive plans and rely on the government for their drug coverage. Thus the number of people seeking subsidized coverage under SPICE would expand and program costs would soar.

Problem with SPICE: Adverse Selection. The SPICE Act does not specify what particular benefits the private plans would have to offer, making it difficult to predict whether a market would emerge for a stand-alone product. If it did, those most likely to buy coverage would be seniors who already have high drug costs. Those least likely to buy would be seniors with no current drug costs. Such adverse selection would increase the costs of SPICE, leading to still higher premiums or to controls on access.

Likely Consequence of SPICE: Reduced Access to Drugs. Given increases in prescription drug spending generally, together with the addition to SPICE of seniors who lose coverage by former employers and those with high drug costs, consumers and Congress could see premiums rise as much as 15 to 30 percent a year. The SPICE board would likely consider restrictions on the list of drugs covered by the plans (the "formularies").

Price controls and formulary restrictions do reduce prescription drug costs. However, the cost reduction often comes at the expense of the health of consumers and drives up the cost and use of other health care services. For example, reporting in the *American Journal of Managed Care* about a study of the impact of pharmaceutical restrictions on 13,000 patients in six Health Maintenance Organizations, Dr. Susan Horn found:

- Restricting access to pharmaceuticals resulted in inappropriate shifts to other services, including expensive hospital visits.
- For example, limits on access to new drugs for depression and asthma were strongly associated with increased hospital utilitization.
- The more limitations people faced in getting drugs, the more often they went to the emergency room and visited hospitals and physicians for such illnesses as heart disease, ulcers and diabetes.

Prescription Drug Coverage as Part of Overall Medicare Reform. There is no quick fix for the rising cost of prescription drugs, and a stand-alone benefit is likely to generate more problems than it solves. Therefore the solution to the problem of prescription drugs for the elderly must be part of overall reform of Medicare. Indeed, the revolutionary impact of pharmaceuticals on health and health care financing demonstrates that a new approach could provide people with greater choice and control over their health insurance.

A new study for the National Center for Policy Analysis by Milliman & Robertson, the nation's leading actuarial consulting firm on health benefits, concludes that senior citizens could have comprehensive coverage for prescription drugs in addition to other Medicare benefits with virtually no increase in government or personal costs if they could combine their Medicare funds with the money they currently spend on private insurance and pay one premium for a comprehensive private plan.

The study finds that private health plans could eliminate much of the waste and inefficiency in Medicare and apply the savings to the cost of prescription drugs not currently covered. The bipartisan Medicare reform plan introduced by Sens. John Breaux (D-La.) and Bill Frist (R-Tenn.) proposes an approach similar to that suggested by the Milliman & Robertson study, addressing prescription drug coverage as an integral part of Medicare reform.

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