

WHAT YOU NEED TO KNOW ABOUT THE Medicare Prescription Drug Act

*Congress passed the legislation.
Now physicians must learn the details.*

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Many older Americans cannot afford to follow their doctors' advice when it comes to prescription drugs. Their medications are simply too expensive, often leaving their health needs unmet. Physicians experience similar frustrations with the high cost of medications, as they must choose between practicing evidence-based medicine and considering what is practical for their patients. In a system where physicians wield little control over health care costs, the struggle continues.

The national debate over a prescription drug benefit should come as no surprise to most Americans. Spending on prescription drugs in the United States grew twice as fast as total national health expenditures between 1990 and 2000. In 2002, total outpatient drug costs for adults over 65 were estimated at \$87 billion, and they will rise to over \$120 billion by 2005.¹ The number of Medicare

beneficiaries will continue to increase as the baby boomers become eligible for coverage, from 41 million in 2000 to 77 million by 2030.² And while the elderly constitute only about 15 percent of the U.S. population, they account for 40 percent of the country's prescription drug costs.¹

In an attempt to relieve patients of some of the financial burden of prescription drugs, the government has enacted a law that provides new prescription drug coverage under Medicare: the Medicare Prescription Drug, Improvement and Modernization Act (MMA) of 2003. (Complete details of the legislation can be found online by visiting the Library of Congress' legislative information Web site at <http://thomas.loc.gov>.) Patients hope this law will help them better afford their medications, and they will expect their physicians to understand the law and explain how it will influence their treatment plans. To provide effective care, physicians need to be prepared

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Outpatient drug costs for adults over 65 will reach \$120 billion this year.



Since the elderly account for 40 percent of U.S. drug costs, Congress enacted a law to assist with prescription drug payments.



The Medicare Prescription Drug Improvement and Modernization Act of 2003 aims to relieve Medicare patients of some of their drug expenses.



The legislation calls for a discount drug card, which patients can use to receive 10- to 15-percent reductions in medication costs.

to respond to patients' inquiries and they also need to understand the practical details of the legislation.

A bit of background

Retiree health plans and Medicare+Choice plans have been major sources of prescription drug coverage, but these benefits have been scaled back over the past five to 10 years in response to higher drug costs, leaving 25 percent of Medicare beneficiaries without any drug coverage.¹ A large-scale national response to this problem is appropriate; however, it will take time to change such a large and cumbersome system.

To provide some immediate relief from high drug costs, the legislation has arranged for discount drug cards that will bridge the gap until the full drug benefit commences. These cards are currently available to those with Medicare Part A and/or Part B coverage, as long as the patients are not currently receiving prescription drugs through the Medicaid program. Through the various new drug discount programs that offer discount cards, patients can receive approximately 10- to 15-percent reductions in the price of their medications. Some beneficiaries may also qualify for a \$600 credit toward medications each year if their income is less than 135 percent of the federally defined poverty level.³ Each discount program has an enrollment fee that can be no more than \$30 per year.

Several restrictions accompany the discount cards. For example, the discount programs may change their formularies at any time, the beneficiary can use only one discount card or program at a time and a wait time of one calendar year is required before switching programs. There are pharmacy restrictions as well, and it is up to Medicare beneficiaries to compare plans and decide which drug discount card is right for them. Medicare offers a Web site (<http://www.medicare.gov>) and a toll free number (1-800-MEDICARE) for beneficiaries who need assistance in making these decisions.

KEY POINTS

- Medicare discount drug cards can save patients 10 to 15 percent on their prescription drugs.
- Patients who meet their initial out-of-pocket costs are covered for 75 percent of their medication expenses, up to \$2,250.
- The cost of the law is estimated to surpass \$700 billion, pushing prescription drug coverage to the forefront of Medicare reforms.

What does it all mean?

The legislation has added a voluntary drug benefit to Medicare, covering all drugs, biologic products, insulin, some vaccines and medical supplies. The scheduled deadline for implementation of this benefit is currently set for Jan. 1, 2006. The list of covered items mirrors the stipulations set out by the Medicaid program and leaves room to exclude any other stipulations that do not meet the Medicare definition of "reasonable and necessary." (See "Breaking down the prescription drug coverage for Medicare beneficiaries" on the opposite page for more information.)

The benefit will include an annual premium of \$420 (\$35 per month) and an annual deductible of \$250. Medicare beneficiaries pay 25 percent of all prescription drug costs, with the Medicare program making up the difference, until total drug expenditures

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reach \$2,250. Beneficiaries who spend more than \$2,250 fall into the "donut hole" and are responsible for 100 percent of prescription drug costs (i.e., Medicare pays nothing) until they reach the next threshold of \$5,100. Once this second limit is reached, the beneficiary is responsible for 5 percent of the drug expenditures and the Medicare program will cover the remaining 95 percent. (See "Patients' out-of-pocket costs" on page 52.)

Beneficiaries can elect to receive all of their covered services, including the new prescription drug coverage, through an

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The legislation also includes a voluntary drug benefit that will cover many drugs, medical supplies, vaccines and biologic products.



Scheduled to be implemented in January of 2006, the benefit will include an annual premium of \$420 and a \$250 deductible.



Medicare will pay 75 percent of the beneficiary's drug costs up to \$2,250.



Beneficiaries who reach the \$2,250 mark must then pay 100 percent of their costs until they reach \$5,100; for anything above this, beneficiaries pay 5 percent of their drug expenses.

HMO or a PPO under Medicare Advantage (the new name for the Medicare+Choice managed care program). All beneficiaries are guaranteed to have at least two qualifying plans to choose from in their area of residence. These private plans would also be responsible for negotiating prices with drug manufacturers and developing formularies.

Future implications

The financial impact of this legislation on patients, physicians and the Medicare sys-

tem as a whole is still up for debate. According to a Kaiser Family Foundation study, in 2003, the average total spending for prescription drugs in the Medicare population was \$2,322. Four of 10 beneficiaries had drug costs greater than \$2,000. A majority of these individuals would fall into the donut hole of the new plan and thus become responsible for paying all drug costs until they reached the higher spending limit. An additional one of 10 beneficiaries had total drug costs exceeding \$5,000, placing them close to the catastrophic coverage category.⁴

The potential savings for patients comes at a high price to American taxpayers. Despite language in the law that limits coverage and targets low-income, elderly patients, the Centers for Medicare & Medicaid Services has estimated the prescription drug benefit will cost \$720 billion over the next 10 years.

Congress has made a statement with the provision of this benefit. Funding for pre-

Beneficiaries who spend more than \$2,250 fall into the "donut hole" and are responsible for 100 percent of the costs.

scription drugs has taken precedence over funding for other potential Medicare reform measures. While compromise is necessary when there is a limited pool of money, more dollars spent on drugs means fewer dollars and attention paid to other health care priorities. The new legislation does provide reimbursement for an initial preventive physical exam, as well as screening for cardiovascular disease and diabetes in high-risk individuals. Other items, however, such as

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BREAKING DOWN THE PRESCRIPTION DRUG COVERAGE FOR MEDICARE BENEFICIARIES

Annual premium	\$420 (\$35 per month)
Annual deductible	\$250
Annual enrollment fee	No more than \$30
Beneficiary payment structure	25 percent of prescription drug expenses between \$251-\$2,250 100 percent of prescription drug expenses between \$2,251-\$5,100 5 percent of prescription drug expenses exceeding \$5,100
Disbursement structure	Via private, risk-bearing entities (i.e., HMOs or PPOs under Medicare)
Covered drugs	Drugs, biologic products and insulin that are covered under Medicaid
Noncovered drugs	Medications for weight loss or gain, fertility, hair growth or cough or cold relief; cosmetics; vitamins and minerals; nonprescription drugs; benzodiazepines; and barbiturates
Formularies	Multiple formularies available, developed by each private company
Electronic prescribing	Mandated electronic health record (EHR) system in place by 2008. Individual plans may provide some reimbursement to physicians for implementation costs.
Medication management program	Pharmacy protocols for interventions targeting patients with chronic diseases, on multiple medications, or with high annual medication costs

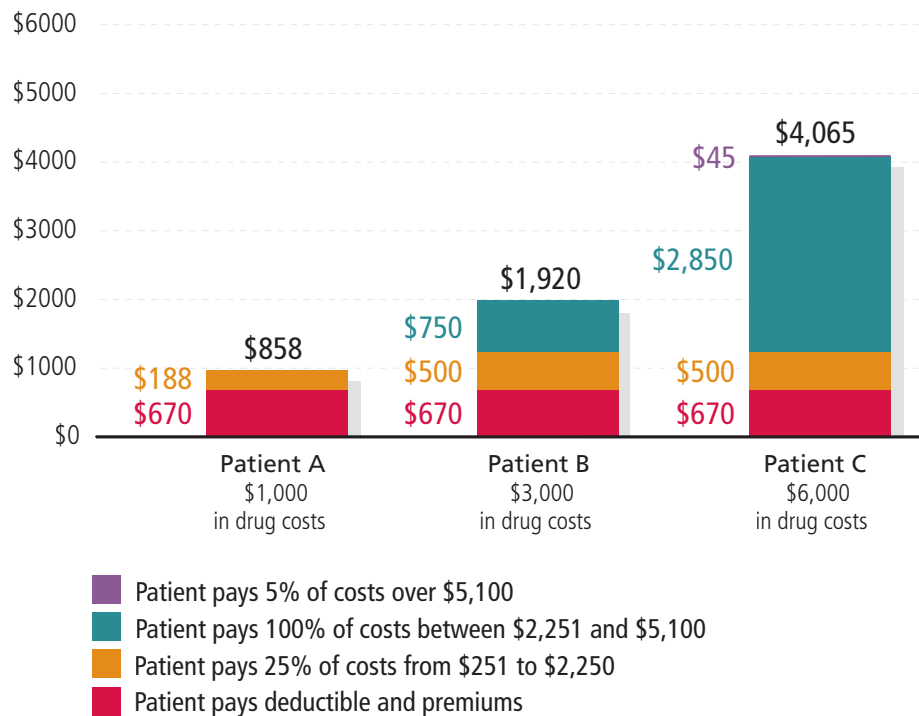
Patients can choose to receive their covered services and prescription drug coverage through a PPO or HMO under the Medicare Advantage program.

The Centers for Medicare & Medicaid Services estimates that the prescription drug benefit will cost approximately \$720 billion over the next 10 years.

Although the legislation provides reimbursement for an initial preventive physical exam, it does not address dentures, hearing aids or eyeglasses, which many elderly patients need to function in their daily lives.

Physicians should be prepared to answer patients' questions about how the new law will affect their prescription drug coverage.

PATIENTS' OUT-OF-POCKET COSTS



eyeglasses, dentures and hearing aids, all of which are essential for elderly patients to maintain daily functions, are still not covered under Medicare.

Awaiting the consequences

The Medicare Prescription Drug, Improvement and Modernization Act will clearly change the way physicians practice medicine and directly affect the physician-patient relationship. On one hand, the law may help strengthen the relationship by removing barriers to health care access, centralizing prescriptions and implementing disease management programs. On the other hand, the law could also weaken the physician-patient relationship if physicians must spend more time discussing new drugs and explaining what the Medicare drug benefit will and will not cover. There will be less time to introduce topics on the physician's agenda, especially with elderly patients who have multiple chronic conditions.

The need to address the problem of rising drug costs in this country is urgent, especially given that the number of Medicare beneficiaries continues to rise and the amount of current drug coverage available is steadily

decreasing. Though it remains unclear whether the law will address this problem in an effective manner, it is certain the legislation will significantly affect patients, doctors, the relationship between them, and the system that serves everyone. Keeping current with the ongoing political discussion surrounding prescription drugs will continue to be a critical part of optimizing the care we provide to older patients.

Send comments to fpm@aaafp.org.

1. *Issues in Designing a Prescription Drug Benefit for Medicare*. Washington, DC: Congressional Budget Office; 2002.

2. *Health Care Financing Administration, Office of Strategic Planning. Medicare 2000: 35 Years of Improving Americans' Health and Security*. Baltimore, Md: US Department of Health and Human Services; 2000.

3. Iglehart JK. The new Medicare prescription-drug benefit – a pure power play. *N Engl J Med*. 2004;350:826-833.

4. *Medicare and Prescription Drug Spending Chart-pack*. Kaiser Family Foundation. June 2003.