

Ideas in Action

Series I

By Dana Warn



Oregon Action (OA)

6601 NE MLK Jr. Blvd.

Portland, OR 97211

Voice: (503) 282-6588

Fax: (503) 282-7266

Web: <http://www.oregonaction.org>



Northwest Federation of
Community Organizations (NWFCO)

1905 South Jackson Street

Seattle, WA 98144

Voice: (206) 568-5400

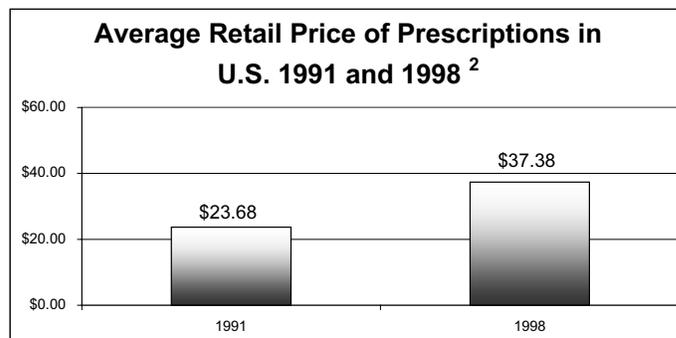
Fax: (206) 568-5444

Web: <http://www.nwfc.org>

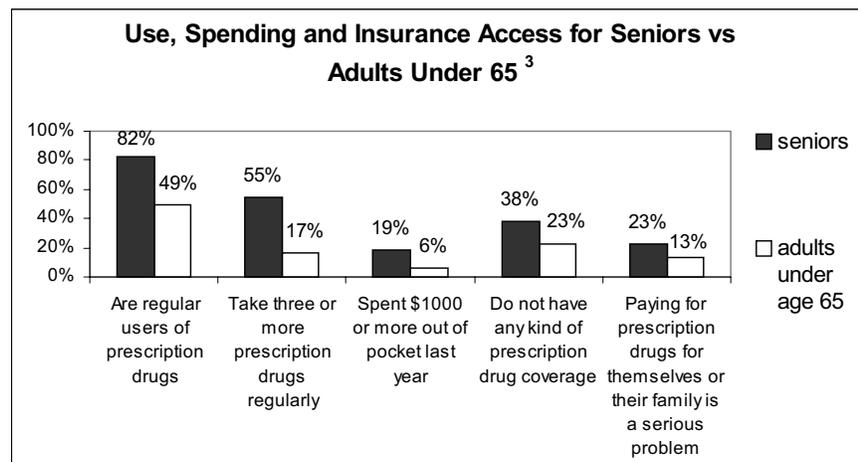
The Impact of Prescription Drug Prices on Seniors

Over the years medicine has changed, particularly with respect to prescription drugs: more drugs are available, they are more frequently prescribed, and they play an increasingly significant role in health care.

Much of our current health care system now depends on prescription drugs: prescription drugs prevent and control conditions once thought untreatable, including chronic diseases. Some drugs offer safer and quicker treatment for conditions that might otherwise have required hospitalization or other costly services.¹



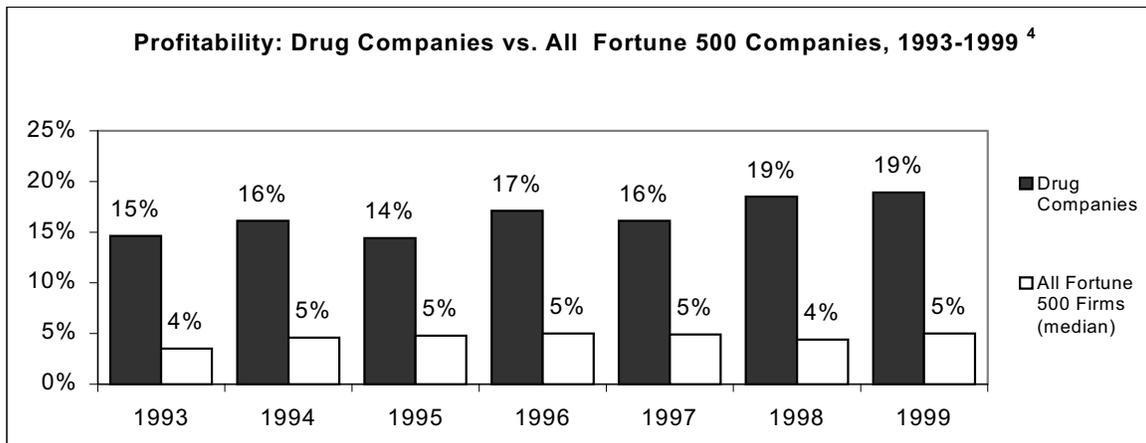
But rapidly rising prescription drug costs place a growing burden on consumers, employers, and public programs. Senior citizens shoulder a disproportionate share of this burden because they are most likely to need prescription drugs, but least likely to have the insurance or income to afford them.



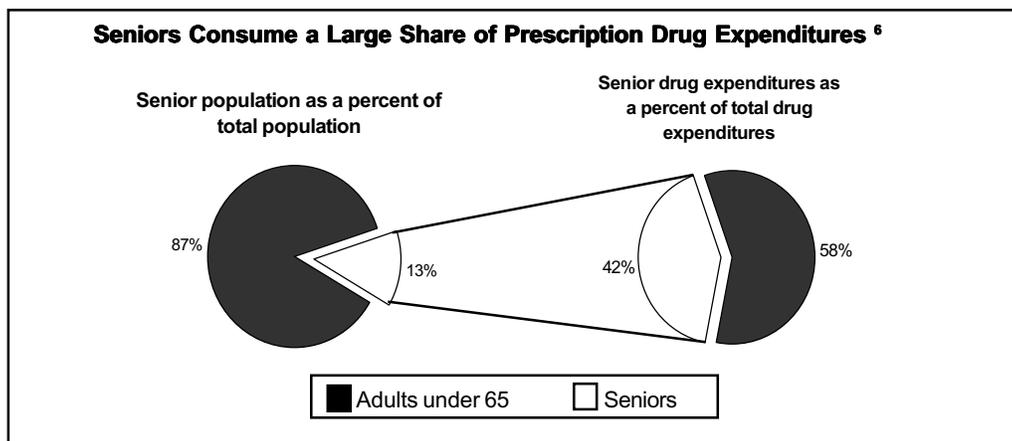
While the use of prescription drugs has changed, the health care system hasn't changed to ensure that seniors can affordably access critically needed prescription drugs.

Seniors Pay as Drug Company Profits Flourish

Meanwhile, drug companies profit excessively from the increased use of prescription drugs.



And where do the drug companies' profits come from? Seniors as a group are one of the largest users of prescription drugs. Although in 1998 seniors made up only 13 percent of the population, they accounted for 42 cents of every dollar spent on prescription drugs, and 34 percent of all prescriptions dispensed.⁵



Seniors Pay Too Much for Prescription Drugs

Rising prescription drug prices pose particular problems for seniors. Seniors pay a larger share of drug costs out of their own pocket than do adults under 65. And seniors are least likely to benefit from the price discounts provided to bulk purchasers of prescription drugs like health plans. A Department of Health and Human Services study found that in Oregon, the median difference between retail prescription drug prices and prices charged to third party payers like health plans was 8.2 percent, higher than the national median difference of 7.4 percent.⁷

Seniors generally live on fixed incomes adjusted to keep up with inflation, yet the cost of the prescription drugs they purchase frequently rise faster than the rate of inflation. Last year the price of these drugs rose more than two times the rate of inflation.⁸ For a single senior receiving Social Security, the annual benefit will increase 2.6 percent, or \$264, from \$10,224 for 2001 to \$10,488 in 2002.⁹ In 2001, the average cost per year of prescription drugs regularly used by seniors was \$956. If drug prices continue to rise at an average of 6.1 percent, each drug would cost an average of \$57 more per year in 2002.

Americans also pay more for prescription drugs than their counterparts just across the border. A comparison of the ten best-selling prescription drugs shows that drug companies set higher prices for the same drug in the U.S. than they do in other countries.

Prescription Drugs Frequently Used by Seniors ¹⁰

| Drug | Drug is Used For | Price Per Pill in Canada | Price per pill in U.S. | % Price in U.S. Exceeds Canadian Price |
|----------|------------------|--------------------------|------------------------|--|
| Prisolec | Heartburn/Ulcer | \$1.47 | \$3.31 | 125% |
| Lipitor | High cholesterol | \$1.34 | \$2.54 | 90% |
| Prevacid | Ulcer | \$1.34 | \$3.13 | 134% |
| Zocor | High cholesterol | \$1.47 | \$3.18 | 116% |
| Zoloft | Depression | \$1.07 | \$1.98 | 85% |
| Claritin | Allergies | \$1.11 | \$1.96 | 77% |
| Paxil | Depression | \$1.13 | \$2.22 | 88% |

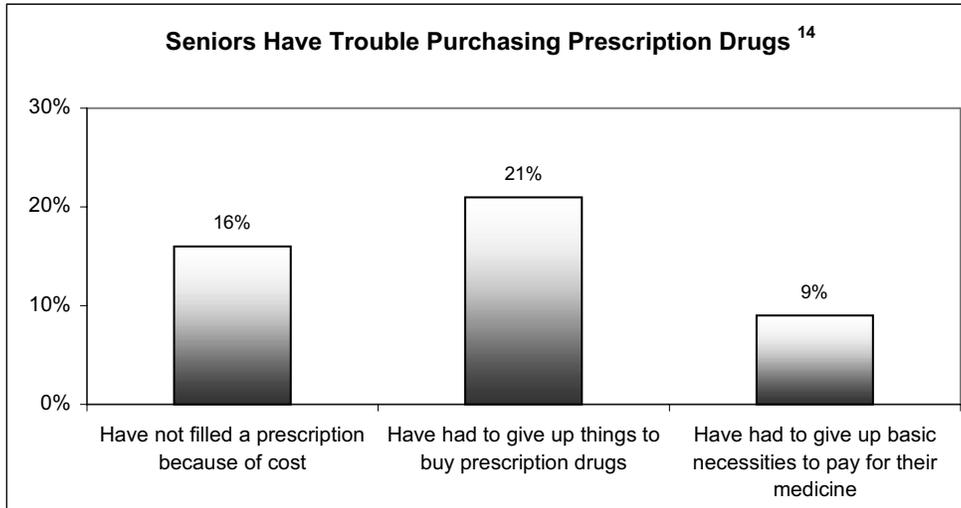
Overall, drugs are more expensive in the U.S.; per-person spending on drugs in the U.S. is almost twice that of other countries like the U.K. and Canada.

Per Capita Spending on Pharmaceuticals by Country ¹¹

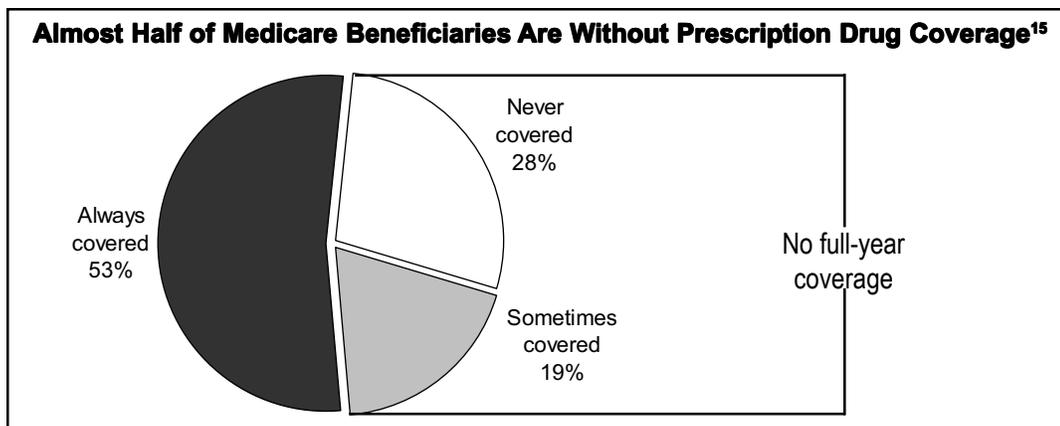
| Country | Per Capita Spending |
|----------------|---------------------|
| Canada | \$251 |
| United Kingdom | \$251 |
| United States | \$408 |

Uninsured Seniors: Impacted Most by Prescription Drug Prices

The high price of prescription drugs decreases uninsured seniors' ability to access them. Seniors who are uninsured are more likely to not fill prescriptions than seniors who have drug insurance.¹² This lack of access to prescription drugs creates health problems for seniors: several studies have linked reduced access to prescription drugs to increased hospitalization, increased use of long-term care, and increased adverse health outcomes.¹³



The Effects of Rising Drug Prices on Seniors with Medicare Coverage



Medicare does not have a comprehensive drug benefit—putting many seniors in the same situation as the uninsured with respect to purchasing medication.

Medicare + Choice, the Medicare managed care plan, provides prescription drug coverage to 13 percent of Medicare beneficiaries. But the coverage provided by this program is increasingly unreliable: plans with drug coverage are not offered consistently across the country, some plans are dropping out of the Medicare + Choice program, and others are reducing their drug coverage.¹⁶

For seniors without access to Medicare + Choice, privately purchased policies like Medigap may be their only option for drug coverage. Medigap provides drug coverage to 8 percent of Medicare beneficiaries.¹⁷ But Medigap drug policies are unaffordable to many seniors. In Oregon the price for these plans are in the range of \$1,440 to \$7,332 annually.¹⁸

But beneficiaries with health problems may not even be able to purchase this costly coverage. Medigap insurers are only required to accept applicants regardless of health status during their first six months of enrollment in Medicare.¹⁹

Oregon passed a small “Senior Prescription Drug Assistance Program” in July, 2001. Savings from a formulary Oregon is creating are supposed to fund the program.²⁰ If enough funds are available, the senior drug program would provide a subsidy of up to 50 percent of the Medicaid price of prescriptions for eligible seniors. Eligible seniors are those with less than \$2,000 in resources not including a home or car, and with income less than 185 percent (\$15,890 a year) of the federal poverty level. The benefit would be capped at \$2,000 annually, and may require the payment of enrollment and dispensing fees.²¹

The Effects of Rising Drug Prices on Seniors Covered by Medicaid

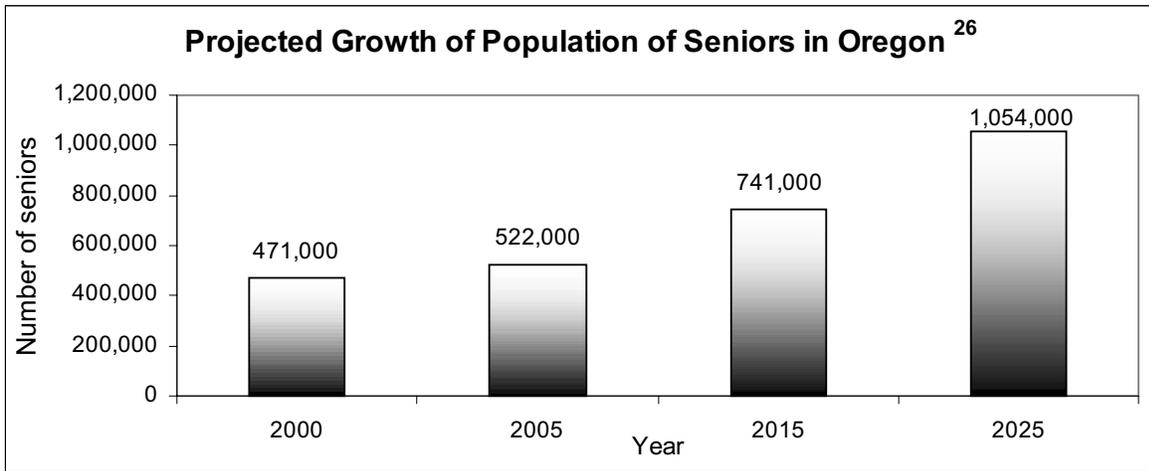
Medicaid provides drug coverage to 14 percent of Medicare beneficiaries. In Oregon, a single senior must have less than \$6,372 in annual income — about 74 percent of the Federal Poverty Level — to be eligible for Medicaid. A senior couple can have no more than \$9,552 in annual income to be eligible.²² In 1999, 7.2 percent, or 40,143 of Oregon seniors were eligible for Medicaid,²³ leaving the remaining 92.8 percent without guaranteed prescription drug coverage.

But as Medicaid costs increase — largely due to rising prescription drug costs — Oregon is moving to cut Medicaid services and increase cost-sharing for Medicaid beneficiaries.

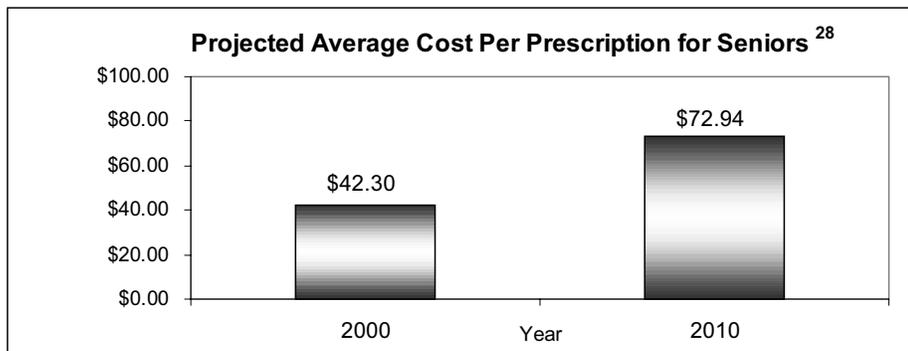
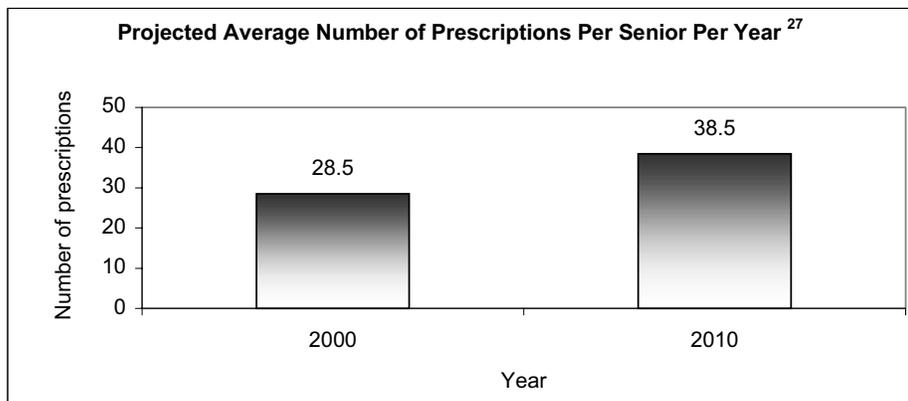
For example, the Oregon Health Services Commission has proposed a plan that would reduce benefits in the Oregon Health Plan (OHP) Medicaid expansion program for people age 64 and under. The plan reduces benefits to 78 percent of the current level and requires beneficiaries to contribute co-pays. This means the program will become unaffordable to some state residents, leaving more people without access to needed health care. If this proposal receives state and federal approval, it would likely take effect in October 2002.²⁴

Prescription Drug Problems for Seniors Are Getting Worse

The growth rate of the senior population greatly exceeds the growth rate of the population of the U.S. as a whole. As the baby boom generation ages, the pace of this growth will increase further — by the middle of the next century as many as 1 in 5 Americans could be seniors.²⁵



This, coupled with the trend of increases in the number of prescriptions, and rising drug costs, means more seniors will face worsening difficulties in the years to come.



Prescriptions for Change

As Congress struggles to secure our nation with a declining budget, they are unlikely to provide a Medicare drug benefit in the near future. For seniors in Oregon, it is more important than ever to pursue state-based solutions to the prescription drug crisis.

- ∅ *Regional or Statewide Buying Pools:* To better control prescription drug costs, states are forming purchasing alliances with other states and among state agencies and health insurance programs to use their bulk purchasing power to negotiate prescription drug savings with the manufacturers of the drugs.²⁹ Washington and Idaho have passed resolutions urging joint action with Oregon and other Northwestern states.
- ∅ *The Prescription Drug Fair Pricing Act:* Similar to a law in Maine, this legislation directs state governments to use their bulk purchasing power to negotiate steep discounts and pass these savings on to those who have no prescription drug insurance coverage – including seniors on Medicare.³⁰
- ∅ *Prescription Drug Formularies:* These programs evaluate drugs on their cost and effectiveness. Among classes of drugs found to be equally effective, the most cost-effective drugs are prioritized for initial treatment. With proper consumer protections that allow doctors to quickly prescribe any drug essential to the patient’s quality of life and health, drug formularies can help control drug costs. Oregon is in the process of creating a formulary for the Oregon Health Plan.³¹

Conclusion

As medicine grows increasingly dependent on prescription drugs, Oregon’s health care system must ensure that seniors can affordably access critically needed prescription drugs. Seniors face growing difficulties obtaining prescription drugs: prescription drug companies overcharge seniors, and seniors often cannot obtain prescription drug insurance coverage. As the number of seniors grows, Oregon’s adoption of prescription drug solutions becomes increasingly vital for seniors’ health.

Endnotes

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