Rising Prescription Drug Costs: Reasons, Needs, and Policy Responses
Rising Prescription Drug Costs: Reasons, Needs, and Policy Responses

First Edition

Wisconsin Family Impact Seminars
and the
Sonderegger Research Center for Social and Administrative Pharmacy
University of Wisconsin-Madison
Briefing Report

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Purpose, Presenters, and Publications

In 1993, Wisconsin became one of the first states to sponsor Family Impact Seminars modeled after the seminar series for federal policymakers. Because of the success of the Wisconsin Family Impact Seminars, Wisconsin is now helping other states establish their own seminars through the newly created Policy Institute for Family Impact Seminars at the University of Wisconsin-Madison.

Family Impact Seminars are a series of seminars, briefing reports, and follow-up activities that provide up-to-date, solution-oriented research on current issues for state policymakers, legislators and their aides, Governor’s Office staff, legislative support bureau personnel, and state agency representatives. Family Impact Seminars analyze the consequences an issue, policy, or program may have for families.

The seminars provide objective nonpartisan research on current issues and do not lobby for particular policies. Seminar participants discuss policy options and identify common ground where it exists.

“Rising Prescription Drug Costs: Reasons, Needs, and Policy Responses” is the 15th seminar in a series designed to bring a family focus to policymaking. This seminar featured the following speakers:

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For further information on bringing a family perspective to policymaking, check our website at http://www.familyimpactseminars.org. For further information on the Wisconsin Family Impact Seminar series, contact Director, Karen Bogenschneider, Associate Professor, UW-Madison/Extension, or State Coordinator Jessica Mills at 120 Human Ecology, 1300 Linden Drive, Madison, WI 53706; telephone (608) 262-4070 or 262-6766; email kpbogens@.facstaff.wisc.edu or jmills@facstaff.wisc.edu.

Each seminar is accompanied by an in-depth briefing report that summarizes the latest research on a topic and identifies policy options from across the political spectrum. Copies are available at:

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Executive Summary

The number one issue before state legislatures in 2001 will be access to prescription drug coverage, according to participants at a recent conference sponsored by the National Conference of State Legislatures. In the next 8 years, state and local taxes spent on prescription drugs outside Medicare or Medicaid will jump from $10 to $24 billion, according to the Health Care Financing Administration. To date, 22 states have already passed prescription drug legislation. This briefing report addresses why states are so interested in prescription drugs and provides answers to questions that policymakers often ask about this issue.

In the first chapter, Professors David Kreling, David Mott, and Joseph Wiederholt discuss why spending on prescriptions has been one of the fastest-growing health care costs. The rate of increase in prescription spending has surpassed increases in most other components of personal health care in the past decade, exceeding 10 percent annual increases in all but two years. In the past five years, the increases in prescription spending have been two to four times the percent increases in other major components of health care. Even though prescription drug spending is increasing more quickly, the dollars spent on physician’s costs and hospital care are double and triple, respectively, the amount spent on prescription drugs.

Between 1993 and 1998, three factors have driven the increases in prescription drug spending: increased drug use (43%), changes in use to newer higher-cost drugs (39%), and price increases by manufacturers for existing drugs (18%). Use of drugs has been higher due to population growth, an increased number of prescribers, promotion of prescription drugs to stimulate demand, and the aging of the population. Between the ages of 45 and 75, prescription use nearly triples, from an overall average of 4.3 to 11.4 prescriptions per person each year.

Newer, higher-cost drugs are available as a result of research by manufacturers. Expenditures for research and development, however, are a relatively small proportion of sales for both major (11%) and generic drug manufacturers (6%). Historically, drug manufacturers have been the most profitable U.S. industry with a profit margin of 19% compared to 5% for all Fortune 500 companies.

The average annual percent change in retail prescription drug prices from 1991 to 1998 was 6.7% overall, higher than the average rate of inflation of 2.6%, and the average increase of 4.6% for medical care. For each dollar spent on prescription drugs, 74 cents goes to the manufacturer, 23 cents to the pharmacist, and 3 cents to the wholesaler.

More than three-quarters, or 77% of Americans who aren’t covered by Medicare had prescription drug coverage in 1996, mostly through their employers (61%), followed by Medicaid (11%); those without prescription coverage (23% or over 53 million people) typically have no health insurance coverage at all. Of Medicare beneficiaries, 31% or 11.5 million seniors had no drug coverage in 1996. Low-income families who aren’t eligible for Medicaid (between 100% and 200% of the Federal Poverty Level) are most likely to be without drug coverage.
Since 1990, the proportion of drug costs paid by consumers has decreased from 48% to 28% of total spending, while private insurers have increased their payments from 34% to 51%. The share paid by government programs has increased slightly from 18% to 21%. For the average American, about 1% of spending on household goods and services is for prescription drugs.

In the next chapter of the report, Bruce Stuart, Becky Briesacher, and Dennis Shea discuss how policymakers could determine eligibility for a prescription drug benefit for the elderly. Determining eligibility deserves careful consideration by policymakers because who has the greatest need depends upon how you define need. This study considered six different ways of defining need including two income cutoffs, lack of consistent and stable coverage, high prescription drug bills, and multiple chronic diseases.

In recent proposals to add a Medicare drug benefit, annual income in relation to Federal Poverty Level is clearly the leading criterion in defining need. This study shows that if annual income alone is used to determine eligibility, most Medicare beneficiaries will not qualify for prescription drug coverage under Medicare. If the income cutoff was below 100% of the Federal Poverty Level, about 25% would qualify. If the income cutoff was raised to less than 150% of the Federal Poverty Level, about 43% would qualify but more than half of the Medicare population would be excluded. If the criterion was lack of stable coverage, about half of Medicare beneficiaries would be considered “in need” and about half would not.

The study shows that Medicare recipients’ need for consistent and stable drug coverage does not necessarily fit neatly into income categories or any single measure of need. In fact, no single measure of need is fully successful. People faced with a combination of low income, lack of coverage, and high prescription drug bills have the most urgent need. If a broad definition of need is used—to include people with low incomes, those without continuous coverage, those with high costs, or those with multiple chronic conditions—nearly 90% of Medicare beneficiaries would qualify. Thus, using any single measure of need misses at least one-third of the population that could be considered “in need” by one of the alternative definitions.

Another important consideration for policymakers is the level of contribution required by beneficiaries. For example, people above the income cutoff will pay 25% of a premium under some proposals and as much as 75% under others. If beneficiaries anticipate drug costs below the 75% share of the premium, they are less likely to sign up. If only high-cost people enroll, premiums will spiral up, making coverage unaffordable. Getting the premium subsidy right is critical to the success of any Medicare drug plan.

In the third chapter, Director Tom Snedden describes the largest prescription drug coverage program for older adults in the nation. The Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE) program and the Pharmaceutical Assistance Contract for the Elderly Needs Enhancement Tier (PACENET) help 264,657 Pennsylvania residents over age 65 who are income-eligible with the cost...
of their prescription drugs. The programs, established in 1984 and 1996 respectively, pay for all but a portion of the cost of each drug prescribed by a doctor. The program is funded by the state lottery and administered by the Pennsylvania Department of Aging. Even though enrollments declined over 7% in 1999, claims per enrolled person increased almost 11%.
The first step in developing family-friendly policies is to ask the right questions:

- What can government and community institutions do to enhance the family’s capacity to help itself and others?
- What effect does (or will) this policy (or proposed program) have for families? Will it help or hurt, strengthen or weaken family life?

These questions sound simple, but they can be difficult to answer.

The Family Criteria (Ad Hoc) Task Force of the Consortium of Family Organizations (COFO) developed a checklist to assess the intended and unintended consequences of policies and programs on family stability, family relationships, and family responsibilities. The checklist includes six basic principles that serve as the criteria of how sensitive to and supportive of families policies and programs are. Each principle is accompanied by a series of family impact questions.

The principles are not rank ordered and sometimes they conflict with each other, requiring trade-offs. Cost effectiveness also must be considered. Some questions are value-neutral and others incorporate specific values. People may not always agree on these values, so sometimes the questions will require rephrasing. This tool, however, reflects a broad nonpartisan consensus, and it can be useful to people across the political spectrum.

For the questions that apply to your policy or program, record the impact on family well-being.

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### Principle 1. Family support and responsibilities.

Policies and programs should aim to support and supplement family functioning and provide substitute services only as a last resort.

Does the proposal or program:

- support and supplement parents’ and other family members’ ability to carry out their responsibilities?
- provide incentives for other persons to take over family functioning when doing so may not be necessary?
- set unrealistic expectations for families to assume financial and/or caregiving responsibilities for dependent, seriously ill, or disabled family members?
- enforce absent parents’ obligations to provide financial support for their children?

---

### Principle 2. Family membership and stability.

Whenever possible, policies and programs should encourage and reinforce marital, parental, and family commitment and stability, especially when children are involved. Intervention in family membership and living arrangements is usually justified only to protect family members from serious harm or at the request of the family itself.

Does the policy or program:

- provide incentives or disincentives to marry, separate, or divorce?
- provide incentives or disincentives to give birth to, foster, or adopt children?
- strengthen marital commitment or parental obligations?
- use appropriate criteria to justify removal of a child or adult from the family?
- allocate resources to help keep the marriage or family together when this is the appropriate goal?
- recognize that major changes in family relationships such as divorce or adoption are processes that extend over time and require continuing support and attention?
Principle 3. Family involvement and interdependence.

Policies and programs must recognize the interdependence of family relationships, the strength and persistence of family ties and obligations, and the wealth of resources that families can mobilize to help their members.

To what extent does the policy or program:
- recognize the reciprocal influence of family needs on individual needs, and the influence of individual needs on family needs?
- recognize the complexity and responsibilities involved in caring for family members with special needs (e.g., physically or mentally disabled, or chronically ill)?
- involve immediate and extended family members in working toward a solution?
- acknowledge the power and persistence of family ties, even when they are problematic or destructive?
- build on informal social support networks (such as community/neighborhood organizations, religious communities) that are essential to families’ lives?
- respect family decisions about the division of labor?
- address issues of power inequity in families?
- ensure perspectives of all family members are represented?
- assess and balance the competing needs, rights, and interests of various family members?
- protect the rights and safety of families while respecting parents’ rights and family integrity?

Principle 4. Family partnership and empowerment.

Policies and programs must encourage individuals and their close family members to collaborate as partners with program professionals in delivery of services to an individual. In addition, parent and family representatives are an essential resource in policy development, program planning, and evaluation.

In what specific ways does the policy or program:
- provide full information and a range of choices to families?
- respect family autonomy and allow families to make their own decisions? On what principles are family autonomy breached and program staff allowed to intervene and make decisions?
- encourage professionals to work in collaboration with the families of their clients, patients, or students?
- take into account the family’s need to coordinate the multiple services they may require and integrate well with other programs and services that the families use?
- make services easily accessible to families in terms of location, operating hours, and easy-to-use application and intake forms?
- prevent participating families from being devalued, stigmatized, or subjected to humiliating circumstances?
- involve parents and family representatives in policy and program development, implementation, and evaluation?
**Principle 5. Family diversity.**

Families come in many forms and configurations, and policies and programs must take into account their varying effects on different types of families. Policies and programs must acknowledge and value the diversity of family life and not discriminate against or penalize families solely for reasons of structure, roles, cultural values, or life stage.

How does the policy or program:
- affect various types of families?
- acknowledge intergenerational relationships and responsibilities among family members?
- provide good justification for targeting only certain family types, for example, only employed parents or single parents? Does it discriminate against or penalize other types of families for insufficient reason?
- identify and respect the different values, attitudes, and behavior of families from various racial, ethnic, religious, cultural, and geographic backgrounds that are relevant to program effectiveness?

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**Principle 6. Support of vulnerable families.**

Families in greatest economic and social need, as well as those determined to be most vulnerable to breakdown, should be included in government policies and programs.

Does the policy or program:
- identify and publicly support services for families in the most extreme economic or social need?
- give support to families who are most vulnerable to breakdown and have the fewest resources?
- target efforts and resources toward preventing family problems before they become serious crises or chronic situations?

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The checklist and the papers are available from Director Karen Bogenschneider and Associate Director Jessica Mills of the Policy Institute for Family Impact Seminars at the University of Wisconsin-Madison/Extension, 130 Human Ecology, 1300 Linden Drive, Madison, WI, 53706; phone (608) 263-2353; FAX (608)262-5335; http://www.familyimpactseminars.org.

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Why Are Prescription Drug Costs Rising?

By David H. Kreling, David A. Mott, & Joseph B. Wiederholt

This chapter explains why spending on prescription drugs has been one of the fastest-growing health care costs in the last decade, with increases exceeding 10 percent annually in all but two years. Between 1993 and 1998, three factors have driven the increases in prescription drug spending: increased drug use (43%), changes in use to newer higher-cost drugs (39%), and price increases by manufacturers for existing drugs (18%). About 31% of Medicare beneficiaries and 23% of non-Medicare beneficiaries had no drug coverage in 1996. Low-income families who aren’t eligible for Medicaid are most likely to be without drug coverage.

The number one issue before state legislatures in 2001 will be access to prescription drug coverage, according to participants at a recent conference sponsored by the National Conference of State Legislatures. In the next 8 years, state and local expenditures for state prescription drug programs outside of Medicare or Medicaid will jump from $10 to $24 billion, according to the Health Care Financing Administration. To date, 22 states have already passed prescription drug legislation and the issue is high on the agenda of many Wisconsin legislators. This chapter addresses why states are so interested in prescription drugs and provides answers to questions that policymakers often ask about this issue.

Americans increasingly look to medications to maintain or improve their health. However, increasing concerns have arisen around the rising costs of prescription drugs and the impact these costs have had on health plans, employers, and uninsured or under-insured individuals.

The Kaiser Family Foundation has developed a Chartbook on Prescription Drug Trends that provides information about trends in prescription drug coverage, spending, prices, use, and the structure of the industry. This chapter is a brief overview of the chartbook.

What Are the Recent Trends in Prescription Drug Spending?

Spending on prescriptions has been one of the fastest-growing components of health care spending in the past decade. This growth has drawn attention to prescription drugs, although they represent only 9% of total personal health care spending.

National spending on prescription drugs totaled $91 billion in 1998, and is expected to reach $243 billion in 2008. Although spending on all types of health care continues to increase, drug spending is increasing more quickly.
The $10 billion annual increase on spending for drugs between 1995 and 1998 is similar to the dollar increases in physician costs and hospital care, although overall spending on these two services are more than double and triple, respectively, the total amount spent on drugs (Figure 1). Between 1995 and 1998, prescription spending grew nearly 50%, while spending on physician services grew by 14% and spending for hospital care grew 10%.

Figure 1. National Health Expenditures for Prescription Drugs, Hospital Care, and Physician Services, 1992-1998

Note: Expenditures for prescription drugs are limited to those purchased from retail outlets such as community or HMO pharmacies, grocery store pharmacies, mail order pharmacies, etc. The value of prescription drugs provided to patients by hospitals as part of a hospital stay, by nursing homes as part of care in a nursing home, or provided by physicians in their offices are not included in prescription drugs but are included in those respective expenditure categories. Consequently, the expenditures for prescription drugs shown here are underestimated and may differ from other estimates (e.g., prescription drug sales by manufacturers estimated by market research firms).


The rate of increase in prescription spending has surpassed increases in most other components of personal health care in the past decade, exceeding 10 percent annual increases in all but two years (See Figure 2). In the past five years, the increases in prescription spending have been two to four times the percent increases in other major health care components.
What Factors Drive Prescription Drug Spending?

Increases in prescription drug spending are affected by three primary factors: price increases, increases in use, and changes in the types of drugs used.

**Price Increases.** The players involved in developing, marketing, and selling prescription drugs include the manufacturer who produces the drug, wholesalers who distribute drugs, pharmacies that dispense the drugs, and ultimately, consumers. Figure 3 shows that when a pharmacy sells a drug, 74 cents of each dollar goes to the manufacturer, the wholesaler gets about 3 cents, and the pharmacy gets the remaining 23 cents.

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*Prescription drug spending is driven by price increases, increases in use, and changes in the types of drugs used.*
Why Are Prescription Drug Costs Rising?

Figure 3. Distribution of a Dollar of Revenue from a Retail Prescription, 1998

Pharmacy Share $0.23
Wholesaler Share $0.03
Manufacturer Share $0.74

Note: From each dollar of prescription sales, $0.74 goes to the manufacturer for producing the drug, $0.03 goes to the wholesaler for distributing the drug, and $0.23 goes to the pharmacy for dispensing the drug.


The average annual percent change in retail prescription drug prices from 1991 to 1998 was 6.7% overall, higher than the average rate of inflation of 2.6%, and the average increase of 4.6% for medical care (Figure 4). Prices for brand name drugs grew an average of 8.8% per year, compared with 6.5% for generic drugs. The year-to-year price change for existing drugs have been relatively small compared to the changes in national expenditures for prescription drugs or average retail price.

Figure 4. Average Annual Percent Change in Retail Prescription Prices vs. Consumer Price Index, 1991-1998

Note: CPI = Consumer Price Index for all urban consumers.

The average retail price for brand name drugs has been about three times that of generic drugs. Sometimes, the cost difference is dramatic. Figure 5 shows that the cost a pharmacy pays for the brand name drug Tagamet, an anti-ulcer drug, is nearly 8 times higher than for the generic version, Cimetidine. Among drugs for depression, the brand name Elavil costs nearly 18 times more than the generic version, Amitriptyline.

**Figure 5. Cost of Old and New Therapies, Anti-Ulcer and Antidepressant Medications, 1999**

![Cost Comparison Graph](image-url)

Source: Sonderegger Research Center analysis, based on:

Brand name cost estimated as Average Wholesale Price (AWP) listed in Drug Topics' Red Book price reference, less 18.3% (based on a DHHS Office of Inspector General report on pharmacy acquisition costs for drugs reimbursed under Medicaid that found the difference between AWP and the prices retail pharmacies pay for brand name drugs was 18.3%, OIG report A-06-96-00030, April 1997).


New approaches in drug treatment typically cost more than older ones. Among antidepressants, the newer drug Prozac — a selective serotonin reuptake inhibitor or SSRI — is almost 3 times more costly than the previous popular treatment, Elavil—a tricyclic antidepressant.

**Trends in Usage.** The increasing number of overall prescriptions dispensed each year is one of the main factors contributing to rising drug spending. Factors that, in turn, increase prescription drug use include population growth, the aging of the population, an increased number of prescribers, and promotion of prescription drugs to stimulate demand.
Americans use, on average, about 10 prescriptions per year (Figure 6). Between 1992 and 1998, the total number of prescriptions dispensed increased 37%, while the average number per person increased 32%. During the same time, the U.S. population grew only 6%.

Figure 6. Total Prescriptions Dispensed and Prescriptions per Capita, 1992-1998

Source: U.S. Census Bureau; and IMS Health, Inc., National Prescription Audit

The proportion of the U.S. population 45 years old and older grew from 31% to 34% in the past 15 years. The median age in the U.S. in 1998 was 35. Between the ages of 45 and 75, prescription use nearly triples, from an overall average of 4.3 to 11.4 prescriptions per person each year.

Manufacturers promote drugs in several ways, including sales calls to physician offices and hospitals that include free samples; journal advertising; displays and presentations at professional meetings; and, more recently, direct advertising to consumers. In addition, manufacturers often negotiate rebates with insurers and health plans in exchange for incentives to use the manufacturer’s drugs.

The largest part of promotional spending continues to be “detailing,” where a company representative makes personal sales calls and may leave samples. However, direct consumer promotion more than tripled from 1995 to 1998, from almost $400 million to $1.3 billion (Figure 7).
Changes in Type of Drugs Used. Because newer drugs are more expensive than older ones, those on the market fewer than 10 years accounted for 75% of the Top 20 drugs by sales. However, these newer drugs comprised only 45% of the Top 20 drugs when ranked by number of prescriptions filled.

New products are available as the result of research by major manufacturers that emphasize research and brand name drugs. Domestic and foreign spending by manufacturers for research and development increased from $11.5 billion in 1992 to $21.1 billion in 1998 (see Figure 8). However, research and development as a percentage of sales has remained relatively flat since the mid 1980s. Research and development is a relatively small proportion of total firm sales for both major (11%) and generic drug manufacturers (6%). Among the top 10 major drug companies, research and development spending is less than half of net profit before taxes.

Drug manufacturers historically have been the top ranking U.S. industry for profits as percent of revenue (Figure 9). In 1999, drug company net profits were nearly 19%, compared with a median of 5% for all Fortune 500 firms.
Figure 8. Research & Development Expenditures for Prescription Drugs by U.S. Pharmaceutical Manufacturers, 1992-1998

Note: Research and development expenditures for prescription pharmaceuticals only. Includes total expenditures (within the U.S. and abroad) by U.S.-owned research-based pharmaceutical companies (major pharmaceutical firms). Since 1990, foreign expenditures comprised approximately 19% of total research and development expenditures.

Source: Pharmaceutical Research and Manufacturers of America (PhRMA).

Figure 9. Profitability Among Pharmaceutical Manufacturers Compared to Other Industries, 1993-1999

Note: Percent shown is the median percent net profit after taxes as a percent of firm revenues for all firms in the industry. The second ranked industry each year was commercial banks.

Source: Fortune, Fortune 500 Industry Rankings.
How Can We Explain Increases in Drug Spending?

Price inflation, in the form of price changes by manufacturers for existing drugs, has contributed only 18 percent of the increase in prescription drug spending from 1993 to 1998 (Figure 10). The rest of the increase in spending is the result of increased use (43%), and changes in use to newer, higher-cost drugs (39%).

Figure 10. The Relative Contributions of Price, Utilization, and Types of Prescription Drugs Used in Rising Prescription Drug Expenditures, 1993-1998

Note: Between 1993 and 1998 the cumulative percent changes in price, utilization, and types of prescriptions used were 11.4%, 28.1%, and 25.4% respectively.

Source: Sonderegger Research Center analysis, based on data from Health Care Financing Administration (HCFA) and IMS Health, Inc.

The introduction and use of newer, more expensive drugs is influencing the average prescription price paid by both consumers and health plans much more than year-to-year price changes made by companies for existing products.

Who Has Prescription Drug Coverage and How Is It Provided?

More than three-quarters, or 77 percent, of Americans who aren’t covered by Medicare had prescription drug coverage in 1996, mostly through their employers (61%), followed by Medicaid (11%); those without prescription coverage (23% or over 53 million people) typically have no health insurance at all (Figure 11). Low-income families who aren’t eligible for Medicaid (between 100% and 200% of the Federal Poverty Level) are most likely to be without drug coverage.

Of Medicare beneficiaries, 31% or 11.5 million seniors had no drug coverage in 1996. Because Medicare does not cover outpatient prescriptions, coverage came through employers (31%), Medicaid (11%), individual plans (10%), Medicare risk HMOs (8%), or other sources (9%) as shown in Figure 11. Only 53% of Medicare patients had drug coverage the entire year. People with Medicare who are just above the poverty level, very old, and living in rural areas are most likely to have no drug coverage.

Low-income families who aren’t eligible for Medicaid are most likely to be without drug coverage.
Figure 11. Insurance Coverage for Prescription Drugs, 1996

Non-Medicare Population
(N = 230.9 million)

Medicare Population
(N = 37.2 million)

* All other within the Medicare population includes persons who switched coverage at some time during the year, totalling 7.3% of beneficiaries.

What Are the Primary Sources of Prescription Drug Coverage?

Most Americans get their prescription drug coverage through employers. About two-thirds have employment-based health care coverage, and prescription drug coverage is now common for employees of both small and large firms who have health care coverage. Insured workers with drug coverage increased from 91% in 1988 to 99% in 1999.

Medicaid is the largest source of public coverage for prescription drugs, covering 11% of Americans in 1996. The Medicaid program in every state provides prescription drug coverage. The Medicaid program may also cover some low-income elderly in the Medicare program.

How Much Do Consumers Pay?

Since 1992, the proportion of drug costs paid by consumers has decreased from 44% to 28% of total spending, while the share paid by private insurers increased from 38% to 51% (see Figure 12). The share of prescription drug payments by government programs has increased slightly, from 18% to 21%.

![Figure 12. Percent of Total National Prescription Drug Expenditures by Consumer, Private Insurers, and Government, 1992-1998](image)

Notes:

- Out-of-pocket expenditures - all direct spending by consumers for prescription drugs, such as copayments, coinsurance amounts, deductibles, and amounts not covered by an insurer. Does not include out-of-pocket premiums for health insurance.

- Government Programs - Federal, State, and local spending for prescription drugs. Government includes Medicaid, Medicare, Department of Defense, Veterans Administration, Indian Health Service, state and local hospitals, and public assistance programs.

- Private Insurance - payments made by private insurers for prescription drugs for covered beneficiaries.

Source: Health Care Financing Administration (HCFA), Office of the Actuary.
Expenditures for prescription drugs is still just 9% of total personal health care expenditures, but the proportion for drugs has been rising steadily as shown in Figure 13.

Figure 13. Prescription Drugs, Hospital Care, and Physician Services as a Percent of Personal Health Care Expenditures, 1992-1998

On average, 1% of spending on household goods and services is for prescription drugs.
Conclusion

Increased expenditures for prescription drugs are a complex phenomenon. Many factors contribute to the growth, including treatment advances from research and development, promotion of products in traditional and new ways, an aging population with more needs for prescription drugs, and increased insurance coverage for prescriptions. These factors and others contribute to the changes in price, utilization, and types of drugs used that drive expenditures for prescription drugs.

Adapted with permission from “Prescription Drug Trends: A Chartbook,” an analysis by the Kaiser Family Foundation authored by David H. Kreling, David A. Mott, and Joseph B. Wiederholt of Sonderegger Research Center of the University of Wisconsin-Madison and Janet Lundy and Larry Levitt of the Kaiser Family Foundation. The full report can be obtained from the Kaiser Family Foundation web site at www.kff.org or by requesting Publication #3019 from the Kaiser Family Foundation Publication Request Line at 1-800-656-4533.

This chapter was presented at the seminar by Professor David A. Mott who received his B.S. degree in pharmacy from the University of Wisconsin. He received his M.S. and Ph.D. degrees in pharmacy administration from the University of Wisconsin. Before joining the Wisconsin faculty in 1998, he was a faculty member at the Ohio State University College of Pharmacy. His research interests include pharmacy labor economics, the role of prescription drug insurance in drug therapy decision making, and employer-employee decision making regarding health insurance. Dr. Mott is also a licensed pharmacist in Wisconsin.
How Should Policymakers Determine Eligibility for a Prescription Drug Benefit for the Elderly?

By Bruce Stuart, Becky Briesacher, and Dennis Shea

This study examines six ways that policymakers can determine eligibility for a prescription drug benefit for the elderly. The results show that Medicare recipients’ need for consistent and stable drug coverage does not necessarily fit neatly into income categories or any single measure of need. People faced with a combination of low income, lack of coverage, and high prescription drug bills have the most urgent need. If a broad definition of need is used—to include people with low incomes, those without continuous coverage, those with high costs, or those with multiple, chronic conditions—nearly 90% of Medicare beneficiaries would qualify.

Who needs Medicare prescription drug coverage most? Who has the greatest needs? That depends on how you define “need.” Most Medicare beneficiaries will not qualify for prescription drug coverage under Medicare if annual income alone is used to determine eligibility. If a broader definition of need is used—to include people without continuous coverage, those with high costs, or those with multiple, chronic conditions—nearly 90 percent would qualify.

This analysis examines the question of Medicare recipients’ needs for prescription coverage. Within this discussion, five criteria in addition to income will be used to define need. Next, the proportions of Medicare beneficiaries in each need category that would be eligible for coverage or a subsidized premium are assessed. Finally, this chapter will examine the relationship among the different need criteria.

What Definitions of Need Can Policymakers Use?

This study looked at six facets of need, using data to define the criteria from the 1995 and 1996 Medicare Current Beneficiary Surveys.

Annual income related to the Federal Poverty Level. Three income categories were identified: less than or equal to 100 percent of the Federal Poverty Level (FPL); 101 to 150 percent of the FPL; and greater than 150 percent of the FPL.

Lack of access to affordable prescription coverage. Lack of access is not the same as being without coverage. Some Medicare recipients may choose not to enroll in a plan offering prescription benefits. There is no good way to tell which people are voluntarily without coverage and those who cannot afford or find prescription benefits. One possible way is persistent lack of drug coverage over an extended period—two years for this study.

Lack of stable drug coverage. Some people lack coverage for only short periods of time. These people use fewer prescription drugs and spend more for them out-of-pocket than those with continuous coverage.
High out-of-pocket spending. Most health insurance plans pay only a portion of drug expenses—and that portion varies widely depending on the source of coverage. Based on prescription spending in 1996, anyone paying more than $805 per year out-of-pocket meets this criterion.

Total drug expenses. Older adults who consistently have high total spending are at some risk even if insurance covers a substantial part. For this study, those in the category of high total expenses were those in the upper 20 percent of spenders for two years in a row, averaging $2085 in annual drug expenses over the two years.

Chronic disease burden. For this study, people with three or more chronic conditions from a list of 10 reported in the Medicare Current Beneficiary Survey qualified for this category. These diseases included Alzheimer’s, arthritis, cancer, chronic lung disease, diabetes, heart disease, hypertension, mental disorder, osteoporosis, and stroke.

What Definition of Need Do Current Federal Proposals Use?

When looking at recent proposals to add a Medicare drug benefit, annual income in relation to Federal Poverty Level (FPL) is clearly the leading criterion in defining need. Many current proposals for providing a drug benefit under Medicare would cover only those with incomes at the Federal Poverty Level or slightly above, which will exclude a significant number of those with true need for assistance.

A proposed plan by Reps. Michael Bilirakis (R-FL) and Collin Peterson (D-MN) would limit eligibility for drug benefits to Medicare beneficiaries with income below 200% of the FPL. Former President Clinton’s plan, meanwhile, promises universal entitlement with a government subsidy for half the premium for older adults above 150% of FPL, with a sliding scale declining to no premium for those between 150% and 135% of FPL.

Three other recent proposals also offer fully subsidized coverage for the poor, but provide lower subsidies than the President’s plan for middle- and upper-income beneficiaries. Still other proposals will be put forth by the next Congress, and these will likely contain similar provisions.

How Many Medicare Beneficiaries Meet Each Definition of Need?

When using the five alternative need criteria beyond strict income guidelines, this study found the proportion of Medicare recipients considered “in need” under any one criterion is very different from the proportions under the various other need categories (Figure 1). The share of people on Medicare meeting the need definition varies from less than 10% to nearly 50%. Thus, Medicare beneficiaries’ need for consistent and stable prescription drug coverage does not fit neatly into income categories as a percent of the Federal Poverty Level or any other single measure of need.
If one considers income alone, about 25% would qualify if the income cutoff was below 100% of the Federal Poverty Level (FPL), whereas 43% would qualify if the cutoff was below 150% of the FPL. As shown in Figure 2, if one considers the lack of stable coverage as the criterion, about half would be classified as “in need.” Those needing coverage range from about 2 in 10 (18.9%) who were sometimes covered to about 3 in 10 (28.4%) who were never covered.
Also, the criteria for determining need benefits some subgroups more than others. For example, Black beneficiaries are much more likely to be in need based on income criteria. Yet, based on the other five need factors, whites are more likely to be in need. A greater percentage of the elderly aged 80 or older would receive benefits if the criteria were a lack of any drug coverage or heavy chronic disease burden. However, the disabled would benefit more if the criteria were a lack of stable coverage, high out-of-pocket drug costs, or high total drug costs.

How Many Medicare Beneficiaries Qualify If More Than One Measure of Need Is Used?

If different measures of need are combined, a different picture emerges. For example, if the lack of stable coverage is combined with health status, those with fair or poor health fill twice as many prescriptions as those in excellent, very good, or good health. As shown in Figure 3, this pattern holds whether or not Medicare recipients have drug coverage.

Figure 3. How Many Prescriptions Did Medicare Beneficiaries Fill in 1996 by Health Status and Drug Coverage?

Note. Noninstitutionalized beneficiaries enrolled in Medicare throughout 1996.
Source: B. Stuart et al., calculated from the 1996 Medicare Current Beneficiary Survey.
If income is combined with the other categories of need, between 22% and 50% of Medicare recipients would receive prescription coverage (see Figure 4). If the Federal Poverty Level (FPL) is used as the cutoff for a drug benefit, no more than 27% of alternative-need beneficiaries would be covered. Raising the cutoff to 150% of FPL would increase the coverage rate to between 40% and 50%, but would still exclude more than half of the Medicare population who need coverage based on one of the other criteria.

**Figure 4. What Percent of Poor and Near Poor Medicare Beneficiaries Have Other Needs for Prescription Coverage?**

<table>
<thead>
<tr>
<th>Category</th>
<th>&lt; 100% FPL</th>
<th>&lt; 150% FPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Drug Coverage</td>
<td>26.5%</td>
<td>26.2%</td>
</tr>
<tr>
<td>Lack of Stable Drug Coverage</td>
<td>49.8%</td>
<td>40.2%</td>
</tr>
<tr>
<td>High Out-of-Pocket Drug Costs</td>
<td>40.1%</td>
<td>22.3%</td>
</tr>
<tr>
<td>High Total Drug Costs</td>
<td>27.2%</td>
<td>43.1%</td>
</tr>
<tr>
<td>Heavy Burden of Chronic Disease</td>
<td>27.0%</td>
<td>46.0%</td>
</tr>
</tbody>
</table>

Note. Noninstitutionalized Medicare beneficiaries enrolled in both 1995 and 1996.
Source: B. Stuart et al., calculated from the 1995 and 1996 Medicare Current Beneficiary Surveys.

In four of the five alternative need categories, average total drug spending is higher for those with incomes above 150% of the Federal Poverty Level. This isn’t surprising, because with higher income, people have increased ability to purchase both prescription coverage and medications. This finding suggests that actual spending levels probably understate the true needs of low-income beneficiaries. If drug coverage was universal, these differences probably would decrease or disappear.
How Many Medicare Beneficiaries Qualify if Any Measure of Need Is Used?

Figure 5 most clearly illustrates the extent of need for subsidized drug coverage. By including any criteria of need—either income-based (less than 150% of poverty), coverage-based (high individual or total spending), or health-based (three or more chronic conditions)—this study finds that nearly 9 out of 10 (86%) Medicare recipients need prescription drug assistance. If a recipient had to have at least two of these criteria, about 54% would qualify for coverage.

Figure 5. What Percent of Medicare Beneficiaries Have Multiple Needs for Prescription Coverage?

Note. Noninstitutionalized Medicare beneficiaries enrolled in both 1995 and 1996.
Source: B. Stuart et al., calculated from the 1995 and 1996 Medicare Current Beneficiary Surveys.

This study also highlights how important it is to look at different measures of need. Any one of the need criteria captures between about 10% and 50% of the total Medicare population (see Figure 1). Since 86% of the Medicare population meet at least one of the criteria, using any single measure of need misses at least one-third of the population that could be considered “in need” by an alternative definition.
What Are the Implications for Policy?

This study shows that Medicare recipients’ need for consistent and stable drug coverage does not necessarily fit neatly into income categories or any single measure of need. In fact, no single measure of need is fully successful. Instead, the study shows that determining eligibility deserves careful consideration by policymakers because the need for drug coverage is multi-dimensional and pervasive. People faced with a combination of low income, lack of coverage, and high prescription drug bills have the most urgent need.

Regardless of where the income cutoff is set, a significant portion of Medicare recipients with true needs will be left out. In short, means-testing eligibility can neither assure that people with equal needs are treated the same, nor assure that those with differing need levels receive assistance in proportion to their need.

In addition to means-testing for eligibility, other aspects of a drug benefit have the ability to affect which Medicare recipients will have their needs addressed and which will not.

For example, one important benefit feature is the level of contributions required of beneficiaries, and the level of government subsidy provided. Most current proposals for a Medicare drug benefit take a different approach to means-testing by testing the premium subsidy, rather than the eligibility requirement. People above the income cutoff will pay 25% of a premium under some proposals and as much as 75% under others.

Given the experience with Medicare Part B (with a 75% premium subsidy), most people would probably sign up for a prescription drug program offering the most generous subsidy. Near-universal enrollment is important to assure that all beneficiaries who need the benefit have reasonable access to it.

A premium subsidy of only 25% will likely attract primarily high-cost beneficiaries. Since personal drug spending tends to continue from year to year, beneficiaries with anticipated drug costs below the 75% share of the premium have less financial incentive to sign up. If only high-cost people enroll, premiums will spiral up, making coverage unaffordable for all except those with low income whose costs are fully subsidized. For this reason, getting the premium subsidy right is critical to the success of any Medicare drug plan.

Conclusion

As the debate over a Medicare prescription drug benefit continues, policymakers need to remember to balance the benefits that might be achieved from using a simple needs assessment against the costs—in terms of the many truly deserving beneficiaries who would be excluded from coverage and the loss of social solidarity that supports the Medicare program itself.
This chapter was adapted from a policy brief written by Bruce Stuart and Dennis Shea, “Designing a Medicare Drug Benefit: Whose Needs Will Be Met?” which can be found on the web site of The Commonwealth Fund at www.cmwf.org. Hard copies of this report, #436, and other reports can be ordered from The Commonwealth Fund by calling (212) 606-3800.

Dr. Bruce Stuart, Ph.D., is the Parke-Davis Professor of Geriatric Pharmacotherapy and Director of the Peter Lamy Center on Drug Therapy and Aging, at the University of Maryland School of Pharmacy. He was recently named a Maryland Eminent Scholar for his work in geriatric drug policy issues. He has numerous publications including a chapter in the U.S. Department of Health and Human Services Report to the President, “Issues in Prescription Drug Coverage, Pricing, Utilization, and Spending: What We Know and Need to Know.” He is an experienced researcher having directed numerous grants and contracts for the National Institute on Aging, the Health Care Financing Administration, the Assistant Secretary for Planning and Evaluation, private foundations, and state governments. He received an outstanding teacher of the year award and recently received the best paper award from the Association for Health Services Research. Before entering academia, he worked in state government.
What Can Wisconsin Learn from Pennsylvania, the Nation’s Largest State Pharmacy Assistance Program for the Elderly

By Tom Snedden

This chapter describes the largest prescription drug coverage program for older adults in the nation. PACE and PACENET help 264,657 Pennsylvania residents over age 65 who are income-eligible with the cost of their prescription drugs. The programs pay for all but a portion of the cost of each drug prescribed by a doctor. The program is funded by the state lottery and administered by the Pennsylvania Department of Aging.

The Pharmaceutical Assistance Contract for the Elderly (PACE) program in Pennsylvania is the largest state prescription drug coverage program for older adults in the nation. This program helps Pennsylvania residents over age 65 who are income-eligible with the cost of their prescription drugs.

What Benefits Do PACE and PACENET Provide?

PACE, established in 1984 and administered by the Pennsylvania Department of Aging, pays for all but a portion of the cost of each drug prescribed by a doctor. Enrolled PACE members are responsible for a copayment of $6 at the time they get the prescription at a pharmacy. The program is funded by the state lottery.

Members must be Pennsylvania residents at least 90 days before application. Gross income from all sources, both taxable and non-taxable, for the previous year must be less than $14,000 for single people and less than $17,200 for married applicants. Since the legislature reauthorization of PACE in 1987, the program has implemented a diversity of measures that have significantly reduced outlays in the program, through increase used of lower priced therapeutically equivalent generic medications, significant manufacturer rebates, reduced provider reimbursements, and a comprehensive drug utilization review program.

In 1996, state legislation expanded the PACE program eligibility requirements and created a new program, PACENET (Pharmaceutical Assistance Contract for the Elderly Needs Enhancement Tier). PACENET helps eligible older adults with higher annual incomes. To be eligible, applicants’ gross income for the previous year must be less than $16,000 for single people and less than $19,200 for married couples.

Enrolled members must first satisfy an annual $500 deductible before PACENET begins paying for medications. After the deductible is satisfied, cardholders also must make a copayment of $8 for generic drugs and $15 for brand names for each prescription.
What Trends Have Occurred in Program Enrollment, Usage, and Cost?

PACE/PACENET currently has 264,657 people enrolled. Table 1 displays the ongoing trends of declining enrollments, increasing drug use, and rising costs per cardholder in PACE between 1996 and 1999. Enrollment has declined because the income levels are fixed by statute and cannot be changed without legislative action. Even though PACE enrollment declined over 7% in 1999, claims per person increased by almost 11%. PACENET, however, has had increasing enrollment and usage between 1996 and 1999 (Table 2).

Table 1. Historical Claim and Expenditure Data for PACE Enrolled and Participating Cardholders by Annual Period Based on Date of Service, 1996-1999

<table>
<thead>
<tr>
<th>Period</th>
<th>Enrolled Cardholders</th>
<th>Participating Cardholders</th>
<th>Claims per Enrolled Cardholder</th>
<th>Claims per Participating Cardholder</th>
<th>Expenditures per Enrolled Cardholder</th>
<th>Expenditures per Participating Cardholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>299,409</td>
<td>246,123</td>
<td>28.23</td>
<td>34.37</td>
<td>$805.92</td>
<td>$980.40</td>
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<tr>
<td>1997</td>
<td>281,153</td>
<td>231,482</td>
<td>30.75</td>
<td>37.35</td>
<td>$854.39</td>
<td>$1,037.73</td>
</tr>
<tr>
<td>1998</td>
<td>262,117</td>
<td>218,080</td>
<td>32.68</td>
<td>39.28</td>
<td>$1,007.26</td>
<td>$1,120.65</td>
</tr>
<tr>
<td>1999</td>
<td>242,427</td>
<td>204,956</td>
<td>36.17</td>
<td>42.78</td>
<td>$1,221.03</td>
<td>$1,444.25</td>
</tr>
</tbody>
</table>

Source: Pennsylvania Department of Aging Cardholder File, Claims History.

Table 2. Historical Claim and Expenditure Data for PACENET Enrolled and Participating Cardholders by Annual Period Based on Date of Service, 1996-1999

<table>
<thead>
<tr>
<th>Period</th>
<th>Enrolled Cardholders</th>
<th>Participating Cardholders</th>
<th>Claims per Enrolled Cardholder</th>
<th>Claims per Participating Cardholder</th>
<th>Expenditures per Enrolled Cardholder</th>
<th>Expenditures per Participating Cardholder</th>
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<tr>
<td>1996</td>
<td>1,523</td>
<td>740</td>
<td>1.53</td>
<td>3.15</td>
<td>$0.54</td>
<td>$1.11</td>
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<tr>
<td>1997</td>
<td>10,793</td>
<td>7,688</td>
<td>20.84</td>
<td>29.25</td>
<td>$302.85</td>
<td>$425.16</td>
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<tr>
<td>1998</td>
<td>18,363</td>
<td>13,244</td>
<td>22.21</td>
<td>30.80</td>
<td>$416.46</td>
<td>$577.43</td>
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<td>1999</td>
<td>22,230</td>
<td>16,767</td>
<td>25.74</td>
<td>34.13</td>
<td>$581.95</td>
<td>$771.53</td>
</tr>
</tbody>
</table>

Source: Pennsylvania Department of Aging Cardholder File, Claims History.

Notes: Data include original, paid PACENET claims by date of service. Total claims include deductible claims and copaid claims. Enrolled cardholders are those enrolled for any portion of the reported period. Participating cardholders are cardholders with one or more approved claims during the reported period.
What Prescriptions Are Covered?

PACE/PACENET covers most prescription drugs, as well as insulin, insulin syringes, and insulin needles. PACE requires that generic drugs be used instead of brand names when an approved generic is available. Since PACE/PACENET began requiring generic substitutions in 1992, use of generic drugs has increased from about 25% to just over 40% (see Figure 1). PACE does not cover experimental drugs, medications for baldness or wrinkles, or any drug that is available without a prescription. Under certain conditions, the Department of Aging provides a PACE/PACENET medical exception process.

Figure 1. PACE Generic Utilization Rates by Year, 1988-1999

![Figure 1. PACE Generic Utilization Rates by Year, 1988-1999](image)


How Does the Program Work?

To receive benefits, the enrollee presents a PACE or PACENET card to the pharmacist or other dispenser when filling a prescription. Before filling a prescription, the provider submits a claim to the program.

Six types of providers dispense PACE/PACENET-funded prescriptions. The majority of providers are either independent pharmacies or chain pharmacies. Other providers include institutional pharmacies, nursing home pharmacies, mail service pharmacies, and dispensing physicians.
The state reimburses providers for the average wholesale price of the medication minus 10%, plus a $3.50 dispensing fee or their usual and customary charge (whichever is less), minus the copayment. A limit of 30 days’ supply or 100 units (whichever is less) applies to each claim. The program guarantees reimbursement to the provider within 21 days, paying interest on any unpaid balance after that time. A contractor directly responsible to the Department of Aging assists in conducting many of the day-to-day operations.

Adapted with permission from a longer publication, “PACE Annual Report to the Pennsylvania General Assembly: January 1 - December 31, 1999” published by Pennsylvania Department of Aging. April 2000. The full report can be ordered by calling the Pennsylvania PACE program at (717) 787-7313.

Tom Snedden is the Director of Pennsylvania’s prescription drug program, Pharmaceutical Assistance Contract for the Elderly, more commonly known as the PACE program. Since 1985 when he assumed the position, he and his staff have spoken with almost every state in the country about what they have learned about prescription drug programs based on their experience with PACE.
Glossary

A-Rated Product  A drug substitution approved by the Food and Drug Administration.

Brand Name Drug  Generally, a drug product that is covered by a patent and thus is manufactured and sold exclusively by one firm. Cross licensing occasionally occurs, allowing an additional firm(s) to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name remains with the original manufacturer’s product.

Coinsurance  A cost-sharing requirement under a health insurance policy that requires the patient to pay a percentage of costs for covered services/prescriptions (e.g., 20% of the prescription price).

Copayment  A cost-sharing requirement under a health insurance policy that requires the patient to pay a specified dollar amount for each unit of service (e.g., $10.00 for each prescription dispensed).

Detailing  Personal selling activities by pharmaceutical manufacturer sales representatives. The representatives inform prescribers, pharmacists, and others about the specifics or details of their firms’ products, thus the label “detailing.” Sales representatives often leave samples of products for prescribers for trial use among their patients, to stimulate future prescribing.

Direct-to-Consumer Advertising/Promotion  Advertising for prescription drugs in print, radio, and television media targeted directly to consumers by pharmaceutical manufacturers. Consumers are the targeted audience, even though prescription drugs require a prescription order from a prescriber in order to be dispensed.

Dispensing Fee  An amount added to the prescription ingredient cost by a pharmacy to determine a prescription price. The dispensing fee represents the charge for the professional services provided by the pharmacist when dispensing a prescription (including overhead expenses and profit). Most direct pay insured prescription programs use dispensing fees to establish pharmacy payment for prescriptions.

Formulary  A listing of drug products that may be dispensed or reimbursed (positive formulary) or that may not be dispensed or reimbursed (negative formulary). A government body, third-party insurer or health plan, or an institution may compile a formulary. Some institutions or health plans develop closed (i.e. restricted) formularies where only those drug products listed can be dispensed in that institution or reimbursed by the health plan. Other formularies may have no restrictions (open formulary) or may have certain restrictions such as higher patient cost-sharing requirements for off-formulary drugs.

Generic Drug  A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

HCFA Federal Upper Limit (HCFA FUL)  Amount established by the Health Care Financing Administration (HCFA) of the U.S. Department of Health and Human Services as a target amount of payment for a drug in a state Medicaid Program.
**Maximum Allowable Cost (MAC)**  The upper limit of ingredient cost for which a third-party payer will reimburse a pharmacy for dispensing certain multiple source drugs (i.e., drugs for which generic equivalents exist). MACs are used by public programs such as Medicaid and by private prescription insurance plans. Although there is no standard list of MAC drugs, often lists for different insurers or prescription programs include many of the same drugs and similar payment limits.

**Mail Order Pharmacy**  A pharmacy that dispenses prescriptions to consumers who contact the pharmacy by mailing or faxing their prescription orders and then the prescription is mailed to the consumer. This can be an advantage for homebound patients or other patients without ready access to traditional community pharmacies. Unlike traditional pharmacies, the pharmacies can serve more than the local market where the pharmacy is located. Since there typically is at least a short delay between ordering and receiving prescriptions, these pharmacies generally serve patients on long-term drug therapies and those without immediate drug needs. The average size of prescriptions (number of capsules or tablets) dispensed in mail order pharmacies is larger than in local community pharmacies. Consequently, although mail order pharmacies represent less than 5% of all prescriptions dispensed, they comprise approximately 13% of total retail prescription sales.

**Nonprescription Drug**  A drug product that can be purchased without a prescription order.

**Over-the-Counter (OTC) Drug**  A nonprescription drug.

**Patent/Patent Life**  A patent provides exclusivity in marketing a product. The patent life is the time during which a patent is in force and the product’s manufacturer has exclusive marketing rights. The length of a patent for a drug is 20 years which is longer than for other products. The effective patent life for a drug may actually be shorter than 20 years depending on the time between discovery and market launch that is needed for safety and efficacy testing, clinical trials, and FDA approval for marketing.

**Pharmacy Benefit Manager (PBM)**  An organization that provides administrative services in processing and analyzing prescription claims for pharmacy benefit and coverage programs. Their services can include contracting with a network of pharmacies; establishing payment levels for provider pharmacies; negotiating rebate arrangements; developing and managing formularies, preferred drug lists, and prior authorization programs; maintaining patient compliance programs; and operating disease management programs. Many PBMs also operate mail order pharmacies or have arrangements to include prescription availability through mail order pharmacies.

**Prescriber**  A health care provider licensed to prescribe drugs. Primary prescribers are physicians, but others may have prescriptive authority, depending on states’ statutes and laws. For example dentists, physician assistants, nurse practitioners, optometrists, and others may have authority to prescribe, typically within limits.

**Rebate**  An amount that the manufacturer of a drug pays to an insurer or health plan for each unit of drug dispensed. Rebate arrangements exist between manufacturers and Medicaid agencies, HMOs, and other insurers or drug plans, and generally bypass the pharmacy. Rebates are referred to as “after market” arrangements because they do not affect the prices paid at the time of service, but are implemented later, ultimately reducing the payer’s expenditures or program costs. The Omnibus Budget Reconciliation Act of 1990 (OBRA ’90) requires pharmaceutical firms to give a rebate to the Health Care Financing Administration (HCFA) for distribution to the states for all drugs covered under state Medicaid drug programs. Within the private insurance market, rebates often are associated with preferred drugs, and the rebate or level of rebate is contingent upon achieving market share goals.
**Third-Party Insurer**  An entity (a public or private program, health plan, or insurer) that pays or reimburses the patient or pharmacy for all or part of the cost of services provided.

**Usual and Customary (U&C) Charge**  The amount a pharmacy or other provider charges self-pay (cash) patients. Some insurance programs dictate that a pharmacy’s claim may not exceed its usual and customary charge for the prescription dispensed.

**Wholesale Acquisition Cost (WAC)**  The price paid by the wholesaler for drugs purchased from the wholesaler’s suppliers (manufacturers). On financial statements, the total of these amounts equals the wholesaler’s cost of goods sold. Publicly disclosed or listed WAC amounts may not reflect all available discounts.

*Reprinted, in part, with permission from “Prescription Drug Trends: A Chartbook,” an analysis by the Kaiser Family Foundation authored by David H. Kreling, David A. Mott, and Joseph B. Wiederholt of Sonderegger Research Center of the University of Wisconsin-Madison and Janet Lundy and Larry Levitt of the Kaiser Family Foundation. The full report can be obtained from the Kaiser Family Foundation web site at www.kff.org or by requesting Publication #3019 from the Kaiser Family Foundation Publication Request Line at 1-800-656-4533.*
Selected Resources

Compiled by Karla Balling
Project Assistant
Wisconsin Family Impact Seminars

State Agency Representatives

Richard Sweet, Senior Staff Attorney
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1 East Main Street, Room 401
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Interests: Consumer law, fraud and misrepresentation, bad faith insurance claim denials, unfair debt collection practices, and credit issues affecting lower income consumers.
David Mott, Assistant Professor
University of Wisconsin-Madison, School of Pharmacy
Chamberlin Hall Room 4302
Madison, WI 53706
(608) 265-9268
damott@pharmacy.wisc.edu
Interests: Factors associated with drug utilization, health care policy evaluation, and health care workforce evaluation

Roberta Riportella-Muller, Associate Professor
Consumer Science, Health Policy Specialist
University of Wisconsin-Madison/Extension, School of Human Ecology
Human Ecology Building, Room 370B
Madison, WI 53706
(608) 263-7008
rriporte@facstaff.wisc.edu
Interests: Barriers to accessing care for under-served populations and broad extensive knowledge about Medicare programs. Is currently working with Health Care Financing Administration to design an educational program for beneficiaries that will be disseminated through county Extension offices. Has a solid understanding of the issues with Medicare financing problems and how/if extended prescription drug coverage may impact the fiscal viability of the program.

Community

Ray Larvuso, M.D., J.D.
Advocacy and Benefits Counseling for Health
152 West Johnson, Suite 206
Madison, WI 53703
(608) 261-6939 (ext. 204)
larvuso@safetyweb.org
Interests: Barriers to health care benefits for low-income families.

National Resources

The Commonwealth Fund
One East 75th Street
New York, NY 10021-2692
(212) 606-3800
ilhi@cmwf.org

Commonwealth Fund Reports
(reports are available at www.cmwf.org):

Designing a Medicare Drug Benefit: Whose Needs Will Be Met? (#436)
Growth in Medicare and Out-of-Pocket Spending: Impact on Vulnerable Beneficiaries (#430)
Department of Health and Human Services
Office of the Assistant Secretary for Planning and Education
http://aspe.hhs.gov

DHHS Report:
Prescription Drug Coverage, Spending, Utilization, and Prices: Report to the President, April 2000

General Accounting Office
PO Box 37050
(202) 512-6000
infor@www.gao.gov

GAO Report:
State Pharmacy Programs: Assistance Designed to Target Coverage and Stretch Budgets (GAO/HEHS.00.162)
Prescription Drugs: Expanding Access to Federal Prices Could Cause Other Price Changes, August 2000

Health Care Financing Administration (HCFA)
7500 Security Boulevard
Baltimore, Maryland 21244
(410) 786-3000
www.hcfa.gov

Kaiser Family Foundation
2400 Sandhill Road
Menlo Park, CA 94025
(650) 854-9400
1-800-656-4533
www.kff.org

Kaiser Foundation Reports
(reports are available at www.kff.org or by calling 1-800-656-4533):
Prescription Drug Trends: A Chartbook (publication #3019)
Kaiser Family Foundation/Health Research and Educational Trust 1999 Annual Employer Health Benefits Survey, 1999
Medicare and Prescription Drugs, A Factsheet, March 2000
Retiree Health Coverage: Recent Trends and Employer Perspectives on Future Benefits, prepared by Hewitt Associates, October 1999
National Conference of State Legislatures
1560 Broadway
Suite 700
Denver, CO 80202
(303) 830-2200
www.ncsl.org

NCSL Reports:
State Senior Pharmaceutical Assistance Programs
www.ncsl.org/programs/health/drugaid.htm
Prescription Drug Discount, Rebate, Price Control,
and Bulk Purchasing Legislation
www.ncsl.org/program/health/drugdisc.htm

National Governors’ Association
Center for Best Practices
Health Policy Studies
Joan Henneberry
(202) 624-3644
www.nga.org/Pubs/IssueBriefs/2000/Sum000814PharmBenefits.asp