

Providing Prescription Drug Coverage for Low and Moderate Income Senior Citizens

Report Highlights

Background: The Committee directed its staff to study the availability of prescription drug coverage for seniors and to develop options to provide help to low and moderate income senior citizens.

Existing Prescription Drug Programs:

- *PACE/PACENET.* Provides \$400 million in prescription drug assistance to 220,000 low-income seniors. Nearly one-third of PA's seniors are eligible for PACE/PACENET coverage.
- *Medical Assistance.* PA spends about \$280 million on prescription drugs for the elderly in its Medicaid fee-for-service program. HealthChoices spends an additional \$120 million.
- *Medicare.* The traditional Medicare program does not provide drug coverage, but it can be obtained through Medigap (private) or through a Medicare+Choice option. Nearly 500,000 PA seniors are enrolled in Medicare HMOs.
- *Veterans Administration.* Prescription drugs are available through the VA, but a VA physician must issue the prescription, and it can take a year for an appointment. An estimated 125,000 older PA veterans are enrolled in this program.
- *Employer-Based Benefit Programs.* These benefits assist more than one in three seniors.
- *Pharmaceutical Programs.* About 13,000 PA seniors may receive free or reduced-cost drugs through manufacturer programs. Many manufacturers also have discount card programs.

PACE/PACENET Cost Savings and Revenue Enhancement Options

Manufacturers

- *Best Price.* Manufacturers currently pay rebates to Medicaid of 21%, compared to 16% for PACE/PACNET. A best price requirement could save more than \$30 million annually.
- *Formulary or Preferred Drug List.* Formularies and PDLs are used to encourage cost-effective drugs. A formulary could save \$10 million annually, depending on the formulary.
- *Prior Authorization.* Physicians would have to obtain approval to prescribe medications not on a PDL. This could yield potential savings of \$5 million to \$10 million annually.

Pharmacies

- *Federal Upper Limits.* FUL limits pharmacy reimbursement for generic prescription drugs to an amount determined by the Center for Medicare and Medicaid Services. FUL could save \$28 million annually.
- *Ingredient Cost.* PACE/PACENET reimburses pharmacies at 90% of Average Wholesale Price plus a \$3.50 dispensing fee. The industry average is AWP-15 percent plus a \$2 dispensing fee. Lowering reimbursement to 87% of AWP would save \$10 million.
- *Mail Order.* Normally used for 90-day supplies (90% of program prescriptions). Mail order incentives could save up to \$36 million annually.

Beneficiaries

- *Increase Copayments.* The PACE copay (\$6) has not increased since 1991. Increasing the copay or establishing a tiered copay (like PACENET) could save \$15 to \$30 million.
- *Require an Annual Deductible.* A \$250 deductible could yield \$50 million annually.
- *Other:* Establish maximum annual benefit ceiling; limit prescriptions; establish annual fee.

Possible Approaches for Expanding Coverage

The report contains summaries of legislative and other proposals and outlines an LBFC-staff approach to expand PACENET eligibility to 300% of federal poverty level (\$26,940 for individuals; \$36,360 for couples) using several common cost-sharing techniques. The approach employs cost sharing such as Best Price; Federal Upper Limits; mail order; increasing PACE copay to \$8; and savings through mail order incentives. The plan would cost \$45 million annually, which appears feasible given: (1) a current PACE Fund balance of about \$150 million; (2) anticipated enhanced Lottery revenues; and (3) a likely Medicare prescription drug benefit by 2005.