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Medicare Drug Benefit Trims Spending on Hospitals, Study Finds

By Alex Wayne - Jul 26, 2011

Offering prescription drug coverage to the federal Medicare program's elderly beneficiaries reduced spending on hospitals and nursing homes, a study found.

The effort increased access to medicines and improved patients' adherence to drug regimens, according to the study published today in the Journal of the American Medical Association.

The results support arguments of advocates of the so-called Part D benefit Congress created in 2003. They said enrolling Medicare beneficiaries with inadequate coverage in subsidized drug plans from insurers such as UnitedHealth Group Inc. (UNH) and Humana Inc. (HUM) would reduce acute-care spending.

The drug program "has been even more beneficial than we previously knew," said J. Michael McWilliams, an assistant professor of health policy at Harvard Medical School in Boston, and lead author of the study, in a telephone interview.

Medicare spent about \$62 billion for prescription drugs in 2010. Spending on non-drug health services fell about \$1,200 a year for about 10 million patients lacking employer-sponsored health plans or who otherwise had inadequate coverage before the benefit took effect, the study found. The \$1,200 is about 11 percent lower than the spending would have been without the benefit.

"Expanding the Medicare program to incorporate a drug benefit increased the use of prescription drugs, lowered out-of-pocket costs and improved adherence" to prescriptions, McWilliams said. "What was unclear is if that translated to better control of chronic diseases and lowered spending on acute and post-acute care."

No Estimate Available

During the debate before Congress overhauled Medicare in 2003, the nonpartisan Congressional Budget Office couldn't estimate how much a drug benefit would reduce spending on acute care, said Joe Antos, who studies health policy at the American Enterprise Institute in Washington and worked for the agency in 2001 and 2002.

"It looks like we have saved some money," Antos said of the findings. "I strongly suspect we've also improved health care and very likely also improved people's actual functioning."

The Medicare drug benefit didn't change spending patterns for seniors who had employer-sponsored retiree plans or private policies before the Medicare benefit was established. The cost of subsidizing these individuals may have driven up Medicare costs for taxpayers, said Antos.

Access to Medicines

The study "has the potential to turn a page in the economics of health care that everybody could have used a few years ago when this debate was in full force," said Mark Merritt, president of the Pharmaceutical Care Management Association, a group representing companies that sell Medicare drug plans including Minnetonka, Minnesota-based UnitedHealth Group and Humana of Louisville, Kentucky.

"Many illnesses, hospitalizations and emergency room visits are caused simply because people didn't have access to the medications they needed," Merritt said by phone.

McWilliams said his study suggests the U.S. may save even more money in the next decade as the health-care overhaul passed in 2010 reduces the amount Medicare beneficiaries have to pay out of their own pocket for drugs.

Improved coordination of drug therapy might yield further savings under new partnerships between doctors and hospitals that could "track adherence" to prescriptions and "improve quality and outcomes" for patients, McWilliams said. Under the health law, the partnerships, known as accountable care, can share in some savings they produce for Medicare.