



American Association of  
HEALTH PLANS

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**American Association of Health Plans**

**Before the**

**UNITED STATES SENATE**

**COMMITTEE ON FINANCE**

*Finding the Right Fit:*

*Medicare, Prescription Drugs and Current Coverage Options*

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## **I. INTRODUCTION**

Good morning, Mr. Chairman and members of the Committee; I am Karen Ignagni, President and Chief Executive Officer of the American Association of Health Plans (AAHP). The members of AAHP appreciate the opportunity to testify today and assist in the Committee's deliberations on addressing the issue of outpatient prescription drugs for Medicare beneficiaries. AAHP represents more than 1,000 HMOs, PPOs, and similar network health plans; our membership includes the majority of Medicare+Choice organizations, which collectively serve more than 75 percent of beneficiaries in the Medicare+Choice program. Together, AAHP member plans provide coverage for 5.6 million Medicare+Choice beneficiaries and more than 150 million Americans nationwide. We strongly support efforts to modernize Medicare and give beneficiaries health care choices that are available to working Americans.

## **II. PRESCRIPTION DRUG COVERAGE IS CRITICAL TO THE MEDICARE PROGRAM**

We believe that creating an affordable prescription drug benefit under Medicare is an important piece of unfinished business this Congress can and should address. In creating the Medicare program thirty-six years ago, our nation made a commitment not only to the elderly and disabled who directly benefit from the program, but also to their families whom otherwise would bear the overwhelming costs of their health care. As more prescription drugs have become available and have taken a more critical role in medical treatment, especially to the chronically ill, the absence of an outpatient prescription drug benefit in the Medicare program has become problematic for many Medicare beneficiaries and their families.

AAHP and its member plans strongly support making a well designed, flexible and financially sustainable drug benefit available to Medicare beneficiaries.

## **III. MANY MEDICARE+CHOICE PLANS HAVE BEEN PROVIDING PRESCRIPTION DRUG COVERAGE AND HAVE BEEN A PRIMARY SOURCE OF COVERAGE FOR VULNERABLE BENEFICIARIES**

For several years now, Medicare+Choice plans and their predecessors, Medicare risk plans, have been a critical source of prescription drug coverage for many seniors and the disabled. A majority of Medicare beneficiaries without drug coverage paid for by Medicaid or by a former employer choose our plans as their source of prescription drug coverage. Furthermore, Medicare+Choice enrollees have expressed consistently high levels of satisfaction with their plans<sup>1</sup>.

AAHP members stand ready to offer their knowledge and experience as Congress considers ways to provide a prescription drug benefit for senior citizens. Because Medicare+Choice plans completely integrate outpatient pharmaceutical coverage into the Medicare coverage they offer, Medicare+Choice plans are—and continue to be—well positioned to offer beneficiaries an effective coverage option.

***Medicare+Choice is a Critical Source of Prescription Drugs for Low-Income Beneficiaries Without Subsidized Supplemental Coverage***

While Medicaid provides coverage for the poorest beneficiaries and other beneficiaries may have supplemental insurance subsidized by a former employer, for all others, supplementing Medicare for drugs and other treatments can be prohibitively expensive, particularly for those on fixed incomes. An AAHP analysis of HCFA data from 1997 demonstrated that Medicare plans serve many financially vulnerable beneficiaries, principally those without subsidized supplemental coverage and those with limited or modest incomes who are not eligible for Medicaid.<sup>2</sup>

Specifically, AAHP found that nationally, 54 percent of Medicare beneficiaries with unsubsidized supplemental coverage for drugs obtained coverage through Medicare managed care plans. Results showed that Medicare managed care plans' role in making drug coverage available to beneficiaries spanned income groups, but was greater among lower income groups. Moreover, where Medicare managed care plans had a strong presence, such as in urban areas of the West and Northeast, more beneficiaries had drug coverage. For example, in urban areas of the West, 65

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<sup>1</sup> Medicare risk and Medicare+Choice enrollees have consistently expressed overall satisfaction with their quality of care at percentage rates in the mid-to-high nineties. See MedPAC Reports to Congress dated March 2000 (p. 34) and June 1998 (p. 133).

<sup>2</sup> AAHP, "Financially Vulnerable Medicare Beneficiaries Rely on HMOs for Prescription Drug Coverage," May 2000.

percent of Medicare beneficiaries without subsidized supplemental coverage had drug coverage compared with 42 percent nationally.

As further evidence of Medicare+Choice plan benefits to low-income beneficiaries, MedPAC's March 2000 Report to Congress showed that enrollees in Medicare managed care plans typically spend approximately \$1,000 less annually on out-of-pocket health expenditures than those in FFS with Medigap.

### **Medicare+Choice Enables Affordability of Prescription Drugs**

One Medicare+Choice member from Florissant, Missouri, concerned about the sustainability of the Medicare+Choice program wrote to her representative in 1999,

"I joined Medicare Complete (an HMO) because it had better coverage than Medicare. I am a diabetic and have to go to the doctor every 3 months to keep it under control. Also have some side effects, and sometimes have to see other doctors.

The prescription coverage helps to buy insulin and supplies. We seniors on limited income could not afford Medicare & pay for supplemental insurance."

Mr. Chairman, this is just one example of how important Medicare+Choice is to enrollees who rely on the program for the prescription drug coverage that they need and could not otherwise afford.

## **IV. MEDICARE+CHOICE ORGANIZATIONS CAN HELP CONGRESS ACHIEVE COMPETING POLICY GOALS**

Members of Congress face two competing policy objectives: making a comprehensive prescription drug benefit available to Medicare beneficiaries while simultaneously controlling the program's escalating costs. Our members are well positioned to help Congress achieve its policy goals.

Medicare+Choice organizations offer the advantage of a prescription drug benefit using advanced pharmacy management techniques integrated with medical and surgical benefits. It is important to recognize, however, that even with the use of state-of-the-art pharmacy management tools pioneered by private health plans, prescription drug expenditures are escalating rapidly. To function properly in this environment, any prescription drug benefit must be backed by adequate funding that is sustained over time. Moreover, any new prescription drug program should be designed to allow for the continued evolution of pharmacy management strategies that promote affordability and accessibility of prescription drugs. Lastly, any new regulatory framework that accompanies a prescription drug benefit should pave the way for the successful implementation of the program and its evolution as the program matures.

#### *Medicare+Choice Offers an Important Advantage*

One of the advantages of Medicare+Choice managed care plans is that they allow doctors and other health professionals to coordinate a patient's care across the full spectrum of health care services. Physicians, pharmacists, nurses and other health care providers are better able to communicate with one another and collaboratively monitor a patient's care based on current and past interactions with the medical system. In addition, properly integrating or coordinating pharmaceutical coverage with a plan's medical and surgical coverage reduces costs and maximizes care options available to the patient.

I would like to highlight three examples here.

#### **Centralized, Electronic Record-Keeping and Coordinated Care**

Many plans are using centralized, electronic recordkeeping to help physicians provide better care for their patients. For example, an increasing number of plans issue to physicians portable, hand-held interactive electronic devices that allow doctors to look up plan formularies, access physician reference materials, and review patient claims data on site, as they are treating a patient. Not only does this system allow for a more holistic approach to patient care, but it also minimizes

medical errors. The device will identify potentially harmful drug-drug interactions and will allow a physician to electronically transmit prescriptions to a network pharmacy, eliminating the need for error-prone handwritten prescriptions.

### **Disease Management and Cardiac Care**

Many AAHP member plans have focused on a coordinated approach to cardiac care. In one plan, a team comprised of a doctor, pharmacist, and nurse identify, evaluate, and implement the latest treatments that are shown to be effective. The team then shares its findings with practitioners within the health plan's individual network. A recent example was the decision by the team to double the prescribed dosage level for an ACE inhibitor given to patients with heart disease. That decision was based on a Project HOPE study of nearly 10,000 subjects from 270 hospitals. Results indicated that for every 27 patients treated with an ACE inhibitor for five years, one death from cardiovascular disease, myocardial infarction, or stroke was prevented. The system for evaluating and implementing evidence-based medicine, as recommended in the recent Institute of Medicine report, allowed the health plan to respond quickly to this breakthrough study.

In addition, the health plan employs an electronic disease registry. The registry is an effective tool for the practitioner's ability to monitor whether cardiac patients are getting the treatment they need and clearly shows whether a patient is due for a cholesterol check or has been offered the currently recommended medications. One 75-year old member of the health plan who has had two previous heart attacks remarked about his care, "I'd probably be dead if it wasn't for the type of treatments that are available these days." In this case, a heart patient directly benefited. But the applied innovations and reduced long-term costs that result from improved care benefit us all.

### **The Use of Formularies to Enhance Patient Care**

A drug formulary or preferred drug list is a compilation of drugs that have been reviewed for safety and efficacy. Research has demonstrated that the use of formularies improve the quality of healthcare, enhance clinical effectiveness and streamline costs. For example, in a recent case involving an AAHP member plan, a request for a non-formulary oral antibiotic medication was received in the prior authorization department. The physician had prescribed this drug for a serious knee infection. When taken orally, the medicine could not get into the blood stream in a high enough concentration to effectively treat the infection. The plan's systems identified this as

a quality of care issue, and the plan contacted the doctor to suggest changing the medication to an intravenous form. Notwithstanding the fact that the intravenous drug was significantly more costly than the oral medication, the latter would have had no benefit and potentially could lead to a more serious problem, including the need for surgery.

Mr. Chairman, these are but three examples of the benefits, both medical and fiscal, that can accrue to the nation if the Medicare+Choice organizations' approach to integrated prescription drug coverage for their Medicare beneficiaries is allowed to grow.

*A Medicare Prescription Drug Benefit Should Promote Effective Pharmacy Management Techniques*

Our health plans have pioneered the development and application of tools that achieve high quality patient care while maintaining cost efficiencies. Managed care has developed or adapted many techniques to deliver pharmacy services to help improve drug therapy care, while at the same time focusing on health care costs. As Congress works to achieve balance between its two policy goals, any proposed drug plan should promote the use of advanced pharmacy management techniques such as:

- **Formulary management.** A drug formulary is a mechanism for selecting safe, effective, affordable medications that maintain or improve patient care. Tiered formularies, an innovation recently developed by private plans, offer consumers coverage of a broad array of prescription drugs while varying cost sharing based on the consumers' choice. Additionally, formularies promote quality care by fostering the use of those drugs deemed to be safe and effective by physicians, pharmacists and other medical experts. Formularies often contain prescribing and clinical information to help health care professionals promote high quality care. A recent research article reported that "ineffective or unsafe medications were prescribed less often in Medicare HMOs [which use formularies] than in national comparison groups. In fact, for the elderly who are most at risk, the use of these medications was much lower in the Medicare HMO than in the Medicare fee-for-service sector."<sup>3</sup>

- **Generic substitution programs.** Generic drugs offer equivalent therapeutic benefits and normally are less expensive than brand-name drugs. Consumers generally pay 30 percent to 50 percent less when purchasing generic drugs than when purchasing equivalent brand-name drugs. In 1998, generic drugs accounted for 46 percent of all prescriptions dispensed in the United States; but because they are less expensive, generics represented only 8 percent of total prescription drug sales.<sup>4</sup> The ability to substitute generic medicines is an effective way to provide a variety of prescription drugs to beneficiaries at a lower cost.
- **Step therapy.** Step therapy involves prescribing successive drug regimens to be taken in an attempt to control a disease or condition. Step therapy specifies which drugs should be taken at each stage of treating the patient. “First step” drugs usually are the most common approach to treating a patient’s condition. If the patient does not improve, the next step in therapy is initiated. For example, if lifestyle modifications and an anti-hypertensive drug do not adequately control a patient’s high blood pressure, another drug will be added or substituted based on clinical guidelines and the judgement of the healthcare professional. The patient’s blood pressure is monitored to ensure that it is under control. Generally, more complex drug regimens are used after simpler regimens have proved ineffective. Step therapy has been proposed by prominent organizations such as the National Heart, Lung, and Blood Institute of the National Institutes of Health.
- **Integrated retail and mail service for home delivery.** Many health plans make available integrated mail service programs to enhance the convenience for beneficiaries, particularly for the frail elderly and the disabled who may lack the mobility to purchase their prescriptions at the local pharmacy. For beneficiaries receiving maintenance drugs to treat chronic disease, mail service programs are an important component in ensuring proper drug utilization. Beneficiaries also save money when using mail service through lower co-payments.

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<sup>3</sup> Futterman et al, “Use of Ineffective or Unsafe Medications Among Members of a Medicare HMO Compared to Individuals in a Medicare Fee-for-Service Program,” *American Journal of Managed Care*, April 1997.

<sup>4</sup> National Institute for Health Care Management, “Factors Affecting the Growth of Prescription Drug Expenditures,” Barents Group, LLC, July 9, 1999.

***The Experience of the Medicare+Choice Program Illustrates the Need for a Sufficient, Reliable Source of Funding***

With the passage of the Balanced Budget Act of 1997 (BBA) Congress took significant steps toward the goals of: (1) providing Medicare beneficiaries with expanded choices similar to those available in the private sector; 2) extending the solvency of the Medicare Trust Fund. AAHP supported the BBA and regarded it as the foundation for moving forward with a program design that could be sustained far into the future. Unintended consequences of the BBA, however, resulted in beneficiaries losing extra benefits and, in many instances, the option of even remaining in the plan of their choice.

Both the Balanced Budget Refinement Act (BBRA) and the Benefits Improvement Protection Act (BIPA) were important steps by Congress to correct these unintended consequences. With BBRA, the phase-in of HCFA's risk adjuster was slowed and beneficiary information campaign user fees were fairly apportioned, among other changes. BIPA made additional improvements by increasing payments to rural and some urban areas and providing a one-time increase in the minimum update. As a result, Medicare+Choice plans have been able to resume service in a few counties, reduce premiums or enhance benefits for enrollees, and have stabilized their provider networks.

But the lessons learned in the Medicare+Choice program are sobering. As effective as Medicare+Choice plans can be at delivering pharmaceuticals as part of a Medicare benefit, neither they, nor any plan can succeed without a sufficient and reliable source of funding. We are deeply concerned that the administrative and regulatory actions taken by HCFA, together with the unintended results of the BBA formula, have undermined the program's stability.

Rather than enjoying expanded coverage choices as planned under BBA, beneficiaries face fewer coverage choices. Additional benefits offered by plans that are not available in the fee-for-service program—especially prescription drugs—are being jeopardized. Some Medicare+Choice enrollees who once enjoyed robust prescription drug benefits have seen those benefits reduced over time through higher cost-sharing and lower spending caps. Payment and regulatory requirements dictate the environment in which health plans operate if they choose to participate in the Medicare+Choice program. The current payment and regulatory environment has forced

many plans to make difficult decisions regarding their participation in the Medicare+Choice program.

Nevertheless, Medicare+Choice plans stand willing and ready to participate in a well-designed Medicare drug program that has adequate and stable funding over time. AAHP urges the Congress to consider carefully the methodology it may use to fund the benefit, especially in light of recent reports by the Congressional Budget Office that have suggested a comprehensive prescription drug benefit for the Medicare program may be more expensive than many thought it would be.

### ***Regulatory Framework Should Pave the Way for Successful Implementation***

As the Administration and Congress consider options for adding prescription drugs to the Medicare program, it is critically important that such a benefit be administered efficiently and effectively. The regulatory framework should be designed to promote, rather than impede, the implementation of the prescription drug benefit.

Medicare+Choice has the potential to serve as a foundation for the Medicare program of the future. With its focus on beneficiary choice and private sector participation, the Medicare+Choice program is designed to offer Medicare beneficiaries the same health care options that are available to Americans who obtain their health coverage through the private sector. Unfortunately however, the Medicare+Choice program has been undermined by a misguided approach to administering and regulating the program. Rarely are the costs of regulatory requirements measured in comparison to their benefits, forcing health plans to spend scarce resources on compliance activities of questionable value—leaving plans with fewer resources to spend on patient care.

To create a pathway that promotes implementation of a prescription drug benefit and fosters participation by private sector health plans, HCFA should:

- (1) Consolidate its complex and fragmented policy making process;
- (2) Enable timely decision-making by simplifying its review process;
- (3) Establish and work towards achieving program-wide priorities;
- (4) Streamline program oversight and reduce unnecessary administrative burdens; and
- (5) Provide for consistency between HCFA Central and Regional offices.

**VI. AAHP SUPPORTS CONGRESSIONAL EFFORTS TO PROVIDE A MEDICARE PRESCRIPTION DRUG BENEFIT**

The American Association of Health Plans (AAHP) and its member plans stand ready to contribute as the Committee continues its deliberations on the best way to expand access to affordable prescription drug coverage. We have tried today to contribute to the Committee's dialogue and pledge further assistance on the issues of expanding prescription drug coverage, broader Medicare reform, and the need to preserve the Medicare+Choice program as an important gateway towards achieving these objectives.

Medicare+Choice plans have an important role to play as Congress evaluates how best to provide Medicare beneficiaries with access to prescription drugs. Our knowledge and experience in designing and implementing valuable pharmacy benefit programs can serve as a foundation for reform. Our members support Congress' efforts to provide prescription drug coverage for Medicare beneficiaries. We thank you for the opportunity to testify.