

*Coverage is possible without raising program's total cost*

# Medicare should include drugs

**Martin and Kathleen Feldstein**

**M**UCH OF THE RECENT PUBLIC DEBATE about Medicare reform has been about the proposal to extend Medicare coverage to the cost of drugs. We favor such an extension and think it can be done without raising the total cost of the Medicare program.

The failure to include drugs (other than those given to hospital in-patients) is one of the anomalies of the Medicare program. While Medicare pays for the services of physical therapists and speech pathologists, it excludes drugs and dental care. The explanation is partly historic and partly a matter of budget policy. Neither reason need be a barrier to reform.

When Medicare was created nearly 35 years ago, the cost of prescription drugs was relatively small. Since then the efficacy and scope of pharmaceutical products has increased enormously.

Ulcer drugs have replaced much of the surgery that was previously used to treat this condition. Antidepression drugs now provide an enormous boost to mental health. Effective drugs have been crafted against breast cancer and prostate cancer, the major forms of cancer in women and men. Drugs that reduce cholesterol are now lowering deaths from heart attacks.

But all of this comes at an increasing cost. Individuals with chronic conditions may have to take expensive medications for life. Those who are recovering from cancer surgery may be required to take expensive medications on a daily basis for several years. Looking ahead, there is every reason to expect that the pharmaceutical industry will continue to produce a growing number of new drugs that can reduce mortality and increase the quality of life – but at an ever increasing expense.

Medicare should recognize the importance of drug costs to senior citizens. What sense can there be in a medical insurance policy that pays for a relatively small total outlay if it is for physicians' services but doesn't pay for much larger amounts spent on drug bills?

The failure to cover expensive outpatient drug costs may impose financial hardship on seniors with limited budgets. Or it may induce them to ignore their doctor's orders and not fill their prescriptions. This can be remedied only by a redesign of Medicare coverage.

But some of those who are sympathetic to the logic of this argument may quite reasonably reply that Medicare cannot afford the extra cost that would result from

extending coverage to outpatient drugs. Medicare costs are already rising very rapidly in response to the aging of the population and the increasing costs of all types of health care.

The Congressional Budget Office projects that Medicare spending will rise to the level of Social Security costs by 2030. By that date, Medicare alone will cost 6 percent of GDP, three times its current GDP share. That's equivalent to a payroll tax payment of 15 percent of the earnings taxed by Social Security. Alternatively, it would be equivalent to about 60 percent of the total revenue collected by the personal income tax.

But although the long-run challenge is undoubtedly to find ways to limit the growth of Medicare expenditures, that is not a reason to leave senior citizens who depend on Medicare exposed to the risk of unexpected high drug bills or to the temptation to risk their health by not taking the prescribed medications.

The key to extending coverage to outpatient drugs without increasing the cost to taxpayers is modifying the deductibles and copayments that are already part of the Medicare program. Medicare now imposes a deductible of about \$800 on in-patient hospital care and a co-insurance amount of about \$200 per day for inpatient days after the first 60 days. The part of the Medicare program that covers physicians' services usually pays 80 percent of costs above a \$100 annual deductible.

Increasing these deductibles and copayments could save Medicare enough to allow extending coverage to outpatient drugs. The risk of large out-of-pocket payments for drugs could then be eliminated without extra cost to the taxpayers. We would favor combining this increase in deductibles and copayments with a maximum cap on the fraction of income that an individual might have to pay for the combined total of all Medicare deductibles and copayments.

By extending coverage to include outpatient drugs and reforming the system of deductibles and copayments to include income-related caps, the government can assure that no Medicare enrollee will face financial hardship or be deprived of care because of an inability to pay.

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