



Highlights of [GAO-03-650T](#), a testimony before the Committee on Ways and Means, House of Representatives

The House Committee on Ways and Means is holding a hearing on modernizing Medicare and integrating prescription drugs into the program.

There are growing concerns about gaps in the Medicare program, most notably the lack of outpatient prescription drug coverage, which may leave Medicare's most vulnerable beneficiaries with high out-of-pocket costs.

At the same time, Medicare already faces a huge projected financial imbalance that has worsened significantly in the past year.

This statement discusses the challenges of adding a drug benefit to Medicare in the context of the program's current and projected financial condition. It also examines program design issues to be considered with respect to administering any proposed drug benefit. Specifically, it discusses how private sector health plans have used entities called pharmacy benefit managers (PBM) to control drug benefit expenditures.

[www.gao.gov/cgi-bin/getrpt?GAO-03-650T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-650T).

To view the full statement, click on the link above. For more information, contact William J. Scanlon at 202 512-7114.

## MEDICARE

# Observations on Program Sustainability and Strategies to Control Spending for Any Proposed Drug Benefit

The recent publication of the 2003 Medicare Trustees' annual report reminds us that Medicare in its current condition—without a prescription drug benefit—is not sustainable. At the same time there are growing concerns about gaps in the Medicare program, most notably the lack of outpatient prescription drug coverage, that may leave Medicare's most vulnerable beneficiaries with high out-of-pocket costs.

The Hospital Insurance (HI) portion of Medicare faces a huge projected financial imbalance that has worsened significantly in the past year. Under the Trustees' 2003 intermediate estimates, the present value of HI's actuarial deficit is \$6.2 trillion—a 20 percent increase over the prior year. Beginning in 2013, HI's program outlays are expected to begin to exceed program tax revenues, putting increased pressure on the federal budget to raise the resources necessary to meet program costs. In addition, Supplementary Medical Insurance is projected to place an increasing burden on taxpayers and beneficiaries.

GAO's long-term budget simulations show that, absent meaningful entitlement reforms, demographic trends and rising health care spending will drive escalating federal deficits and debt. Neither slowing the growth of discretionary spending nor allowing the 2001 tax reductions to sunset will eliminate the imbalance. While additional economic growth will help ease our burden, the potential fiscal gap is too great to grow our way out of the problem.

The application of basic health insurance principles to any proposed benefit could help moderate the cost for both beneficiaries and taxpayers. These include beneficiary protections against the risk of catastrophic medical expenses and premium contributions and cost-sharing arrangements that encourage beneficiaries to be cost conscious.

The private sector's use of PBMs to control drug expenditures may be instructive for Medicare, but the program's unique role and nature may moderate how such entities would be used and the potential efficiency gains afforded in attempting to transfer PBM-like strategies to Medicare.