Medicare Part D prescription drug coverage saved $1.5 billion a year in first 4 years

March 3 2014

A new study by the Johns Hopkins Bloomberg School of Public Health and the University of Illinois at Chicago finds that Medicare Part D prescription coverage significantly reduced hospital admissions and program expenditures totaling $1.5 billion annually.

In the largest and most rigorous impact analysis of Medicare Part D to date, researchers found that gaining prescription drug insurance through Medicare Part D reduced hospitalizations by 8%, decreased annual Medicare expenditures for hospitalization by 7% and reduced hospital charges associated with hospitalization by 12% during the program's first four years.

The study, published by the National Bureau of Economic Research, estimates that the aggregate savings from reduced hospital expenditures associated with expanded Medicare Part D prescription drug coverage totaled approximately $1.5 billion per year, or approximately 2.2% of the total $67.7 billion cost of Medicare Part D in 2011.

"Medicare Part D requires a substantial investment from the Federal Government, and the million dollar question has been, 'Does this investment help to pay for itself by improving the health of seniors who have gained coverage?'" notes G. Caleb Alexander, MD, MS, associate professor of Epidemiology and Medicine and co-director of the Johns Hopkins Center for Drug Safety and Effectiveness. "The answer to that question may seem self-evident, but it is not. Our study provides some of the most rigorous evidence to date regarding the degree to which

increased prescription coverage is associated with decreases in downstream health care use and cost."

The expansion of prescription coverage under Medicare Part D in 2006 represented one of the most significant changes to the healthcare landscape since Medicare was introduced in 1966. In the span of several years, the number of elderly—age 65 and older—with prescription coverage grew from 66% to 90% and extended to 11 million seniors. The Affordable Care Act (ACA) will expand the reach of the program by closing the gap in coverage known as "the donut hole." The Congressional Budget Office estimates that the ACA increase in coverage will increase the cost of the Medicare Part D program by $51 billion from 2013 to 2022. Given the difficult fiscal times, any savings from Medicare Part D is clearly important and underscores the significance of the research team's findings.

The study drew from a geographically-diverse sample of fee-for-service Medicare beneficiaries—representing tens of millions of persons in each year from 2002 and 2009—and analyzed admissions data for serious conditions, including congestive heart failure (CHF), stroke and chronic obstructive pulmonary disease (COPD). The reduction in admissions varied across conditions. For example, prescription drug insurance coverage was associated with significant decreases in admissions for CHF (18%), coronary atherosclerosis (13%) and COPD (32%). The study also found a 20% decrease in admissions for dehydration and a 13% decrease in admissions for coronary artery diseases.

Associations between prescription drug insurance and resource use were larger than associations between prescription drug coverage and the number of admissions, which implies that gaining prescription drug insurance affected resource-intensive admissions more than low-cost admissions.

The study compared hospital admissions and inpatient spending before and after implementation of Medicare Part D for elderly who were more or less likely to gain prescription drug insurance through Medicare Part D. The study examined data from three sources: the Medicare Provider Analysis and Review file (MEDPAR), the Medicare Beneficiary file (Denominator file), and the Medicare Current Beneficiary Survey (MCBS). The MEDPAR files provide information on all hospital admissions for Medicare beneficiaries not enrolled in Medicare Advantage

The study also examined whether an increase in prescription coverage through Medicare Part D affected mortality. Researchers did not find a significant association.

"The questions we examine are fundamental ones that policy-makers have grappled with since the design of Part D a decade ago," reports Robert Kaestner, Professor of Economics at the University of Illinois at Chicago. "These results are of high relevance to federal and state policy-makers as they design programs to enhance Americans access to prescription drugs."

More information: "Effects of Prescription Drug Insurance on Hospitalization and Mortality: Evidence from Medicare Part D" was written by Robert Kaestner, Cuiping Long and G. Caleb Alexander.

Provided by Johns Hopkins University Bloomberg School of Public Health