US health plans drop coverage for nearly one million elderly and disabled members

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On January 1, nearly 120 HMOs (health maintenance organizations) pulled out of Medicare—the federal health care program for senior citizens and the disabled—officially dropping close to 1 million people from coverage. Another 53 HMOs reduced their service areas. The most important health care service these private plans offered was low-cost coverage for prescription drugs, which has never been included in the regular Medicare program.

For those people with no other HMO in their city or county, there will no longer be any coverage or protection from the skyrocketing cost of prescriptions. A staggering number of people are affected. According to Alan Mittermaier, president of HealthMetrix Research Inc., a company that tracks the Medicare HMO market, "Our best guess is that up to 50 percent of the 934,000 disrupted beneficiaries will not have another Medicare HMO option to shift into."

Urban areas have been hard hit. The eastern part of Indianapolis does not have an HMO in which the elderly can enroll, nor do the Baltimore or Washington, DC metropolitan areas. The situation in rural areas is worse; 94 percent of those dropped as of January 1 have no other HMO to join.

About 16 percent of the nation's 39 million Medicare beneficiaries are enrolled in HMOs. Medicare insures 36 million elderly as well as 3 million permanently disabled beneficiaries under the age of 65. Medicare HMOs began their operations in 1985, but enrollment increased in 1997. The government at this time began to promote the programs, claiming the profit-making HMOs would create a competitive environment and thus lower the overall cost of health care.

Seniors were enticed to enroll primarily due to the prescription drug benefit, because the regular fee-for-service Medicare program does not pay for drugs, dental care or vision care. But after the initial influx of seniors into the program the number of people enrolled has steadily declined as more and more HMOs have dumped their Medicare patients.

The number of people affected by the new terminations far exceeds the number dropped in either of the last two years. In those years, HMOs pulled out of more than 400 counties in at least 33 states, directly affecting 734,000 Medicare beneficiaries—407,000 in 1999 and 327,000 in 2000. Nearly a third of all beneficiaries enrolled in managed care have been affected.

Numerous reports indicate that the cuts are affecting an extremely vulnerable section of the population—those who require ongoing medication in order to live. A survey conducted by the Kaiser/Commonwealth Fund three years ago noted, "Medicare by definition covers beneficiaries who are at high risk for acute, chronic and disabling health conditions. Although the media often portray a relatively affluent and healthy older generation, in reality one of three Medicare beneficiaries fits this image."

A fact sheet released by Mathematica Policy Research, Inc. found that most people forced out of their HMOs had annual incomes of $20,000 or less, and one-third did not even have a high school education, and had poor health. The current economic downturn will undoubtedly exacerbate this situation for people thrown out of the programs.

Although HMOs were required by law to notify all of their terminated members of other coverage options by October 1, only three out of four people whose HMOs were leaving Medicare received notification. Additionally, the report showed that only a little more than half of those surveyed were aware of their other health care options.

Aetna U.S. Healthcare made the biggest cutback, canceling coverage for more than 355,000 people in 14 states. The company left seven Northern California counties where 15,280 people were enrolled in its Medicare HMO. In Ohio the company dropped all 52,330 Medicare HMO beneficiaries.

The case of Julie Langdon of Springfield, Ohio was reported in the *New York Times*. Her plight is a common one. One day after she had throat surgery she was cutting her pain pills in half to make them last. She is among the 3 million Americans on Medicare because she is disabled.

Langdon has had numerous health problems, including heart troubles and unsuccessful surgery for a goiter that left her with a damaged vocal chord. As a member of the Aetna HMO Langdon was paying the health group a $91 a month premium, making her maximum co-payment for each prescription $20. When Aetna pulled out she was left with no drug coverage. In Springfield, the only remaining HMO that will accept Medicare members, United Healthcare of Ohio, does not cover prescription drugs.

Medicare was established in 1965 under Lyndon Johnson, when health coverage for the elderly was considered the first step towards a universal health care system. The Medicare program was the most important piece of social legislation to be enacted since the passage of the Social Security Act in 1935, but no major revisions in coverage have been enacted since the program's inception. More than a decade ago, Congress repealed a Medicare expansion that would have included prescription drug coverage.

The lack of prescription coverage under Medicare is a national scandal. Some 35 percent of seniors have no drug coverage at all and many of the rest find their insurance covers very little. The result is that many seniors do not fill their prescriptions. Bruce Vladeck, who used to head the federal agency that runs the Medicare and Medicaid programs, calls drug coverage for retirees “a disappearing phenomenon.”

When the present HMO cuts were first anticipated last July, investors responded favorably to the news that at least three-quarters of a million people would be dropped. HMO stock prices went up across the board. “By doing what they're doing, the managements are showing financial discipline,” commented Todd Richter, a health care analyst with Banc of America Securities. “It's real nice providing prescription drug coverage and vision care coverage for grandma, but if you can't make a fair return on it, there's no reason to do it. They don't have an obligation to take care of grandma at a loss.”

The gouging of seniors by the pharmaceutical companies is a feature of everyday life. Drug expenditures are now the fastest-growing component of health care costs, increasing at a rate of about 15 percent per year. Prescription costs account for about 8 percent of health care spending, and at their current rate of increase they will soon surpass spending for physicians' services and, for many HMOs, the costs of hospitalization.

The June 2000 issue of the *New England Journal of Medicine* reported that Americans regularly pay up to twice as much as Europeans and Canadians for the same drug. Prices also vary widely within the United States, and are often highest for those with the greatest need who are least able to pay.

The elderly are paying an increasingly larger share of their income for medical care. People 65 and over make up only 13 percent of the population, but they account for 42 percent of total drug spending. A study by Families USA, a nonprofit health-care research group, said Americans 65 and older pay an average of $1,205 a year for prescriptions—up from $559 in 1992. By 2010, the cost are projected to rise to $2,810.

Medicare recipients with no supplementary insurance pay, on average, twice as much for the 10 most commonly prescribed drugs than people in some of the large HMOs and the Veterans Affairs system. For example, a month's supply of the cholesterol-lowering drug Zocar (simvastatin) was reported last year to be priced at $103.87 for Medicare recipients, as compared to $42.95 for favored customers. Many chronically ill, older Americans are hit with annual drug costs in the thousands of dollars—sums they simply cannot pay. The stories are all too common of the elderly not only taking reduced dosages, but of sharing drugs with their spouses, or simply doing without, choosing food and heat over prescription drugs.

The top 10 drug companies are reported to have profits averaging about 30 percent of revenues. Over the past few years the pharmaceutical industry has been by far the most profitable industry in the US, more lucrative than commercial banking. According to a recent issue of *Fortune* magazine, in 1999 the pharmaceutical industry realized on average an 18.6 percent return on revenues.

Earlier this month the federal government issued new payment increases for HMOs participating in the Medicare program. In 2001 most HMOs participating in the Medicare+Choice program will see their rates rise by 3 percent over 2000 rates as a result of legislation passed by Congress in December, which will give the health plans an additional $9 billion over five years.