Center for PUBLIC POLICY & ADMINISTRATION THE UNIVERSITY OF UTAH

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April 18, 2006

# Unresolved Health Care Issues for Utah's Elderly Population

With the passage of the Medicare Modernization Act of 2003 (MMA) a prescription drug benefit was made available to all Medicare beneficiaries. It officially began January 1, 2006. Many advocacy groups worked for years to accomplish adding Rx benefits to Medicare and although the final legislation was far from perfect, most would consider it an important first step in assisting millions of individuals with affordable access to necessary medications.

The MMA was the single largest piece of legislation since the inception of Medicare in 1965. To provide a comprehensive benefit for all Medicare beneficiaries would have cost in excess of $1.4 trillion over ten years. Only $400 billion was supported by the Bush administration so the priority was to design a system to help the neediest individuals with their prescription expenses while offering some relief to middle and upper income wage earners.

The Medicare prescription drug program, also known as Medicare Part D, offers special financial assistance to individuals and couples earning at or below 150% of the Federal Poverty Level (FPL) and has transferred the individuals who received their drugs from the state Medicaid programs onto the Medicare rolls. These individuals pay little or no premium or co-pays and have no gap in coverage. Everyone else who is eligible for Medicare can voluntarily enroll in one of several private insurance sponsored plans with monthly premiums averaging $30 and most co-pays at 25% of the prescription price. The standard plans have an annual gap in coverage where the insured must pay 100% of the cost of their medications, usually after $2,250 in total insurance-shared costs. The plans do provide for catastrophic coverage for high annual drug expenses.

Of the over 40 million Medicare-eligible beneficiaries in the United States, about 240,000 reside in Utah. Over half of these individuals already had some form of creditable drug insurance coverage with benefits equal to or better than what the new Medicare program offers. The existing coverage comes from those insured through federal employees' retirement programs (Tricare, FEHBP), employer retiree benefits, and the estimated 21,000 Utahns receiving drug benefits through Medicaid. Another 30,000 – 35,000 had some form of supplemental private insurance to assist with the cost of their medications. Most of the supplemental drug insurance buyers will find a better bargain with the new Part D program.

The initial enrollment period for Part D ends on May 15th, 2006. With few exceptions, those who are eligible and do not enroll by the deadline, will pay a penalty for late enrollment. With two weeks to go, there are still about 33% or 80,000 eligible Utahns without coverage. Some have chosen not to participate. Others are uncertain or are still uninformed in spite of the monumental efforts by state and local agencies, community partners and volunteers, pharmacists, and others in the medical and aging network to help inform people of their options.

Early feedback from those who have enrolled in the program indicates a positive impact from the new drug benefit. In a recent AARP poll, 78% of the new enrollees in the Medicare drug program, including about 50,000 Utahns, indicated that they are satisfied with the new coverage and savings are being realized. USA Today reports that two in five are experiencing significant savings and another two in five are experiencing modest savings or are breaking even. One in 5 report spending more.

This latter group with more out-of-pocket spending includes low-income beneficiaries transferred from state Medicaid drug programs where they had little or no co-payments for drugs under Medicaid but now pay $1 to $5 per drug under Medicare Part D. Some individuals had been receiving free medications from pharmaceutical drug company programs but with the advent of Part D, those have been discontinued. Others may have been moved from less expensive employer retiree coverage. There are also individuals with little or no current drug expense who signed up for a Medicare plan as insurance against future uncertainty.

The future success of the Medicare Part D program will, in large part, deal with the collective will of Congress to reign in and contain the rising costs of drugs. Even with a pared down Part D program, the original $400 billion allocated will likely exceed $700 billion dollars in the next ten years. One rationale for having multiple insurance providers and plans to choose from (45 plans in Utah) was that market competition would keep prices low. The only result so far has been confusion for consumers. There is certain to be natural attrition as some providers drop out

for lack of adequate market share. A greater concern with the program design is that there are few safeguards to monitor and contain rising drug costs. Each Medicare-contracted Part D provider negotiates its own pricing structure for its drug list or formulary.

The issue of drug prices continues to be controversial and is a continuing concern of states, employers, individuals, and others outside of Medicare. Prescription drug costs continue to place an increasing financial burden on Americans. According to a May 2004 study, Trends in Manufacturer Prices of Brand Name Prescription Drugs Used by Older Americans, 2000 through 2004, published by AARP's Public Policy Institute, authors David Gross and Susan Raetzman of AARP with Stephen Schondelmeyer of the University of Minnesota, found that "retail purchases of prescription drugs account for an estimated 11.6 percent of U.S. health expenditures in 2004, and they have been the fastest-rising component of health care spending since 1998."

The AARP report also shows that "on average, drug manufacturers have been increasing the prices of widely used brand name prescription drugs well above the rate of inflation in each of the past four years (calendar years 2000 through 2003). For the subset of drugs on the market for the entire four-year period, the average cumulative manufacturer price increase was 27.6 percent, compared to a general inflation rate of 10.4 percent over the same period." This trend holds true for all brand name drug manufacturers and therapeutic categories.

AARP instigated an Rx Watchdog project to monitor pricing and its impact on the MMA. The April 2006 report found that drug pricing continues to increase at a rate far above general inflation.

So just how does the drug manufacturing industry and their powerful association, PhRMA, justify the fact that prices for brand name drugs have increased 40 percent on average over the past six years, while inflation rose only 17 percent?

United States citizens spend over $250 billion per year on prescription drugs. While the proper use of medication can help maintain a higher quality of life and aid in certain medical treatments, there are some deep, dark secrets about the industry that demand attention.

The industry maintains that pricing practices and high profit margins are needed because it costs so much to develop a new drug. Overstatements of research and development costs have become the mantra for many in Congress. Here are a few items about the industry to consider:

- The pharmaceutical industry has been the most profitable in our country for over twenty years.
- Pharmaceutical Research and Manufacturers of America (PhRMA) spends about $200 million each year on lobbying state and federal legislators.
- Top selling drugs will often have price increases multiple times in one year even when the cost of production has gone down.
- People with no insurance pay the highest prices as they have no bargaining power.
- Research and development expenses are a small part of the company budget when compared to marketing and administrative expenses.
- Most new research is tax-payer funded at small biotech companies, universities, and the National Institutes of Health (NIH).
- Most new drugs in the market are variations of older drugs or "me-too" drugs.
- The industry is granted monopolies by the government in the form of patents and FDA approved marketing rights.
- The industry continues to manipulate patent law to extend the time for bringing less expensive generic products to market.
- It is not uncommon for the annual compensation of a drug company chairman or CEO to approach or exceed $100 million per year (salary and stock options).

We need a stable pharmaceutical industry, but not one that is driven by greed and profits. We need new research with meaningful drugs, not just variations of drugs with no demonstrated improvements.

Congress should reconsider its hands-off approach to regulating this industry and should authorize the Secretary of Health and Human Services to negotiate pricing in Medicare. It is the only insurance system in the industrialized world that doesn't negotiate pricing. State legislators should consider preferred drug lists in Medicaid programs and bulk purchasing arrangements with public entities to maximize their purchasing power.

Medicare may have been a temporary windfall for the drug industry but without cost containment the ability to maintain a solvent drug program is bleak. The drug companies should be concerned. People are angry. State governments, Medicaid programs, private insurers, and the public have had enough.

April 18, 2006

## Utah's Medicaid Population

Did you know that two-thirds of those enrolled in Utah's Medicaid program are children? Did you know that 70% of the adults enrolled are women? Or that 75% of elderly Medicaid recipients have been enrolled for more than two years? Did you know that rural areas of the state have a higher rate of Medicaid utilization than the Wasatch Front? Did you know that 45.1% of Utah children living below the poverty line did not receive preventive dental care in 2003 compared to 41.8% nationally? These and other facts are presented in the Utah Health Status Update, a publication of the Utah Department of Health. Click here to read the report.

May 08, 2006

## Something to Think About…Medicare

The US Bureau of Economic Analysis (BEA) caused a minor stir this week when it released personal income figures. The initial release stated that personal income in the US had risen 0.8% from February 2006 to March 2006. Two days later, BEA revised that figure downward to a 0.5% increase, stating that it had included the economic impacts of the new Medicare Part D prescription drug program erroneously. Medicare Part D will not be included in personal income calculations until the April data are released in June.

This error does provide an interesting opportunity, though; a glimpse at the impact of the new Medicare Part D drug program on the US economy. When looked at in percentage terms, the impact seems small—only 0.3%, but in dollar terms the impact is huge—approximately $38.9 billion dollars. To understand how big that is, we can divide this amount by the US population. Medicare Part D means an extra $130 in economic activity to every person living in the US. This is larger than the $100 gasoline tax rebate per tax filer being discussed by the President as a way to alleviate high gas prices. No wonder "a few billion here… a few billion there…pretty soon you're talking real money" has become the philosophy in Washington DC.

Why should we care? Often the general public and even some policymakers dismiss Medicare and Medicaid as programs for the elderly and the poor, not realizing the impact these programs have on the economy, businesses and ultimately, jobs. The reporting error on BEA's part provides a small glimpse at the impact these programs and how small policy changes can result in big economic changes – for good or ill.

April 26, 2006

## Measure of a Leader

Are you a good leader? How do you know? What are some good measures of an effective leader? In their latest book, Measure of a Leader, Aubrey C. Daniels and James E. Daniels offer some thoughts.

I am not in a position to judge the quality of a leader like Colin Powell, but let us have some fun with leadership concepts. First, review the leadership concepts found in this article. Then, apply your perception of Colin Powell's leadership style, and your leadership style then compare that to the measures of a leader (see side bar of article for survey).

What are the measures of a leader? Review the following five leadership concepts and for each, measure yourself as a leader (and Colin Powell). From your perspective, how do you stack up? (see side bar of article for survey)

***Measure of a leader***—is ***effectiveness***. A manager is a technician who helps people,processes, and systems function together efficiently. Leadership builds on these management skills. The leadership task is to energize the maximum number of followers to pursue the mission, vision and values in themost effective way. Many "leaders" mistake efficiency (doing things right) for effectiveness (doing the right thing). It seems that the day to day pressures of the job—sometimes thought of as a daily list of tasks—overshadow the leader's need to energize performers around mission, vision and values accomplishment so that the agency can meet its challenges more effectively.

***Measure of a leader***—is the ***deliberate refinement of leadership techniques and skills***. Something to remember, learning to lead is a function of deliberately observing follower responses. This deliberate search for the impact of your actions will set you apart from those who try to replicate the actions of other leaders.

For example, when a leader follows through to see what impact mission, vision, and values statements have on follower behaviors the product is a more focused and connected effort on the part of the agency. Unfortunately, where efforts at mission, vision, and values failed, these powerful tools turned into static and useless slogans and wall hangings.

***Measure of a leader***—is when ***followers grant the "leader" authority to lead***. A test of leadership is whether followers will remain focused on the mission, vision and values when no immediate benefits are available to them for doing so or when there are often many immediate negatives involved in the work. The true leader makes the consequences of achieving mission, vision and values so valuable that performers ultimately overcome any skepticism they might have about participation.

*No man is good enough to govern another man without that man's consent.*- Abraham Lincoln (1864)

***Measure of a leader***—is when ***followers exert discretionary effort***. Among great military leaders, we recognize few for their use of discipline. Clearly, leaders do discipline but we remember most great leaders for their accomplishments and their ability to inspire than for their disciplinary methods. General Norman Schwarzkopf, the U.S. Commander of the Desert Storm forces said that he believes the challenge of leadership is "to get people to willingly do that which they ordinarily would not do."

***Measure of a leader***—is attention to ***agency mission, vision and values***. Leaders constantly examine the mission of the agency. Are we doing the right things? Is our structure such that we can achieve the mission in the most effective manner? Leaders repeatedly re-evaluate their vision. What does the future look like? Why would someone want to be part of this agency? In addition, they teach the values that determine acceptable and unacceptable practices in achieving that vision.

When leaders observe and reinforce follower behavior supportive of mission, vision and values, followers see these things as the right thing to do. Again, the leader learns from the followers' responses.

Obviously, we do not know all the details about Colin Powell, we only have our individual perspectives regarding his abilities as a leader. However, Daniels and Daniels have some good ideas about the measure of a leader—ideas that may help you to be a better leader and this

has to do with:

- The effectiveness of the leader
- The leaders deliberate refinement of his or her leadership skills
- Followers granting the “leader” authority to lead
- Followers exerting discretionary efforts
- Making mundane behaviors directed at the mission, vision, and values more valuable in the sight of the followers

Many of the concepts found herein are from the book titled *Measure of a Leader* by Aubrey C. Daniels and James E. Daniels. Please visit their website at: www.MeasureofaLeader.com

April 14, 2006

## City Manager’s Cup Goes to the U

*Press Release*

**April 13, 2006**—Pitting rivals University of Utah and Brigham Young University in the academic arena, the Utah City Manager’s Cup is no less intense than a good sports match. In a battle of public management ideas, U of U MPA (Master of Public Administration) students Matt McEwen and Michael Florence won the traveling Cup held annually by the Utah City Manager’s Association (UCMA). The trophy is on display in the U’s MPA office. The competition was held on April 4th in St. George. For the competition, each school’s MPA program selects a team to tackle hypothetical problems facing a local government. They propose solutions which they must defend before a board composed of city managers and officers of the UCMA and the ICMA (International City Manager’s Association), as well as an audience of about a hundred professional administrators, sponsors and MPA students from across the state. After the judges question the teams, the audience gets to grill them. BYU formed two teams for the competition, but neither was able to overcome the well-prepared McEwen and Florence.

The UCMA holds the annual competition to help foster excellence in the two MPA programs, particularly in those interested in local government careers. The UCMA consists of city administrative officials from all over Utah. City Managers and Chief Administrative Officers are responsible for effectively running a city, including the management of public funds, the delivery of services, personnel management, and implementing programs/policies as directed by city councils and/or mayors. They serve at the pleasure of the city council, and face a great deal of pressure to make sure city functions are working effectively. Additionally, the pressure to perform efficiently has increased as the federal government has been scaling back funding for cities over the last two decades. Utah city budgets are heavily affected by the economy, as a major source of their revenue comes from sales tax. Therefore, city managers must utilize a multitude of skills, draw on vast experience, and work long hours to ensure citizen and city council approval. This explains why the pressure and grilling during the competition was so intense: City managers know that a career in city management requires extensive preparation. Just as an MBA prepares students for successful management in the private sector, the MPA aims to prepare one for efficient and effective management in government and non-profit organizations. Because city managers are always striving to keep up with changes in state and federal law, new technology and management practices, city managers train twice a year in conferences sponsored by the UCMA. Despite working many unpaid overtime hours with few opportunities for vacation, city managers/administrators often find satisfaction in a job that offers a dynamic variety of challenges. Many cite the lack of dull moments as a positive. The influence for good that a city manager possesses is another reason many of them stay in the public sector. For more information regarding this article, contact Dan Hannon, Center for Public Policy and Administration, by clicking here.

April 26, 2006

## Massachusetts-style Health Care Reform in Utah?

Given Mitt Romney’s ties to the Beehive state, many are asking if a version of the health care reform bill he signed in Massachusetts could emerge here. Coming soon, CPPA will be publishing a policy brief detailing aspects of the Massachusetts plan. Watch your email for this interesting new Policy Brief from CPPA!

April 20, 2006

## Upcoming Events

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| May 12, 2006 | **ASPA Lunch** - Development of the Salt Lake Valley’s West Bench: Implications for the Public Sector<br>Get the details... |

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