

## **New Drugs Cut Costs, And Medicare Can Help**

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Spending on medical care is forecast to keep growing fast during the next several decades. Health-care costs as a share of gross domestic product jumped from 5% in 1980 to more than 15% in 2003. They are projected to rise to almost a quarter of GDP by 2030. But through greater reliance on new drugs, it may be possible to slow the hike while greatly improving health if Medicare and other health-care plans are structured correctly.

Since Western European nations and Japan have also experienced large and continuing growth in medical spending, a common belief is that most of this jump stems from the aging of the population. However, a recent article by David Cutler, a leading health economist at Harvard University, shows that aging explains less than half of past and projected hikes in health-care costs in all Organization for Economic Cooperation & Development countries. Cutler concludes that about a third of the future growth in medical spending by the U.S. will be due to an aging population, with the rest resulting from a continuation of the trend toward greater medical spending at each age on new equipment and procedures.

BUT HIS AND OTHER FORECASTS may overstate future spending because they do not take into sufficient account the ability of new drugs to cut total medical costs and improve the quality of life. For example, a recent study in the Journal of Clinical Psychiatry reported that antidepressant expenditures increased from about \$400 per depressed person in 1990, to \$1,300 in 2000, but hospital stays declined by so much that total spending per depressed person fell. These drugs enormously improved the quality of patients' lives, since most people who were suffering from serious depression can now function reasonably well at work and home.

Frank R. Lichtenberg of Columbia University Graduate School of Business has shown that new drugs also made important contributions to the decline of adult mortality in the U.S. and more than 50 other nations after 1982. There is considerable evidence that men and women are willing to pay generously for still further progress in raising life expectancy and for improvements in the quality of their lives.

I believe that the contribution of more effective drugs will become even more important during the next several decades as progress accelerates in finding ways to treat Alzheimer's disease, cardiovascular disorders, cancers, AIDS, diabetes, nerve disorders such as Parkinson's disease, and other serious medical problems. Better understanding of DNA and the genome will stimulate the development of treatments and lead to new drugs that are tailored to individuals.

The share of drugs in future medical spending is likely to increase sharply. But even without full cures, drugs that greatly delay the onset and severity of major diseases will reduce expensive and unproductive time spent in hospitals, nursing homes, and under the care of family members.

Since costly medical care is concentrated at older ages, it is important to get a well-crafted system of drug coverage integrated into the Medicare system. Unfortunately, the law passed at the end of last year to include drugs has defects that should be corrected before it goes into full effect in 2006. Medicare will then pay all patient spending on drugs up to \$250 per year for eligible persons who elect this coverage. It will pay 75% of drug expenditures from \$251 to \$2,250 but then pays nothing until spending reaches \$5,100 -- the so-called donut in drug coverage. Thereafter, Medicare will pay 95% of all additional drug costs.

The drug deductible should be raised to \$1,000, since the elderly mainly want coverage for expensive drugs that reduce lengthy hospital and nursing-home stays. The elderly poor already have all of their spending on drugs covered by Medicaid. Medicare should then pay about 50% of drug outlays from \$1,000 to \$3,000 before its share rises to 75% for spending up to \$5,000, and increases further, to perhaps 95%, for all additional drug expenditures. These changes would raise the burden on Medicare patients with less than \$3,700 in annual drug outlays. However, they would reduce the cost to patients who need them most: those who require expensive drugs for serious diseases and disorders. These changes could also help reduce overall health-care costs.

New drugs have the potential to cut the growth of medical spending sharply. It is crucial to take much better advantage of this potential.