AMERICAN ACADEMY of ACTUARIES

# News Release

**Immediate Release**

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# Actuaries Say Senate Prescription Drug Bill Has Advantages Over House Version

### Senate Version Provides Greater Incentives, Lower Risk of Government Overpayments, Without Perverse Incentives to Raise Drug Costs

**(Washington, D.C. – July 31, 2003)** In a letter to the House-Senate Medicare Conference Committee, members of the Health Practice Council of the **American Academy of Actuaries** (Academy) offered their analysis of the risk sharing provisions of the House and Senate prescription drug bills. The Academy is the non-partisan, non-profit public policy association representing U.S. actuaries in all areas of practice.

According to the actuarial analysis, the *Prescription Drug and Medicare Improvement Act of 2003* (S.1) will "provide a greater incentive for private entities to participate." The *Medicare Prescription Drug and Modernization Act of 2003* (H.R.1) has provisions that "make this program somewhat less desirable from an actuarial perspective."

Some of the actuaries' comments on the Senate approach include:

- The use of "risk corridors" will help protect the government from overpaying plans and help protect private plans from underpayments.
- Record keeping under risk corridors will ease administrative burdens (vs. the House bill).
- Individual reinsurance will provide additional protection against very high-cost recipients.
- Without close management, risk corridors may allow for some potential "gaming" of administrative costs.

*(more)*

Comments on the House approach include:

- Individual reinsurance will provide protection against unexpectedly high claims from medium and high-cost individuals.
- The 30% reinsurance cap will cause volatility and uncertainty in the revenue available to private entities.
- The low individual reinsurance attachment point could create perverse incentives for the pharmaceutical industry to add new drugs at very high prices.
- The relatively low individual reinsurance attachment point also rewards less efficient private entities. They may reach the attachment point sooner than more efficient entities, thus obtaining extra federal subsidies.
- The relatively low attachment point could cause private insurers and government auditors significant administrative burdens in the calculation of the amounts owed beneficiaries and the private insurers.

A copy of **the complete analysis** can be found on the homepage of the Academy's website at **www.actuary.org**. The url is http://www.actuary.org/pdf/medicare/risk_sharing_073003.pdf
If you would like to arrange an interview or a copy of the analysis, contact **Tracey Young, Media Relations Manager, 202-785-7872, or young@actuary.org.**

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