

Testimony

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VA HEALTH CARE

Opportunities to Reduce
Outpatient Pharmacy Costs

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VA Health Care: Opportunities to Reduce Outpatient Pharmacy Costs

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Department of Veterans Affairs' (VA) policies concerning its provision of medications, medical supplies, and dietary supplements that are available to the general public as over-the-counter (OTC) products in private outlets nationwide.

Under current law, two groups of medical products are available in the U.S. market: one group has about 65,000 products that are safe for consumers to use only as prescribed by a physician, the other group has over 300,000 products that, according to the U.S. Food and Drug Administration standards, are safe for use on the basis of a manufacturer's labeling alone. Prescription products are available only in licensed pharmacies, whereas other products are available over the counter in a wide variety of settings. OTC products are generally for conditions where users can recognize their own symptoms and levels of relief.

VA allows its physicians to prescribe OTC products primarily because VA physicians and others are concerned that veterans who need such products may lack sufficient resources to purchase them and, as a result, not use them. VA requires prescriptions as a way to control veterans' access to OTC products in VA pharmacies. Last year, VA physicians provided veterans with over 34 million prescriptions for pharmaceuticals, including OTC products, to be used on an outpatient basis. VA's 165 pharmacies filled prescriptions more than 65 million times, at a cost of almost \$1 billion.

In recent years, VA officials have testified that resources are not sufficient to serve all veterans seeking care and that they expect such shortages to worsen in future years. Also, others have expressed concerns about the operating costs of VA pharmacies. Specifically, some have questioned whether VA pharmacies' provision of OTC products represents the most prudent and economical use of VA's available resources.

Based on these concerns, we have examined VA facilities' provision of these products for veterans' use on an outpatient basis and compared it with that of other health providers and insurers. Also, we have reviewed the financial aspects of VA's practices to reduce federal expenditures. My comments are based on information obtained from 149 VA pharmacies and discussions with officials in VA's 22 networks.¹ We also reviewed nationwide OTC product utilization data and obtained information from several headquarters offices, including the Pharmacy Service and the

¹VA has 22 service networks, each consisting of between 5 and 12 facilities.

Medical Care Cost Recovery Office. At VA's pharmacy in Baltimore, we observed dispensing and copayment collection practices; reviewed a wide range of records and documents; and discussed VA's provision of OTC products with 20 physicians, pharmacists, and administrators.

We discussed the results of our work with the Chief of Pharmacy Service as well as other VA officials. We plan to provide you with a report later this summer.

In summary, all VA pharmacies provide medications and medical supplies to veterans that are available over the counter through other local outlets. For example, VA pharmacies dispensed analgesics such as aspirin and acetaminophen almost 3 million times in fiscal year 1995. In other outlets, these analgesics are available through such OTC products as Excederin, Tylenol, Bayer Aspirin, Bufferin, and Goody's Headache Powders.

Each pharmacy offers a unique package of OTC products and some restrict which veterans may receive OTC products or in what quantity they may receive them. About one-third of VA facilities should be commended for taking actions to reduce the number of available OTC products in recent years. While others are considering reducing the available number of OTC products, about one-half are reluctant to take such steps. Network directors, to their credit, are working to achieve a level of consistency and cost-containment for facilities within their networks.

Unlike VA, other public or private health care plans cover few, if any, OTC products for beneficiaries. When covered, OTC products are generally made available on a uniform basis to all beneficiaries. These plans' coverage of OTC products is more restrictive than all but a few of VA's facilities.

VA pharmacies dispensed OTC products more than 15 million times last year, at an estimated cost of \$165 million, including handling costs of \$48 million. VA recovered an estimated \$7 million through veterans' copayments, or about 4 percent of its total dispensing costs. Individually, veteran's costs varied, depending on the type of product and the veteran's eligibility status. Although many veterans shared a modest portion of the costs and some paid the full cost, most veterans paid nothing.

There are several ways that VA's resources devoted to the dispensing of OTC products could be reduced or revenues from copayments could be enhanced. First, VA staff could more strictly adhere to statutory eligibility rules. Second, VA could more efficiently dispense OTC products and collect

copayments. Third, VA facilities could further reduce the number of OTC products available to veterans on an outpatient basis. Finally, the Congress could expand copayment requirements.

VA Pharmacies Provide an Assortment of OTC Products

VA physicians prescribed OTC products for veterans more than 7 million times in fiscal year 1995, accounting for almost one-fifth of all prescriptions. VA pharmacies filled these OTC prescriptions over 15 million times, about one-fourth of all prescriptions filled.

VA physicians prescribed more than 2,000 unique OTC products. VA pharmacies classify these products into three groups: medications such as antacids, medical supplies such as insulin syringes, and dietary supplements such as Ensure. Medications account for about 73 percent of the 15 million OTC prescriptions filled, medical supplies for 26 percent, and dietary supplements for less than 1 percent.

VA Facilities Limit Physicians' Prescription of OTC Products

VA's network and facility directors have considerable freedom in developing operating policies, procedures, and practices for VA physicians and pharmacies. They and the pharmacies have taken a number of different actions to limit the number of OTC products available through the pharmacies and the quantity of products veterans can receive. However, little uniformity in the application of limits is evident.

In general, each facility has a Pharmacy and Therapeutics Committee that decides which OTC products to provide based on product safety, efficacy, and cost effectiveness. These products are listed on a formulary and VA physicians are generally to prescribe only these products.

Of the 2,000 unique OTC products dispensed systemwide, individual pharmacies generally handled fewer than 480, with the number of OTC products ranging between 160 and 940 products. Medical supplies account for the majority of unique products, with pharmacies generally dispensing fewer than 10 types of dietary supplements. However, three facilities' formularies excluded dietary supplements.

The volume of OTC products dispensed also varied among facilities. Overall, OTC products accounted for about 25 percent of all prescriptions filled systemwide. But OTC products represented between 7 percent and 47 percent of all prescriptions dispensed at individual facilities.

Of note, fewer than 100 products were involved in more than 80 percent of the 15 million times that OTC products were dispensed. The most frequently dispensed OTC products include (1) medications such as aspirin, acetaminophen, insulin, and stool softener; (2) dietary supplements including Sustacal and Ensure; and (3) supplies such as alcohol prep pads, lancets, and chemical test strips.

Some Facilities Restrict OTC Products to Certain Veterans

Facilities have sometimes restricted physicians' prescriptions of OTC products to veterans with certain conditions or within certain eligibility categories. For example, 115 facilities restricted dietary supplements to veterans who required tube feedings or received approval for the supplement from dietitians. For medical supplies, a facility provided certain supplies only to patients who received them when hospitalized and another provided diapers only to veterans with service-connected conditions. One facility provided OTC medications only to veterans with service-connected disabilities.

Some Facilities Restrict Quantities of OTC Products

Facilities have sometimes restricted the quantities of OTC products that pharmacies may dispense. Twenty-eight facilities had restrictions, including limits on the quantity of OTC products dispensed within prescribed time periods or the number of times a prescription could be refilled. For example, one facility restricted cough syrup prescriptions to an 8-ounce bottle with one refill. It had similar quantity restrictions for 15 other OTC medications. Another facility had a no-refill policy for certain medical supplies, such as diapers, underpads, and bandages.

Other Health Care Plans Provide Few, If Any, OTC Products to Beneficiaries

The Department of Defense operates a health care system for military beneficiaries, including active duty members, retired members, and dependents. This system provides a more restricted number of OTC products than most VA facilities. In 1992, Defense eliminated all OTC products except for insulin from its formularies to control costs. However, more expensive prescription medications were being substituted for some OTC medications that were no longer available. Subsequently, Defense reinstated a few products to its formularies to alleviate such substitution. All beneficiaries are eligible for OTC products without a copayment.

The Health Care Financing Administration directs the Medicare and Medicaid programs that pay nonfederal health care providers for medical care for target populations. Unlike VA, Medicare does not cover outpatient

OTC medications for its beneficiaries. Like VA, Medicaid, at the option of the states, can cover OTC products for its low-income beneficiaries. The availability of OTC products varies by state, ranging from very few to a substantial array of products.

The Federal Employees Health Benefits program offers a range of health insurance plans to federal employees and their dependents. The program requires plans to meet certain minimal standards, which include prescription medications but no OTC products, except for insulin and related supplies. Blue Cross and Blue Shield and Kaiser Permanente are two of the larger plans and they cover no OTC products, other than insulin and related supplies. Both plans require beneficiary payments, with Kaiser charging \$7 for each prescription provided in its pharmacy and Blue Cross and Blue Shield requiring a \$50 deductible and 15 to 20 percent of individual prescription costs, depending on whether the beneficiary has a high- or low-option plan.

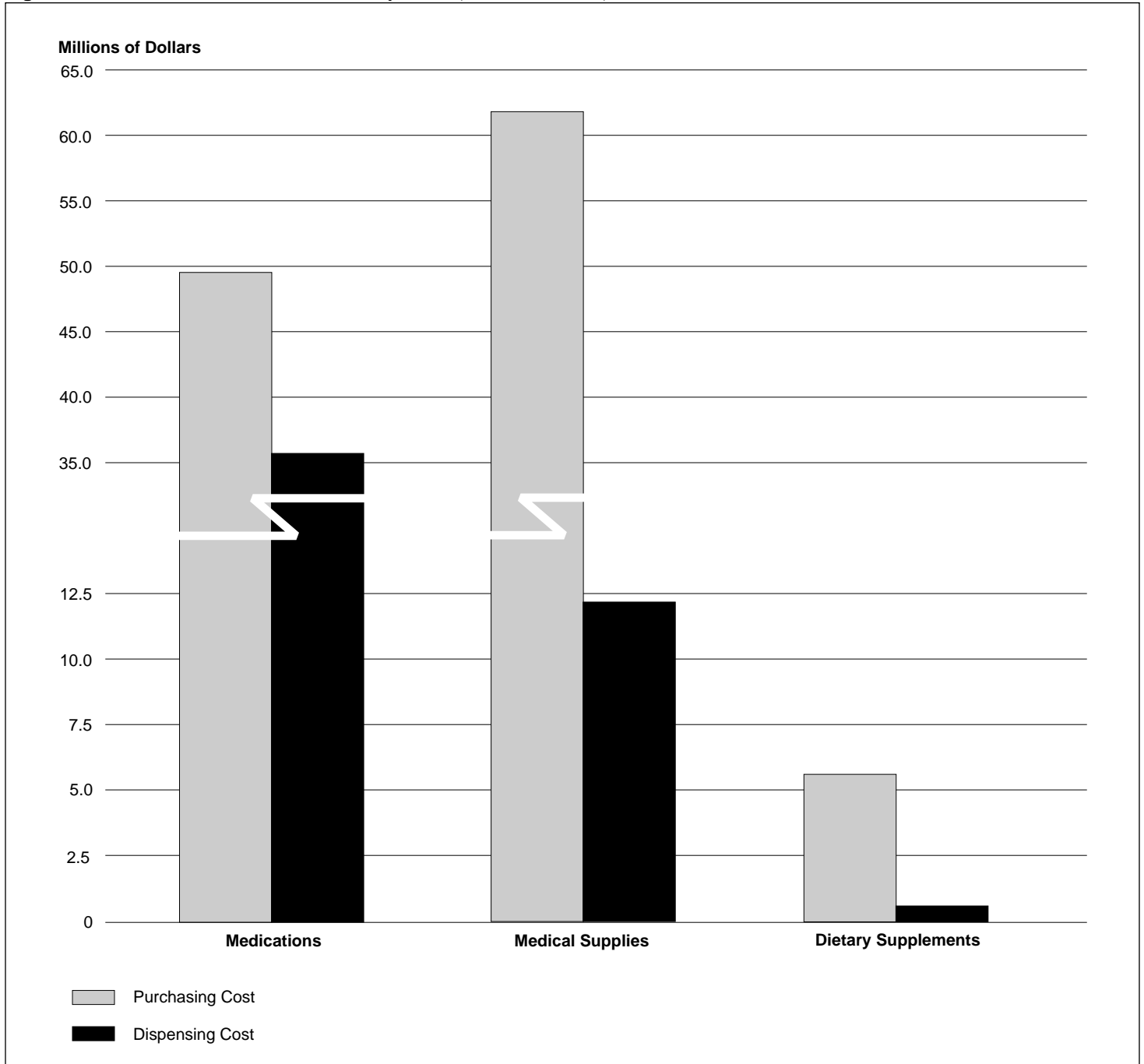
Finally, most private health insurers generally exclude OTC products as a benefit for participants, with a few exceptions such as insulin and insulin syringes. For example, the Group Health Cooperative of Puget Sound, in Seattle, provides insulin with a \$5 copayment but no other OTC products. Before 1995, the Group Health Cooperative of Puget Sound did provide an OTC drug benefit. However, it dropped the OTC medication benefit because it found no other similar health plan that provided this benefit.

Federal Resources Finance Most of VA's OTC Costs

Nationwide, VA pharmacies spent an estimated \$117 million to purchase OTC products and \$48 million to dispense them to veterans in fiscal year 1995. Pharmacies spent about \$85 million on medications, with purchasing cost representing about two-thirds of total costs. By contrast, they spent about \$74 million for medical supplies and \$6 million on dietary supplements, with purchasing costs accounting for most of these costs, as shown in figure 1.

VA Health Care: Opportunities to Reduce
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Figure 1: VA Nationwide Estimated OTC Expenses (Fiscal Year 1995)



Purchasing and dispensing costs differ among the product categories for two reasons. First, VA physicians generally provide veterans more prescriptions for medications than supplies, thereby causing pharmacies to handle medications more often. Second, ingredient costs of medications are generally significantly lower than the cost of medical supplies.

VA recovered an estimated \$7 million of these costs through veterans' copayments. By law, unless they meet statutory exemption criteria, veterans are to pay \$2 for each 30-day supply of OTC medications and dietary supplements that VA provides. Veterans' copayments are not required for OTC products used to treat service-connected conditions. Also, veterans are exempt from the copayment requirement if they have low incomes.

Our analysis of veterans' copayments and pharmacy costs at VA's Baltimore facility shows that copayments offset no more than 12 percent of costs for medications, dietary supplements, and medical supplies, as shown in table 1.

Table 1: Comparison of Federal and Veteran Share of OTC Expenses, Baltimore Facility (Fiscal Year 1995)

| | Medications | Dietary supplements | Medical supplies | Total |
|--------------------|-------------|---------------------|------------------|-------|
| Federal funds | 88% | 99% | 100% | 93% |
| Veteran copayments | 12% | 1% | 0% | 7% |

Federal funds financed most of Baltimore's OTC product costs. Copayments collected cover a relatively small portion of these costs, for several reasons. First, the \$2 copayment collected for a 30-day supply represents only a portion of the ingredient, dispensing, and collection costs of most OTC medications and dietary supplements. Second, copayments are not required for medical supplies. Third, most veterans receiving medications and dietary supplements are exempted, and some nonexempt veterans do not pay copayments owed.

For individual OTC products, veterans' medication copayments ranged between 4 percent to more than 100 percent of VA's costs, depending on the type of OTC product and the quantities dispensed. For example, a veteran's medication copayment of \$6 for a 90-day supply of an expensive product, such as the dietary supplement Ensure, may cover less than 5 percent of VA's costs (\$400). By contrast, a veteran's copayment of \$6 for a 90-day supply of an inexpensive medication, such as aspirin, may cover more than VA's total cost.

Opportunities to Reduce Federal Expenditures

There is a variety of actions available that could help reduce the level of federal resources devoted to the provision of OTC products. First, if VA eligibility rules were more strictly enforced, VA pharmacies could dispense considerably fewer OTC products. Also, savings could be achieved through more efficient OTC dispensing and copayment collection processes. Finally, the Congress could expand the copayment requirements to generate additional revenues.

Federal Expenditures Could Be Reduced Through Stricter Application of Eligibility Rules

The Congress has limited VA's authority to provide outpatient medical care to veterans. Only veterans with service-connected conditions rated at 50 percent or higher are eligible for comprehensive outpatient care. All veterans with service-connected conditions are eligible for treatments related to those conditions; they are also eligible for hospital-related care of nonservice-connected conditions. This includes only outpatient services needed to (1) prepare for a hospital admission, (2) obviate the need for a hospital admission, or (3) complete treatment begun during a hospital stay. Most veterans with no service-connected conditions are eligible only for hospital-related outpatient care. VA is required to assess a veteran's eligibility for care based on the merits of his or her unique situation each time that the veteran seeks care for a new condition.

We have identified many instances in which OTC products are used for pre- and posthospitalization care. For example, veterans received OTC products, such as phosphate enemas, magnesium citrate, and prep kits needed for barium enemas in preparation for colonoscopies and other diagnostic tests. Following hospital stays, veterans received ostomy supplies after some surgeries, wound-care supplies, aspirin for heart surgery or angioplasties, and decongestants after sinus surgery.

VA has broadly defined the statutory criteria relating to obviating the need for hospitalization. Guidance to facilities says that eligibility determinations

“ . . . shall be based on the physician's judgment that the medical services to be provided are necessary to evaluate or treat a disability that would normally require hospital admission, or which, if untreated, would reasonably be expected to require hospital care in the immediate future”

In other words, VA physicians must determine that a veteran would likely need to be hospitalized soon if OTC products are not used.

Some OTC products may be used to obviate the need for hospital care. For example, diabetic veterans use insulin to control their blood sugar, spinal cord and Parkinson's patients use stool softeners to alleviate fecal impaction, veterans suffering renal failure use sodium bicarbonate tablets to balance their electrolytes, and veterans who have suffered heart attacks or strokes use aspirin to prevent secondary occurrences.

However, whether many veterans' conditions would require hospitalization in the immediate future without the use of other OTC products is not clear. Such products include antacids for heartburn, skin preparation products for dry skin, acetaminophen for arthritis pain, and cough medications for common colds. Given that VA pharmacies filled prescriptions for such products over 2 million times last year, VA facilities may have the opportunity to achieve significant cost reductions if eligibility rules are more strictly enforced.

VA's Costs Could Be Reduced Through Increased Efficiency

VA pharmacies could more efficiently dispense OTC products by reducing the number of times staff handle these items or restricting mail service. VA facilities could also reduce costs by collecting medication copayments at the time of dispensing.

Reduce OTC Product Handling Costs

VA pharmacies could significantly reduce their OTC product dispensing costs of \$48 million by providing more economical quantities of medications and supplies. Dispensing larger quantities would reduce the number of times that VA pharmacists fill prescriptions for OTC products, saving about \$3 each time the products would have otherwise been dispensed.

As previously discussed, VA physicians generally prescribe OTC products to treat acute or chronic conditions or prevent future illness. Prescriptions for acute conditions are generally for periods of 30 days or less. However, OTC products used for chronic or preventative situations are generally prescribed for longer periods. For example, in fiscal year 1995, about 1,800 veterans received aspirin at the Baltimore pharmacy in quantities sufficient for at least 6 months.

VA allows pharmacies to dispense most OTC products in quantities sufficient for a 90-day supply. However, 15 pharmacies currently dispense OTC products in 30-day or 60-day supplies. Moreover, limiting pharmacies to dispensing a 90-day supply is uneconomical for certain high-volume OTC products used to treat chronic conditions or prevent illness.

OTC products used to treat chronic conditions or prevent illnesses seem to provide opportunities to reduce dispensing costs. For example, we estimate that VA's Baltimore pharmacy could have saved over \$8,000 in dispensing costs if it dispensed 180-day supplies of aspirin to certain veterans in fiscal year 1995. Assuming a prescribed usage of 1 tablet a day, this supply level of 180 tablets would be more consistent with the quantities available in local outlets, which generally range between 100 and 500 tablets.

Reduce OTC Mailing Costs

VA pharmacies could reduce dispensing costs by restricting the availability of mail service to certain situations or requiring veterans to pay shipping charges. Last year, VA pharmacies spent about \$7.5 million mailing OTC products to veterans.

VA pharmacies generally encourage veterans to use mail service when having most prescriptions for OTC products refilled. Almost all pharmacies mail OTC products, and mail service was used for almost 60 percent of the 15 million times that OTC products were dispensed last year. Some pharmacies have already transferred most of their OTC prescription refills to VA's new regional mail service pharmacies and others will do so when additional regional pharmacies become operational.

While mailing costs vary, they can be particularly costly for liquid items or items that are dispensed in large packages or for long periods. For example, one facility reported that mailing a prescription of liquid antacids from the pharmacy costs \$2.88 and mailing a case of adult diapers costs \$17.49. Mailing costs for a year's supply of diapers could exceed \$200. Some VA facilities cited high mailing costs as one of the principal reasons for eliminating OTC products from their formularies.

Several facilities have attempted to reduce mailing costs by prohibiting the mailing of certain OTC products, such as cases of liquid dietary supplements and diapers. In addition, some facilities reported switching from liquid products to powders to reduce the weight—and associated mailing costs—for particular OTC products.

Streamlining Copayment Collections

A third way to reduce federal costs is to streamline copayments for OTC products. VA primarily bills veterans for copayments, unlike other providers who generally require copayments to be made at the time that the products are dispensed. For OTC products dispensed to veterans in fiscal year 1995, VA's Baltimore pharmacy collected about 75 percent of the value of the copayments billed. The other 25 percent remained unpaid 5

months past the end of the fiscal year. The veterans who had not paid for these products had not applied for waivers and, as a result, VA officials view them as able to pay.

VA facilities incur additional administrative costs to prepare and mail bills for copayments related to OTC products. VA facilities generally send an initial bill and three follow-up bills to veterans who are delinquent in paying. However, because of the relatively small outstanding balance for most veterans, VA officials told us that they are reluctant to continue contacting nonpayers or pursue legal or other actions to collect these debts. By law, VA has the option of not providing OTC products if a veteran refuses to make a medication copayment at the time the product is dispensed. VA officials, however, told us that it is not their policy to withhold OTC products from nonpayers for this reason.

Administrative costs are significant in relation to the total copayment collections. A VA-sponsored study estimated that VA facilities spend about 38 cents for every \$1 collected to prepare medication copayment bills, mail them, and resolve questions. If the Baltimore facility's costs approximate this rate, it incurred an estimated \$26,000 to collect \$67,000 for OTC products in fiscal year 1995. In addition, about 25 percent of the medication copayments that were billed have gone unpaid and would have required additional costs to resolve. Collecting the copayment at the time a product is dispensed could eliminate most administrative costs and increase revenues.

VA Could Increase Restrictions on OTC Products

VA facilities could adopt less generous policies for OTC products, which would be more consistent with other health plans. This could be achieved by adopting such cost containment measures as (1) limiting OTC products available, (2) restricting veterans eligibility for OTC products, or (3) limiting quantities dispensed.

As previously discussed, each hospital offers a unique assortment of OTC products. For example, the most generous OTC product benefit packages contain about 285 medications, 514 medical supplies, and 14 dietary supplements. By contrast, the least generous packages include about 124 medications, 114 medical supplies, and 4 dietary supplements.

Over the last 3 years, 45 pharmacies have reduced the number of OTC products available to veterans. The most commonly removed OTC products are medications, such as soaps, skin lotions, and laxatives; dietary

supplements, such as Ensure, multiple vitamins, and mineral supplements; and medical supplies, such as ostomy products and chemical test strips.

As part of VA's ongoing reorganization, the 22 network directors have developed an unduplicated inventory of OTC products dispensed by facilities operating in the network. In general, each network's formulary more closely approximates the more generous OTC product benefit packages available in each network rather than the less generous package. Some network directors plan to review their formularies to identify products that could be removed.

Recently, 58 facilities told us that they are considering removing some OTC products from their formularies. Most are examining fewer than 10 products, although the number of products under review ranges between 1 and 205. Products most commonly mentioned include dietary supplements, antacids, diapers, aspirin, and acetaminophen. Ninety facilities are not contemplating changes at this time.

Interestingly, wide disagreement exists about VA's provision of OTC products on an outpatient basis. For example, 22 facilities suggested that all OTC products should be eliminated. By contrast, 57 suggested that all OTC products should remain available. The other 70 facilities provided no opinion regarding whether OTC products should be kept or eliminated.

Many facilities pointed out that eliminating all OTC products could result in greater costs for VA health care. This is because some OTC products are relatively cheap or they help prevent significant health problems that could be expensive for VA facilities to ultimately treat. Also, facilities said that physicians may substitute higher-cost prescription medications in place of certain OTC products that would no longer be available.

Facilities reported 21 OTC products, which, if removed from their formularies, would result in greater costs to VA. Those most frequently mentioned were aspirin, acetaminophen, antacids, and insulin. These facilities also reported that 14 of the 21 products had prescription substitutes. These include aspirin, acetaminophen, and antacids (insulin has no prescription substitute).

While 45 facilities removed OTC products during the last 3 years, only 6 of them said that they reinstated some 20 products on their formularies. One facility stated that although it is commonly believed that limiting OTC

medications would result in a higher use of more expensive prescription medications, it had not found this to be true at its facility.

As OTC products are removed from formularies, veterans will have to obtain the products elsewhere. To facilitate this, some VA facilities reported that they are using VA's Canteen Service to provide OTC products that have been eliminated from their formularies. The Canteen Service operates stores in almost every VA facility to sell a variety of items, including some OTC products. For example, the Baltimore pharmacy has asked its Canteen Service store to stock about 13 OTC products that were recently eliminated from its formulary. The Baltimore pharmacy has already shifted most of its dispensing of dietary supplements to the store.

VA Canteen Service stores do not use federal funds to operate and generally provide items at a discount, in large part because they do not have the expense of advertising. By allowing these stores to dispense OTC products, VA may reduce both dispensing and ingredient costs for its pharmacies. At the same time, VA's Canteen Service stores can provide many veterans with a convenient and possibly less costly option for obtaining these products than would be available through other local outlets.

Expanding Veterans' Copayments for OTC Products Would Enhance Revenues

The Congress could reduce the federal share of VA pharmacies' costs for filling veterans' OTC prescriptions by expanding copayment requirements. This could be achieved through (1) tightening exemption criteria, (2) requiring copayments for medical supplies, or (3) raising the copayment amount. Unlike VA, other health plans' copayment requirements generally apply equally to all beneficiaries and for all covered products.

As previously discussed, veterans' copayments cover only 7 percent of the Baltimore pharmacy's OTC costs. If the copayment remains at \$2 for each 30-day supply, changes that expand the number of veterans required to make a copayment could increase veterans' share up to 31 percent and thereby reduce the Baltimore pharmacy's share to 69 percent. A copayment of about \$9 would be needed to achieve a comparable sharing rate if existing exemptions are maintained.

Restricting OTC Copayment Exemptions

When the Congress established medication copayments in 1990, veterans with service-connected disabilities rated at 50 percent or higher were exempt for any condition as were other veterans who receive medications

for service-connected conditions. In 1992, the Congress exempted veterans from the copayment requirement for nonservice-connected conditions if their income was below prescribed thresholds.

Service-connected veterans received about one-third of the 116,000 prescriptions filled at the Baltimore pharmacy. Of these, almost one-half had ratings of 50 percent or higher. Veterans without service-connected conditions received the remaining two-thirds and about one-half of these veterans were exempt because of income below the statutory threshold. VA officials told us that while some low-income veterans may have difficulties with copayments, most veterans did not seem to have such a problem before the 1992 enactment of the low-income exemption.

The Baltimore pharmacy could have recovered an additional 7 percent of its costs if all veterans without service-connected conditions were required to make copayments for OTC products; and an additional 11 percent of its costs if veterans were required to make copayments for OTC products provided for service-connected and nonservice-connected conditions.

Last month, VA's General Counsel recommended that VA facilities should use a more restrictive income threshold, as required by the 1992 low-income exemption. Earlier, we had informed VA's Counsel that facilities were inappropriately using the higher aid-and-attendance pension rate rather than the lower regular pension rate. Using the lower rate should allow the Baltimore facility, as well as other facilities, to collect large amounts of copayments from veterans who would not otherwise have been charged.

Requiring OTC Copayments for Medical Supplies

When the Congress established a copayment requirement for medications and dietary supplements in 1990, it did not include a requirement for medical supplies. VA officials told us that they know of no reason why medical supplies should be treated differently from other product categories in terms of copayments. Moreover, the legislative history of this 1990 action offers no explanation for why a copayment for medical supplies was not included.

Nationwide, VA pharmacies dispensed medical supplies about 4 million times to veterans in 1995, including about 36,000 times at the Baltimore pharmacy. Baltimore provided most supplies for 30 days or fewer, generally preceding or following a VA hospital stay. Many, however, were

provided for longer-term conditions, including diabetic and ostomy supplies or diapers for those suffering from incontinence.

We estimate that the Baltimore facility could have recovered an additional 6 percent of its OTC product costs in fiscal year 1995 if veterans were required to make copayments for medical supplies used to treat nonservice-connected conditions.

Raising the OTC Copayment Amount

The Baltimore facility would need to charge a higher copayment to recover a larger share of its OTC product costs, if the exemptions and collection rates remain unchanged. For example, recoveries could be raised from 7 percent to 32 percent if the legislatively established copayment amount were \$9 for a 30-day supply. However, if some changes are made to the exemptions, this target share could be achieved with a smaller increase in the copayment rate, as shown in table 2.

Table 2: Estimated Copayment Recoveries as a Percent of the Baltimore Facility's OTC Costs (\$1.1 Million) for Different Exemption Options and Copayment Rates (Fiscal Year 1995)

| Options | Medication copayment | | | | |
|---|----------------------|-----|-----|------|------|
| | \$2 | \$3 | \$5 | \$7 | \$9 |
| Existing exemptions | 7% | 11% | 18% | 25% | 32% |
| Veterans with nonservice-connected conditions (before 1992) | 14% | 22% | 36% | 51% | 65% |
| Veterans with nonservice-connected conditions (includes medical supplies) | 20% | 30% | 50% | 70% | 90% |
| All veterans (includes medical supplies and veterans with service-connected conditions) | 31% | 47% | 78% | 109% | 140% |

Concluding Observations

Most VA facilities offer an OTC product benefits package that is more generous than other health plans. In addition, VA facilities provide other features, such as free OTC product mail service and deferred credit for copayments owed, that are not commonly available in other plans. As a result, VA facilities have devoted significant resources to the provision of OTC products, which other plans have elected not to spend.

VA facilities could reduce their pharmacy costs if existing eligibility criteria are more strictly administered for OTC products. Less than half of the veterans receiving outpatient care have service-connected conditions. Thus, most veterans must meet the pre- and posthospitalization or obviating-the-need criterion. In our view, many veterans may be receiving OTC products for nonservice-connected conditions unrelated to a VA hospital stay or potential hospitalization. Toward this end, VA may need to provide better guidance to facilities to achieve an effective and consistent use of OTC products within its existing statutory authority.

VA should be commended for instructing network directors to consolidate formularies. This action, which is currently in progress, has not yet achieved an adequate level of consistency or cost-containment systemwide because the networks current formularies approximate the more generous coverage of OTC products. Moreover, some networks are allowing facilities to have less generous coverage of OTC products than these networks' formularies. This will likely maintain the uneven availability of OTC products.

Given the disagreement among networks and facilities regarding the provision of OTC products, additional guidance may be needed to ensure that veterans have a consistent level of access to OTC products systemwide. In light of concerns about potential resource shortages at some facilities, tailoring the availability of OTC products to be more in line with those less generous facilities would seem desirable. This would essentially limit OTC products to those most directly related to VA hospitalizations or those considered most essential to obviate the need for hospitalization, such as insulin for diabetic veterans.

VA facilities could also reduce their costs if they restructured OTC product dispensing and copayment collection processes. In general, most facilities handle OTC products too many times, mail products too often, and allow veterans to delay copayments too frequently. Although, some facilities have adopted measures to operate more efficiently, all facilities could benefit by doing so.

Expanding veteran's share of the costs would also help to reduce federal resource needs. This could be achieved by expanding copayment requirements to include medical supplies, reducing the income threshold for veterans with nonservice-connected conditions, or increasing the amount of copayment required. In addition to enhancing revenues, such

changes could also act as important incentives for veterans to only obtain the OTC products from VA facilities that they expect to use.

Finally, VA facilities have developed ways to provide OTC products to veterans outside their pharmacies at costs lower than they are available through other local outlets. Some facilities have had success using the Canteen Service stores to stock and sell OTC products that the facilities had removed from their formularies. This seems to provide a reasonable alternative to providing OTC products to veterans through VA pharmacies.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions that you or other Members may have.

Contributors

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