



United States  
General Accounting Office  
Washington, D.C. 20548

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Health, Education, and  
Human Services Division

B-282860

June 8, 1999

The Honorable Don Nickles  
United States Senate

Subject: Defense Health Care: Pharmacy Copayments

Dear Senator Nickles:

This responds to your March 17, 1999, referral to us of a letter that several constituents sent you regarding our recent report and testimony on Department of Defense (DOD) pharmacy programs.<sup>1</sup> The letter expressed concern about what was referred to as a "GAO proposed plan that urges copayments for medications now provided without fee to military retirees." It characterizes copayments as erosion of benefits and degradation in medical care. While we certainly can appreciate this concern, we believe it is important to recognize that benefit erosion and quality-of-care concerns exist with the current system. Our June 1998 report included a dozen recommendations (see pp. 53-55) aimed at improving the current situation facing military retirees by reversing a troubling trend in the military pharmacy system. In our view, the system has been mismanaged for some time, has already seen a significant reduction in benefits, and has seen its costs skyrocket. Stated simply, the system needs an overhaul.

Based on a thorough analysis of available data and extensive discussions with experts within DOD and the private sector, our work showed that, in recent years, military beneficiaries' demand for prescription drugs has increased, while the number of military treatment facility (MTF) pharmacies and related funding has decreased. MTF prescription drug costs became a cost-cutting target because no uniform drug formulary existed across the DOD pharmacy programs, and MTF commanders had discretion in deciding which drugs were made available. As a result, MTF pharmacies began to regularly drop costlier drugs from their formularies, and affected

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<sup>1</sup> We have enclosed copies of Defense Health Care: Fully Integrated Pharmacy System Would Improve Service and Cost-Effectiveness (GAO/HEHS-98-176, June 12, 1998) and Defense Health Care: Need for Top-to-Bottom Redesign of Pharmacy Programs (GAO/T-HEHS-99-75, Mar. 10, 1999).

beneficiaries had to “shop” multiple MTF pharmacies and go to retail and mail-order pharmacies to fill their prescriptions. Thus, beneficiaries’ access to pharmacy care was diminished and their, DOD’s, and the contractors’ overall costs increased.

We concluded that a uniform, incentive-based formulary used for all DOD pharmacy programs would help to control costs while allowing more consumer choice than DOD’s current, more restrictive policies. Also, we expressed the view that reasonable copayments for nonformulary prescription drugs, a common practice in the private sector and in the Federal Employees Health Benefits Program, would create important physician and consumer incentives to prescribe and use less costly drugs when they meet patient needs. In turn, we said that such actions should help dampen rising drug costs. Restrictive formularies that erode the benefit—the direction DOD’s pharmacy programs have taken—could then be avoided. Also, under our recommendations, MTFs could retain the copayment revenue and use it to enhance prescription drug services. We estimated that the overall DOD pharmacy savings from adopting such measures could range from about \$61 million to \$107 million per year. Other benefits would include greater convenience, choice, and consistent benefit access by beneficiaries.

Perhaps most adversely affected by DOD’s pharmacy programs are beneficiaries ages 65 and older. About 1 million of DOD’s 1.4 million Medicare-eligible beneficiaries are eligible for the no-cost MTF pharmacy program but not the TRICARE retail pharmacy or national mail-order pharmacy programs—which have varying copayments. Thus, when MTF pharmacies drop certain drugs and choose not to add others, many Medicare-eligible retirees must pay full retail pharmacy costs because Medicare does not cover outpatient prescriptions. Cost savings from an incentive-based formulary, including revenue from copayments and other reforms we recommended such as the use of prospective drug utilization review,<sup>2</sup> could be used to enhance Medicare-eligible retirees’ systemwide drug benefit.

In summary, the recommendations in our report were designed to correct serious problems in DOD’s pharmacy benefit programs and at the same time enable a more flexible and richer benefit package at the lowest possible cost. We believe that the introduction of incentive-based copayments is an essential element in the overall plan to provide stable, high-quality pharmacy benefits over the long term. Medicare-eligible retirees should be better off with a pharmacy benefit that covers the drugs

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<sup>2</sup>Millions of dollars in unneeded costs are likely being incurred from overutilization and patient safety problems from adverse reactions to prescription drugs because DOD and its contractors lack the databases to support automated prospective drug utilization review systems to review prescriptions before they are dispensed. Such systems are widely used in the private sector to reduce inappropriate drug use that can cause adverse reactions leading to illness, hospitalization, and even death.

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they need with a reasonable copayment compared with a copayment-free benefit that does not include many of those drugs.

If we can further assist you or your staff, please call me at (202) 512-7101 or Dan Brier, Assistant Director, at (202) 512-6803.

We will make copies of this correspondence available to interested parties on request.

Sincerely yours,



Stephen P. Backhus  
Director, Veterans' Affairs and  
Military Health Care Issues

Enclosures - 2

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