UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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JAN 21 1980

IN REPLY REFER TO:

PROGRAM ANALYSIS DIVISION

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B-197492

The Honorable Mickey Leland
U.S. House of Representatives

Dear Congressman Leland:

On December 11, 1979, the U.S. General Accounting Office testified before the House Interstate and Foreign Commerce Subcommittee on Health and the Environment as part of the hearing on "Community-based care of the Elderly." After we presented testimony on our report--Entering a Nursing Home--Costly Implications for Medicaid and the Elderly--you referred ~~us to~~ a study on the effects of a restrictive drug formulary and asked for our comments.

Dr. Dennis L. Hefner, the author of "Cost Effectiveness of a Restrictive Drug Formulary: The Louisiana Experience," has sent us the latest draft of his work. In addition, we received a copy of the final report from Ms. Janis Kelly of Pracon, Incorporated. Dr. Hefner's study recognized one serious problem with the present structure of Medicaid which we discussed in our report: that the high cost of the Medicaid program has forced many States to contain costs via restrictions on optional services such as prescribed drugs. In examining the restrictive drug formulary implemented in the Louisiana Medicaid program in August 1976, Dr. Hefner concluded that the $4.1 million savings accrued from outpatients' and long-term care patients' drug purchases which formerly would have been reimbursed through Medicaid, was more than offset by the $15.1 million increase in the demand for non-prescription services.

While Dr. Hefner's findings tend to support previous studies conducted primarily on restrictive hospital formularies, several cautionary observations should be made. A primary problem, which Dr. Hefner has recognized, is that no causal relationship between the decrease in drug prescription costs and the increase in non-prescription services was demonstrated. While Dr. Hefner has succeeded in creating a fairly controlled environment for his research, intervening variables may have contributed to the outcome.

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In addition, Dr. Hefner concluded that restricting some medications caused many persons in the Old Age Assistance (OAA) and Aid to the Totally and Permanently Disabled (ATD) population to become more ill and use more non-prescription services. However, there may be other explanations for this finding. For example, Dr. Hefner's sample may have overrepresented institutionalized persons. Persons who received free medical services were selected for the sample. This automatically excluded the larger universe of all persons eligible to receive free services. In addition, all institutionalized persons who were eligible for free medical services were automatically in the population sample. Hence, institutionalized persons may have been overrepresented in the population from which the sample was drawn. In addition, the length of the baseline and experimental periods, 6 months each, may not have been long enough to capture an adequate number of persons receiving medical assistance outside of institutions. Both factors may have contributed to a population more likely to require all types of services, regardless of the formulary policy.

Lastly, Dr. Hefner found that those diseases which were affected most by the restrictive drug formulary experienced the only increase in the frequency of diagnoses among the twelve most common disease classes. While Dr. Hefner found a statistically significant relationship between the rise in nervous system, heart, and circulatory disease classes and those drugs which were restricted, his assumptions may not be valid. For example, it is difficult to determine from a broadly defined disease class such as "nervous system" whether or not a specific drug would have been beneficial if prescribed. Furthermore, the rationale applied to ranking the restricted drugs' degree of impact on the twelve disease classes is not well supported or documented.

We appreciate the opportunity of reviewing this study, and trust that these comments are responsive to your inquiry.

Sincerely yours,

(Signed) Harry S. Havens

Harry S. Havems
Director

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