

The relationship between utilization of outpatient prescription drugs and inpatient care by Medicare beneficiaries

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Abstract: Medicare Prescription Drug Benefits are an important health policy issue in the United States today. The House and the Senate passed different versions of Medicare drug bills in June, 2003, and Congressional debates are continuing about the reimbursement and cost of possible drug benefits. This dissertation investigates how a Medicare Prescription Drug Benefit could affect the health status of elderly Medicare beneficiaries and their subsequent demand for Medicare Part A services. This study builds a dynamic theoretical framework to explain Medicare beneficiaries' health care behaviors and their demand for different types of medical care over time. The Cost and Use files of the Medicare Current Beneficiaries Survey 1992-1998 are used in this study. This data set is longitudinal data that tracks the timing of both outpatient prescription drug utilization and inpatient care utilization over years. This data is used to estimate a system of empirical equations, which is an approximation of the lifetime value function of optimal choices of medical care utilization in the theoretical model. Assuming that each Medicare beneficiary is given a prescription drug benefit at a typical Medicaid prescription drug benefit level, this study simulates the effect of the drug benefit using the estimated results from the empirical model. The simulation results show that a prescription drug benefit may stimulate demand for outpatient drugs, and might help decrease mortality and increase the longevity of Medicare beneficiaries. Over a short period, there could be offsets of Medicare Part A expenditures because of increased prescription drug utilization, but over a longer period up to five years, total Medicare Part A expenditures may increase because of more drug use due to the increased longevity and population size. The affects of a drug policy on health outcomes and subsequent inpatient care expenditures differ across subgroups in different age, income level and functional level. If the Medicare Prescription Drug Bill is passed, the demand for outpatient prescription drugs by Medicare beneficiaries may increase, very likely more money is needed to fund both the prescription drugs benefit and inpatient care benefit at the population level in the future.

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