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**MEDICARE DRUG PLAN PRICES ARE HIGHER
THAN MEDICARE DRUG CARD PRICES**

PREPARED FOR REP. HENRY A. WAXMAN

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EXECUTIVE SUMMARY

The federal legislation that created the new Medicare prescription drug plans also created a program of Medicare-approved drug cards that went into effect on June 1, 2004, and expired on December 31, 2005. As President Bush explained, the Medicare drug cards were intended to “serve as a transition” to the new Medicare drug plans.

In retrospect, the Medicare drug cards are widely regarded as a failure. Independent studies have demonstrated that they failed to deliver meaningful discounts on drug prices. According to a new report and work papers from the Government Accountability Office, the drug cards were able to obtain discounts from drug manufacturers of at best only 3% to 5%. Because of the cards’ high prices and considerable complexity, the vast majority of eligible seniors chose not to enroll in the drug card program.

At the request of Rep. Henry A. Waxman, this report compares the prices offered in mid-February 2006 by the new Medicare prescription drug plans to the prices offered nine months ago by the Medicare drug cards. The results are surprising: the prices offered by the new Medicare drug plans are significantly higher than the drug card prices. The new Medicare drug plans appear to be even less successful in negotiating drug price concessions than the failed Medicare drug cards.

This report compares the prices offered by ten leading Medicare drug plans for ten best-selling drugs used by seniors with the prices previously charged by Medicare drug cards for the same ten drugs. It finds that the average Medicare drug plan prices are 14% higher than the prices offered by the Medicare drug cards. For one drug, the cholesterol medication Zocor, the average Medicare drug plan price is 27% higher; for a second drug, the ulcer drug Protonix, the average Medicare drug plan price is 21% higher.

These large price increases cannot be explained by consumer price inflation (which increased only 2.3% during the nine month period), drug price inflation (which increased only 3.6% during the period), or changes in the manufacturers’ list prices for the ten drugs (which increased only 6.0% during the period). The large price increases are further evidence that the new Medicare drug benefit enriches the pharmaceutical industry at the expense of seniors, individuals with disabilities, and taxpayers.

I. THE MEDICARE DRUG CARD PROGRAM

The Medicare Modernization Act of 2003 created the new prescription drug benefit for Medicare beneficiaries that went into effect on January 1, 2006. The Act also established Medicare-approved prescription drug cards that were designed to provide drug savings to seniors in the two years between passage of the Act and the implementation of the full benefit. According to President Bush, the drug cards were intended to “serve as a transition to the reforms that are inherent in the Medicare legislation.”¹ The drug card program commenced on June 1, 2004, and ended on December 31, 2005.

The structure of the Medicare drug card program resembled the structure of the new Medicare drug plans in key respects. Like the Medicare drug plans, the drug card program (1) required beneficiaries to choose a private provider among dozens of choices; (2) relied on the private providers to negotiate drug price savings; and (3) used a complicated Medicare website to help seniors navigate their choices. Many of the plan providers who offered Medicare drug cards are now marketing Medicare drug plans.²

Like the drug benefit itself, the ostensible premise of the Medicare drug card program was that competition among private drug card sponsors would provide seniors and individuals with disabilities with significant discounts on prescription drugs. This convoluted structure was supported by two industries that have been major contributors to the Republican party: drug manufacturers and private health insurers.³ Echoing the arguments of the drug industry, Republican leaders like former Secretary of Health and Human Services Tommy Thompson promised that under the drug card program, “[s]eniors will be able to reap the benefits of competition in terms of lower prices.”⁴

The promise of low drug prices was not realized by the Medicare drug cards. An analysis released by Rep. Waxman found the prices available to seniors using the drug cards were 75% higher than the prices negotiated by the federal government for the Department of Veterans Affairs, 72% higher than prices available to consumers in Canada, and no better than prices already available to seniors at

¹ The White House, *President Applauds Congress for Passing Historic Medicare Bill* (Nov. 25, 2003) (online at: <http://www.whitehouse.gov/news/releases/2003/11/20031125-5.html>).

² There are ten private insurers, pharmacy benefit managers, and other organizations that are approved by Medicare to offer nationwide prescription drug plans. Nine of these entities participated in the Medicare drug card program. Letter from Rep. Henry A. Waxman to CMS Administrator Mark McClellan (Nov. 30, 2005).

³ Since 2000, these industries have given approximately \$120 million in campaign contributions to President Bush and Republican members of Congress. Center for Responsive Politics (online at www.opensecrets.org/industries/index.asp).

⁴ CMS, *Medicare Drug Discount Cards Continue to Drop Prices and Offer Better Savings* (May 14, 2004).

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Costco stores or through Drugstore.com.⁵ A report by Families USA reached similar results.⁶ A new report and work papers from the Government Accountability Office reveal that the drug cards were able to negotiate only paltry discounts — in the range of 3% to 5% — from drug manufacturers.⁷

As a result of the high prices offered by the drug cards and their convoluted structure, the drug card program is now widely regarded as a failure, offering nothing but “complexity, confusion, and very limited benefits.”⁸ In the end, only 7% of eligible beneficiaries enrolled themselves in the program.⁹

II. PURPOSE AND METHODOLOGY

At the request of Rep. Henry A. Waxman, this report compares the drug prices currently available through leading Medicare drug plans with the prices previously offered by Medicare drug cards.

The report examines the prices available under the two programs for the ten highest-selling brand-name drugs used by seniors in 2003.¹⁰ For the Medicare drug cards, the report uses the prices listed on the Medicare website in April 2005.¹¹ For the Medicare drug plans, the report uses the prices listed on the Medicare website on February 20, 2006, for ten leading Medicare drug plans.¹²

⁵ Minority Staff, House Committee on Government Reform, *Medicare Drug Discount Cards Fail to Offer Significant Savings in Maryland* (Apr. 2005).

⁶ Families USA, *Getting the Best Price: Lessons Learned from the Medicare Discount Card D Program* (Sept. 2005).

⁷ GAO, *Sponsors Management of the Prescription Drug Discount Card and Transitional Assistance Benefit* (Feb. 2006).

⁸ Families USA, *Statement: Sharp Contrast between Presidential Rhetoric and Reality of Medicare Drug Discount Card Program* (June 14, 2004)

⁹ Letter from Rep. Henry A. Waxman to CMS Administrator Mark McClellan (Nov. 30, 2005).

¹⁰ The ten drugs were Aricept (10 mg, 30 tab); Celebrex (200 mg, 30 tab); Fosamax (70 mg, 4 tab); Lipitor (10 mg, 30 tab); Nexium (20 mg, 30 tab); Norvasc (5 mg, 30 tab); Plavix (75 mg, 30 tab); Prevacid (30 mg, 30 tab); Protonix (40 mg, 30 tab); and Zocor (40 mg, 30 tab).

¹¹ Medicare drug card prices from April 2005 were chosen for analysis because April 2005 was the last time the minority staff of the Government Reform Committee analyzed Medicare drug card prices. See Minority Staff, House Committee on Government Reform, *Medicare Drug Discount Cards Fail to Offer Significant Savings in Maryland* (Apr. 2005). More recent Medicare drug card prices are not publicly available. The April 2005 prices used in the report are the prices charged by Medicare drug cards in Maryland. Because there were few regional variations in drug card pricing, these prices are representative of prices at the national level.

¹² Prices were collected for five locations in the United States — Illinois, South Dakota, Massachusetts, California, and Texas. The ten plans are AARP Medicare Rx Plan, the Advantra Rx Premier Plan, the Aetna Medicare Rx Premier Plan, the Cignature Rx Plus Plan, the Humana PDP Standard Plan, the Silverscript Plus Plan, the Sterling Prescription Drug Plan, the UA

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The Medicare drug plan prices used in the report are the prices charged to a beneficiary in the “donut hole”¹³

III. FINDINGS

Medicare Drug Plan Price Increases

The drug prices currently offered to seniors by the Medicare drug plans are significantly higher than the prices offered by the Medicare drug cards in April 2005.

In April 2005, the ten drugs cost an average of \$946 using the Medicare drug cards. In February 2006, the same drugs cost an average of \$1,077 under the new Medicare drug plans. Prices for each of the ten drugs increased, and the average price increase was 14%. Table 1.

	Medicare Drug Cards	Medicare Drug Plans	% Increase
Aricept	\$135.24	\$153.53	14%
Celebrex	\$82.43	\$90.00	9%
Fosamax	\$65.93	\$72.27	10%
Lipitor	\$68.48	\$74.98	9%
Nexium	\$111.76	\$125.55	12%
Norvasc	\$44.88	\$47.17	5%
Plavix	\$118.45	\$132.74	12%
Prevacid	\$118.45	\$132.14	12%
Protonix	\$91.47	\$110.49	21%
Zocor	\$108.84	\$138.48	27%
Total	\$945.93	\$1,077.35	14%

In the case of some individual drugs, price increases were even higher. The average price of Zocor, a cholesterol medication manufactured by Merck, increased from \$109 using the Medicare drug cards to \$138 under the new Medicare drug plans, a 30% increase (Figure 1). The average price of Protonix,

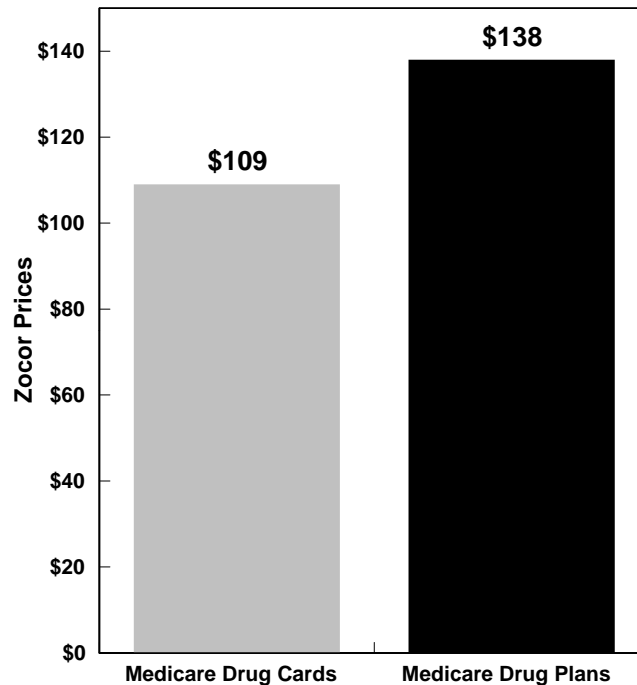
Medicare Part D Prescription Drug Plan, the WellCare Signature Plan, and the YourRx Plan. The Sterling Prescription Drug Plan was not available in California.

¹³ Under the Medicare law, beneficiaries are supposed to have “access” to the “negotiated prices” of the private insurer when they are meeting their \$250 deductible or in the “donut hole.” Public Law 108-173, § 1860D-2(d)(1).

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an ulcer medication manufactured by Wyeth, increased from \$91 using the Medicare drug cards to \$110 under the new Medicare drug plans, a 21% increase.

Figure 1: Medicare Drug Plan Prices for Zocor Are Higher Than Medicare Drug Card Prices



Price Increases for Specific Medicare Drug Plans

In several instances examined in this report, the same insurers that are now offering Medicare drug plans previously offered Medicare drug cards. In these cases, prices are consistently higher under the new Medicare drug plans than they were under the old Medicare drug cards. For example, Coventry Health Care offered the Advantra Rx Medicare drug card and now offers the Advantra Rx Medicare drug plan. This company charged \$964 for the ten drugs with its drug card. It now charges \$1,096 through its Medicare drug plan, a 14% increase. Aetna charged \$949 for the ten drugs with its drug card. It now charges \$1,067 through its Medicare drug plan, a 12% increase.

Comparison with Other Price Benchmarks

The significant increase in the prices charged by the Medicare drug plans compared to the Medicare drug cards cannot be explained by the increase in general inflation. Since April 2005, the consumer price index increased by

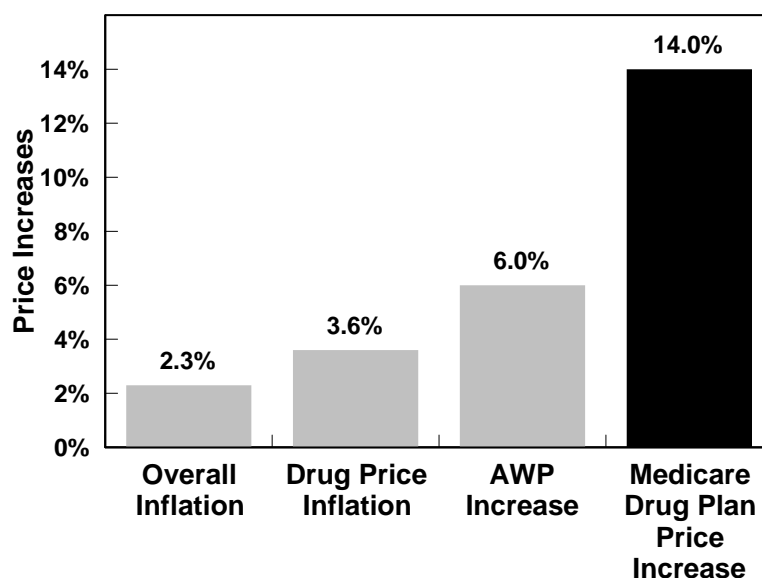
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2.3%.¹⁴ The 14% increase in drug prices is over six times higher than the increase in the CPI.

The price increase also cannot be explained by the increase in general drug prices. Overall, prescription drug prices increased by an average of 3.6% since April 2005.¹⁵ The 14% increase in Medicare drug plan prices is over four times higher than the increase in overall prescription drug prices.

The price increase also cannot be explained by the increase in manufacturers' "average wholesale prices" (AWP) for the ten drugs. In the pharmaceutical industry, AWP is the equivalent of the manufacturer's published list price. Overall, AWP increased by an average of 6.0% since April 2005 for the ten drugs.¹⁶ The 14% increase in Medicare drug plan prices is over twice as high as the increase in AWP for these drugs. Figure 2.

Figure 2: Medicare Prices Are Increasing Faster Than Other Benchmarks



¹⁴ Bureau of Labor Statistics, *Consumer Price Increase — All Urban Consumers* (Feb. 2006).

¹⁵ Bureau of Labor Statistics, *Consumer Price Increase — All Urban Consumers, Prescription Drugs and Medical Supplies* (Feb. 2006).

¹⁶ MediSpan, Price Alert (Feb. 15, 2006).

IV. CONCLUSION

This report reaches the surprising finding that drug prices under the new Medicare drug plans are significantly higher than the prices offered by the widely discredited Medicare drug cards. Critics of the new Medicare drug plans have argued that the complicated structure of the plans, the reliance on private insurers to provide the drug benefit, and the prohibition on drug price negotiations by Medicare were enacted to keep drug prices high at the expense of seniors and taxpayers. The findings in this report, which indicate that the new Medicare drug plans have been less successful in negotiating price concessions than the old Medicare drug cards, would appear to support this criticism.