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Fact Sheet

GAO Report on Medicare Drug Cards

On February 21, 2006, Rep. Waxman released a new analysis by the Government Accountability Office of the Medicare prescription drug card program, which was in effect from June 2004 through December 2005.¹ The report and accompanying GAO work papers reveal that the private sponsors of Medicare drug cards obtained negligible discounts in prices from drug manufacturers. The report also discloses that the Centers for Medicare and Medicaid Services (CMS) had advance warnings of many of the problems that plagued the transition of low-income beneficiaries to Medicare drug coverage.

Background

The Medicare Modernization Act of 2003, which created the complicated new prescription drug benefit that went into effect on January 1, 2006, also created a Medicare drug card program that operated from June 1, 2004, through December 31, 2005. According to President Bush, the Medicare drug cards were intended to “serve as a transition to the reforms that are inherent in the Medicare legislation.”²

The Medicare drug card program and the new Medicare drug plans have fundamental similarities. Like the new Medicare drug plans, the Medicare drug card program required seniors to choose a private plan from among dozens of competing private sponsors; relied on the private sponsors to negotiate drug savings; used a Medicare website to help beneficiaries navigate the program; and provided additional subsidies to low-income seniors and individuals with disabilities. In fact, many of the private sponsors of Medicare drug cards are now offering Medicare drug plans.

Medicare Drug Cards Were Unable to Obtain Significant Manufacturer Discounts

CMS officials have claimed that the Medicare drug cards provided drug discounts of up to 12% to 21%. GAO did not independently verify the discounts claimed by CMS. In its report and work papers, however, GAO assessed how CMS derived its estimated savings. GAO found that “the majority of discounts came from pharmacies rather than from drug manufacturers.”³ In GAO’s interviews with CMS officials about the drugs cards, these officials indicated that discounts obtained

¹ GAO, *Medicare: Sponsors’ Management of the Prescription Drug Discount Card and Transitional Assistance Benefit* (Jan. 13, 2006).

² 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>).

³ GAO, *supra* note 1, at 7.

from pharmacies accounted for three-quarters of savings.⁴ According to the GAO interviews, the discounts obtained from the drug manufacturers accounted for only one-quarter of the savings.⁵ Using CMS's own estimates, the drug manufacturer discounts obtained by Medicare drug discount cards appear to have saved consumers only 3% to 5%.

In fact, CMS's estimates of savings are likely to be overestimates. Other analyses have found that the drug cards provided virtually no savings compared to prices already available to seniors at Costco or through the internet at Drugstore.com.⁶ These analyses also found that the prices offered by Medicare drug cards were far higher than the prices negotiated by the federal government on behalf of federal agencies or the prices available to consumers in Canada.⁷ The actual level of discounts obtained from drug manufacturers may thus be even less than 3% to 5%.

CMS Had Advance Warning of Problems with Medicare Transition

The transition to the new Medicare drug benefit has been particularly problematic for low-income beneficiaries, hundreds of thousands of whom were unable to obtain needed medications in the first weeks of the program. Problems with CMS data systems containing enrollment and eligibility information on low-income beneficiaries were a key reason for the failure of the transition.⁸ As one state Medicaid official explained, "the Medicare database was incomplete and inaccurate. Files and information of the dual eligibles were apparently not transferred correctly from Medicare. ... Files with information on the dual eligibles' status were flawed. Many clients were left off the database or were not listed as dual eligibles when they in fact were."⁹

The GAO finds that the same types of problems afflicted the Medicare drug card program, which contained a "transitional assistance" program for low-income beneficiaries. According to the GAO report, "drug card sponsors experienced problems with the ... enrollment process, including reconciling enrollment and eligibility data with CMS."¹⁰ The drug card sponsors reported that the CMS eligibility verification system contained inaccurate information; that the eligibility data of drug card sponsors frequently differed from the CMS eligibility data; and that CMS failed to provide adequate guidance about which drugs were covered under the drug card program.¹¹

⁴ GAO Interview With CMS Officials (Sep. 20, 2005); GAO Interview With CMS Officials (Nov. 7, 2005);

⁵ *Id.*

⁶ See, e.g., Minority Staff, House Committee on Government Reform, *Medicare Drug Cards Provide Few Discounts in Colorado's 3rd Congressional District* (Apr. 2005).

⁷ *Id.*

⁸ See, e.g., Sen. Snowe *Outraged That Eligible Medicare Drug Beneficiaries Not in Medicare Computer System*, U.S. Fed News (Jan. 5, 2006). *New Medicare Prescription Program Headache for Pharmacists*, Associated Press (Jan. 10, 2006); *Many Vulnerable People Still on Drug Plan Roller Coaster*, The Sacramento Bee (Jan. 23, 2006); *States Intervene After Drug Plan Hits Early Snags*, New York Times (Jan. 8, 2006)

⁹ Testimony of Robert Maruca, House Committee on Government Reform, Democratic Staff Briefing, *Implementation of the New Medicare Drug Benefit* (Jan. 20, 2006).

¹⁰ GAO, *supra* note 1, at 10.

¹¹ GAO, *supra* note 1, at 10-12.

GAO REPORT ON MEDICARE DRUG CARDS

CMS told GAO that the lessons learned from the drug card program were “helpful in preparing for the implementation of the Medicare prescription drug benefit that is currently underway.”¹² CMS also reported that it “worked with drug card sponsors to identify and correct these [data] deficiencies.”¹³ As the transition to the new Medicare drug plans showed, however, it does not appear that CMS corrected the problems that its experience with the Medicare drug cards disclosed.

¹² GAO, *supra* note 1, at 13.

¹³ GAO, *supra* note 1, at 15.