**SPECIAL INVESTIGATIONS DIVISION, MINORITY STAFF**
**COMMITTEE ON GOVERNMENT REFORM**
**U.S. HOUSE OF REPRESENTATIVES**
**MARCH 2006**

**Fact Sheet**

# Comparison of Medicare Drug Price Analyses

Congressional analyses by the Special Investigations Division find that Medicare drug plans are failing to provide significant discounts to seniors for popular brand-name drugs. The congressional analyses find that Medicare drug plan prices are much higher than the prices negotiated by the Veterans Administration and the retail prices available in Canada. Frequently, the Medicare drug plan prices are even higher than the prices available at retailers like Drugstore.com or Costco.[1] Additional studies by organizations such as Families USA have confirmed the congressional findings regarding high Medicare drug prices.[2]

In contrast, the Center for Medicare and Medicaid Services (CMS) has released a competing analysis that appears to show that the drug plans are providing seniors with significant savings. According to the CMS analysis, "beneficiaries with common chronic conditions who enroll in Medicare prescription drug plans can see substantial savings off the cost of prescription drugs."[3]

There are three primary factors that explain the differences between the congressional findings and the CMS findings:

- The congressional findings are based on an analysis of the drug prices available through the Medicare drug plans. Unlike the congressional analyses, the CMS analysis also takes into account the impact of the federal subsidy under Medicare Part D, which averages over $1,600 per beneficiary.

- The congressional findings are based on the prices of brand-name drugs, which account for 90% of U.S. drug spending. Unlike the congressional analyses, the CMS analysis also examines prices for low-cost generic drugs.

- The congressional findings compare Medicare drug prices to four benchmark prices: the federally negotiated VA price, the Canadian price, and the prices available from two large discount retailers, Drugstore.com and Costco. Unlike the congressional analyses, the CMS analysis compares the Medicare drug prices to an artificially high "cash" price.

A key question confronting policymakers is whether the complicated design of the Medicare drug benefit is enriching brand-name drug manufacturers at the expense of seniors and the taxpayer. Whether intentional or not, the design of the CMS analysis makes the CMS analysis largely irrelevant in answering this question.

## The CMS Analysis Takes the Federal Subsidies into Account

Proponents of the Medicare legislation claimed that seniors would save money on drugs because the private Medicare drug plans would negotiate large discounts with drug manufacturers. For example, former HHS Secretary Tommy Thompson claimed that "the pharmaceutical benefit managers who will be taking over purchasing the drugs are going to be able to purchase in bulk with the pharmaceutical companies and hold down prices."[4] The congressional analyses directly assess these claims by analyzing the prices for popular brand-name available under the Medicare drug plans.

In contrast, the CMS analysis looks at the savings realized by seniors, taking into account both drug prices and the large federal subsidy under Medicare Part D. According to CMS, if seniors have drug costs between $1,350 and $7,017 annually and choose the lowest cost plan, the seniors "can save an average of 57% off of their drug costs."[5] Most of these savings, however, are due to the federal subsidy for Medicare Part D. This subsidy is costing taxpayers an average of approximately $1,640 per beneficiary.[6]

In a less publicized part of the CMS analysis, CMS compares Medicare drug card prices to Drugstore.com prices. This part of the CMS analysis shows negligible, if any, savings from drug prices.[7] The CMS analysis shows that in some circumstances, the Drugstore.com prices are as much as 10% lower than the Medicare drug card prices.[8]

## The CMS Analysis Includes Low-Cost Generic Drugs

The markets for patented brand-name drugs and generic drugs are fundamentally different. While a drug is under patent, no other manufacturer can make the drug and compete directly on price with the patent-holder, though some limited competition may occur if there are other drugs in the same "therapeutic class" as the brand-name drug. In contrast, the market for generic drugs is highly competitive, which keeps drug costs low. In 2005, spending on brand-name drugs represented 90% of prescription-drug spending.[9] Although generic drugs accounted for 56% of prescriptions, spending on generic drugs represented only 10% of spending because of the lower price of generic drugs.[10]

The congressional analyses are restricted to brand-name drugs under patent. This approach allows the congressional reports to assess how successful the Medicare drug plans have been in negotiating reduced prices from the patent-holding manufacturer.

In contrast, the CMS analysis examines both brand-name and generic drugs. While this approach has the advantage of being more comprehensive, it undermines the relevance of the CMS analysis for evaluating whether the Medicare drug plans are able to negotiate effectively with brand-name manufacturers for low prices. Another consequence of including generic drugs is to inflate the perceived drug savings. The Medicare drug plans appear to be effective in reducing the mark-up charged by pharmacists by approximately $10 per scrip. This is only a 7% savings on a brand-name drug costing $150, but it is a 50% savings on a generic drug costing $20.

## The CMS Analysis Uses an Artificially High "Cash" Price

The congressional reports use four benchmarks to assess the prices available under the Medicare drug plans: (1) the prices negotiated by the VA for the federal government; (2) Canadian prices; (3) the prices charged by Drugstore.com, an online retailer; and (4) the prices charged by Costco, a large discount retailer. These prices, particularly the VA prices, reflect what an effective negotiator pays for drugs.

In contrast, the primary benchmark for the CMS analysis is the average cash price available at retail drugstores.[11] These cash prices, which represent what an individual without insurance would pay for drugs at a local pharmacy, are generally the highest prices paid by any consumer anywhere in the world. Moreover, they do not take into account the fact that cash-paying seniors can obtain a 10% senior discount at virtually every chain or independent pharmacy. By using the highest possible benchmark to measure savings, the CMS analysis overstates the savings for seniors who purchase drugs through Medicare drug plans.

## Other Factors Explain Differences in Findings

There are a number of other factors that contribute to the differing conclusions reached by the congressional and CMS analyses. For example, the largest discounts cited in the CMS analysis occur when seniors change the drugs that they currently use, switching either to generics or to older name-brand drugs.[12] The congressional analyses do not assume drug switching.

The CMS analysis also does not take into account that Medicare drug prices can be increased at will. According to a report by the Special Investigations Division, Medicare drug plans increased their prices by 4% in the first seven weeks of the program.[13]

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[1] See, e.g., Minority Staff, House Committee on Government Reform, *New Medicare Drug Plans Fail to Provide Meaningful Drug Price Discounts* (Nov. 2005).

[2] Families USA, *Falling Short: Medicare Prescription Drug Plans Offer Meager Savings* (Dec. 21, 2005).

[3] Center for Medicare and Medicaid Services, *Large Discounts and Savings Available From Medicare Prescription Drug Plans: Analysis of Drugs for Common Health Problems* (Mar. 1, 2006).

[4] Tommy Thompson, *The Big Story With John Gibson*, Fox News Network (Nov. 26, 2003).

[5] CMS, *supra* note 3 at 2.

[6] CBO, *A Detailed Description of CBO's Cost Estimate for the Medicare Prescription Drug Benefit* (July 2004)

[7] CMS, supra note 3, Attachment D. The CMS analysis also contains a methodological flaw that exaggerates the drug plans' savings relative to Drugstore.com. The drug plan prices used in the CMS analysis are for a 90-day mail order supply, divided by three to give the cost of a 30-day supply. Although Drugstore.com also offers discounted prices for a 90-day supply, CMS ignored these discounted prices and instead used Drugstore.com's prices for a 30-day supply.

[8] *Id.*

[9] See, e.g., Generic Pharmaceutical Association, *Statistics* (2006) (online at http://www.gphaonline.org/Content/NavigationMenu/AboutGenerics/Statistics/Statistics.htm)

[10] *Id.*

[11] *Id.* at Attachment B.

[12] Id. at 5.

[13] Minority Staff, House Committee on Government Reform, *Medicare Drug Plan Prices Are Increasing Rapidly* (Feb. 2006).