

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TEMPORARY MEDICARE-
APPROVED DRUG DISCOUNT
CARD: ANALYSIS OF DRUG
PRICES**



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E X E C U T I V E S U M M A R Y

OBJECTIVE

To determine the extent to which prices offered by Medicare general drug card sponsors fluctuated between June and December 2004.

BACKGROUND

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), Public Law 108-173, added an outpatient prescription drug benefit to Medicare under Part D. As part of the MMA, Congress also enacted the temporary Medicare Prescription Drug Discount Card and Transitional Assistance Program. This voluntary program attempts to reduce prescription drug costs for seniors before the Centers for Medicare & Medicaid Services (CMS) implements the Medicare drug benefit in January 2006.

CMS administers this voluntary program through approved drug card sponsors. Sponsors are private companies, including health insurance companies, chain pharmacies, and managed care firms.

To enable Medicare beneficiaries to select a drug discount card, drug card sponsors provide pricing and pharmacy data to a CMS contractor for display on CMS's Medicare Web site (www.medicare.gov/AssistancePrograms). CMS contracted with a program safeguard contractor to monitor drug card sponsors' pricing information to identify "bait and switch" activities. In addition, the Office of Inspector General assured CMS that it would monitor prices.

We reviewed weekly drug card pricing files submitted by general drug card sponsors for the period June 21 through December 27, 2004. Our final analysis included approximately six million observations.

FINDINGS

Two-thirds of drug prices did not fluctuate between June and December 2004. Two-thirds of the six million drug prices submitted by drug card sponsors did not change between June 21 and December 27, 2004.

E X E C U T I V E S U M M A R Y

Among the one-third of drug prices that did fluctuate, changes were infrequent and included both increases and decreases. Of the drug prices that did fluctuate, only about 1 percent of the prices changed in most weeks. Seventy-three percent of the prices changed two times or less between June and December 2004.

Of the prices that changed, the average median increase in price was approximately 7 percent in any given week. The median price decrease had more variation. In 10 of the 27 periods examined, the median decrease in prices exceeded 15 percent.

Most drug card sponsors exhibited similar patterns of minimal fluctuation in prices.

SUMMARY

Based on these findings, we do not recommend that CMS take any action at this time.

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OBJECTIVE

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BACKGROUND

Medicare Prescription Drug Discount Card and Transitional Assistance Program

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), Public Law 108-173, added an outpatient prescription drug benefit to Medicare under Part D. Effective January 2006, all Medicare beneficiaries will be able to enroll in private plans that will cover a percentage of their drug costs. Medicare will provide assistance with premiums and cost sharing to an estimated 11 million low-income beneficiaries.¹ Estimates of the Part D drug benefit cost range from \$47 billion to \$58.9 billion for fiscal year 2006.²

As part of the MMA, Congress also enacted the temporary Medicare Prescription Drug Discount Card (drug card program). This voluntary program attempts to reduce prescription drug costs for seniors before the Centers for Medicare & Medicaid Services (CMS) implements the Medicare drug benefit in January 2006. CMS reported in December 2004 that nearly six million beneficiaries had enrolled in the drug card program.³

CMS administers this voluntary program through approved drug card sponsors. Sponsors are private companies, including health insurance companies, chain pharmacies, and managed care firms. To be approved as a drug card sponsor, these companies must meet certain requirements, including:

- Organizational experience, including processing pharmacy claims at the point of sale;
- Ability to provide negotiated prices;
- Capacity to manage the eligibility and enrollment process; and
- Agreement to provide drug-pricing data to CMS.

There are two classes of drug card sponsors. General card sponsors offer plans to all eligible Medicare beneficiaries, while exclusive card sponsors administer drug cards for those Medicare beneficiaries enrolled in managed care health plans.

Drug card sponsors determine the discounts and other features of the cards they offer to beneficiaries. Drug card discounts vary among cards and may vary within a card program. Drug card sponsors can offer discounts on all drugs allowed by CMS or may cover only a select list of drugs (i.e., a formulary). This formulary may vary throughout the life of the program, as can the discounted prices for drugs.

In addition, drug card sponsors may charge an annual enrollment fee of up to \$30 or may offer a card without an enrollment fee. Beneficiaries may enroll in only one Medicare-approved card at a time.

Drug Discount Card Pricing Data

To enable Medicare beneficiaries to select a drug discount card, sponsors provide pricing and pharmacy data to Destination Rx, a CMS contractor, for display on CMS's Medicare Web site (www.medicare.gov/AssistancePrograms). Sponsors submit weekly pricing files to Destination Rx, which uses these data to display information about prescription drug pricing at the pharmacy level by approved drug card sponsors.

For each drug discount card, a sponsor can submit multiple pricing files. These pricing files allow for variation within drug discount card programs that can account for differences in pricing based on income levels, geography, or networks of pharmacies. For example, a drug card sponsor can submit one pricing file for very low-income beneficiaries and another for all other beneficiaries. A drug discount card sponsor can also submit a pricing file that is specific to a network of pharmacies.

Drug card sponsors can change their prices at any point during the program. However, if any of the changes are increases that exceed a certain threshold, sponsors must explain these increases to CMS.

Sponsors report pricing data using the Food and Drug Administration's National Drug Code (NDC). The NDC is a unique identifier that contains information about the manufacturer, the product strength and dosage, and the package size of each drug product.

Oversight

On August 27, 2004, CMS announced a contract with Integriguard, a Program Safeguard Contractor (PSC), to monitor activities associated with the drug cards. According to CMS, a "critical task of this PSC is a weekly assessment of the sponsor's drug pricing information to identify 'bait and switch' activities."⁴ In addition, the Office of Inspector General (OIG) assured CMS that it would monitor drug prices.

Concurrent OIG Inspections

OIG has conducted two additional studies related to the drug card program. One study, Assessment of Sponsors’ Materials Under the Medicare-Approved Drug Discount Card Program (OEI-05-04-00190), assessed the extent to which drug card sponsors’ materials promote informed choice for beneficiaries. The other study, Medicare-Approved Drug Discount Card: Beneficiaries’ Awareness and Use of Information Resources (OEI-05-04-00200), assessed the extent of beneficiaries’ awareness and use of information resources to decide whether to enroll in the drug card program and navigate the enrollment process.

METHODOLOGY

Data Collection

We obtained from CMS weekly drug card pricing files submitted by 67 general drug card sponsors for the period June 21 through December 27, 2004. While the drug card program began in May 2004, we chose June 21, 2004, as the beginning of our review period due to initial problems with the pricing data identified by CMS during early implementation. These pricing files contain the raw data for CMS’s price comparison Web site, which is designed to provide beneficiaries with information they need to compare drug prices among drug card sponsors.

We created a data file containing all weekly prices for every pricing file submitted by general drug card sponsors. This file contains approximately 10 million unique combinations of drug card sponsors, pricing files, and NDCs. See Table 1 for additional information regarding the weekly drug card pricing files.

TABLE 1: Drug Card Pricing Files for Review Period		
Number of Sponsors	Number of Pricing Files	Number of Different Prices
67	775	9,970,123
	Range per sponsor: 2 to 30	Range per pricing file: 970 to 87,518
	Mean per sponsor: 12	Mean per pricing file: 12,865

I N T R O D U C T I O N

We excluded from the initial data several types of information that were not appropriate for our review. We removed certain classes of drugs from our data file, such as fertility drugs and drugs used for cosmetic purposes, which are excluded from the drug card program by statute.⁵ Drug card discounts for these drugs are not available to beneficiaries. We also eliminated pricing files specific to long-term care pharmacies, Indian Tribe and Tribal Organizations and Urban Indian Organizations pharmacies, and pharmacies serving territories because these pharmacies serve unique populations.⁶ In addition, we dropped one drug card sponsor after we determined that it was not enrolling beneficiaries. This drug card sponsor submitted pricing information for only the first 2 weeks of our review.

We further narrowed our review to include only drugs that were purchased by beneficiaries during the review period. Out of the universe of approximately 69,000 NDCs, we included data for only the 22,036 unique NDCs for which drug card sponsors reported prescription sales to enrolled beneficiaries between June and November 2004.

Finally, we eliminated records that did not have enough data for analysis. We included only those unique combinations of drug card sponsor, pricing file, and NDC for which 2 weeks or more of price data were available for analysis. This reduced our final analysis file of drug card sponsors, pricing files, and NDCs to approximately six million. See Table 2 for more information regarding the pricing files used in our analysis.

TABLE 2: Drug Card Pricing Files Reviewed: After Exclusions of Drugs, Pricing Files, and Sponsor

Number of Sponsors	Number of Pricing Files	Number of Different Prices
65	742	5,999,314
	Range per sponsor: 2 to 30	Range per pricing file: 27 to 15,340
	Mean per sponsor: 11	Mean per pricing file: 8,085

We determined that the pricing information reported by drug card sponsors was sufficiently reliable to achieve the objective of this report. To assess the reliability of the data, we confirmed that they included the

elements needed to perform our analysis, used pricing files upon which CMS and its contractor performed quality checks prior to posting them on the Medicare Web site, and worked with CMS staff to identify any data problems.

Analysis

We used several methods to examine prices submitted by drug card sponsors during the 28 weeks reviewed. We identified the proportion of all drug card prices with no change at all during the review period. We calculated the percentage of prices that changed in each week and the percentage of these changes that were increases or decreases. In addition, we examined the data by drug card sponsor to ascertain whether specific sponsors were responsible for certain price changes.

We also calculated a Stochastic Oscillator for the last reported price for each combination of drug card sponsor, pricing file, and NDC. A Stochastic Oscillator shows the location of the last reported price relative to the high/low range over the 28 weeks reviewed. A Stochastic Oscillator of 100 means that the last reported price is at its highest level while a Stochastic Oscillator of 0 means that the last reported price is at its lowest level. A score between 0 and 100 means that the last reported price is between the lowest and highest price.

Calculations are based on the total available data, excluding missing prices. While the final data set contains approximately six million observations, the exact number of sponsors, pricing files, and NDCs with reported information might vary from week to week.

We refer to comparisons between weeks as periods. While there are 28 weeks of data in the review period, there are only 27 periods.

Scope

It is important to note that this inspection only examines drug card sponsors' self-reported data as received by CMS staff through CMS's contractor. We did not attempt to determine whether beneficiaries were able to receive the prices posted on the Web site by the drug card sponsors at their local pharmacies. In addition, we do not generalize our results to all prices over the duration of the drug card program.

This inspection was conducted in accordance with the "Quality Standards for Inspections" issued by the President's Council on Integrity and Efficiency.

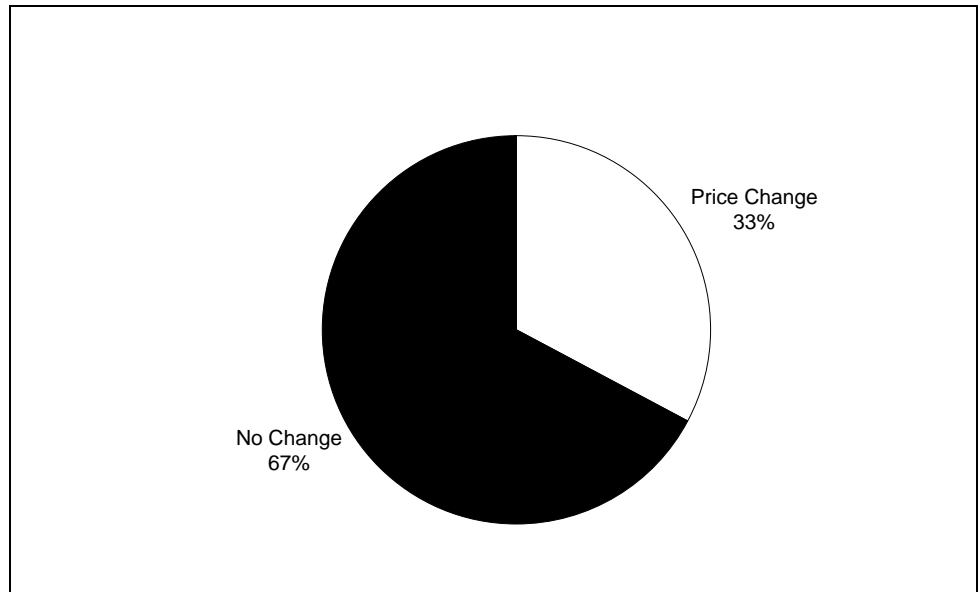
► FINDINGS

Two-thirds of drug prices did not fluctuate between June and December 2004

Two-thirds of drug prices submitted by drug card sponsors did not change at all between June 21 and

December 27, 2004. Of the six million prices submitted by drug card sponsors, approximately four million did not change over the 28-week period. See Chart 1 for an overall analysis of price change.

CHART 1
Percentage of prices that changed, June–December 2004



Source: OIG analysis of June–December 2004 Medicare drug card sponsors' pricing files, 2005

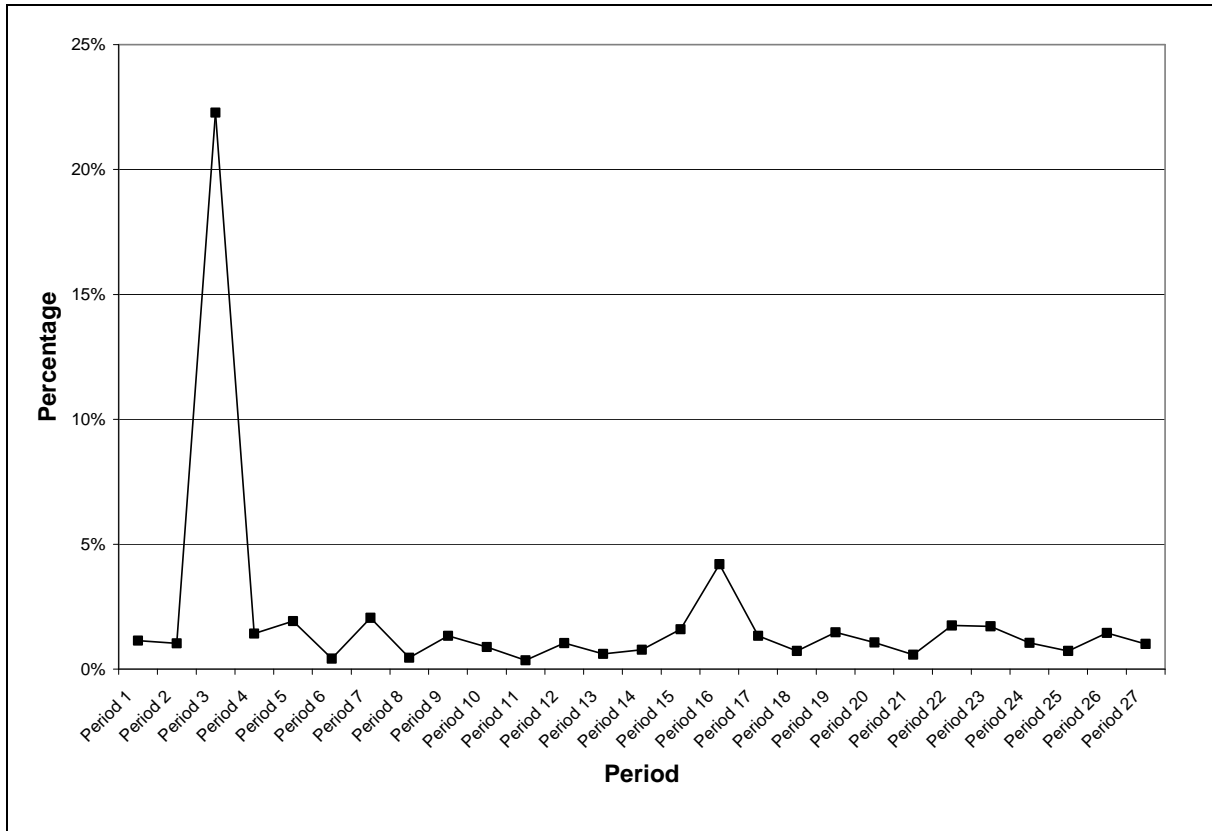
Among the one-third of drug prices that did fluctuate, changes were infrequent and included both increases and decreases

Of the prices that fluctuated, only a small percentage changed in any given week

Except during two periods, drug card sponsors submitted changes for about 1 percent of all prices. For the two periods that are exceptions, drug card sponsors submitted a larger percentage of price changes compared to the other 25 periods. See Chart 2 for analysis of price changes by period.

FINDINGS

CHART 2
Weekly pricing files: Percentage of drug price changes by period



Source: OIG analysis of June–December 2004 Medicare drug card sponsors' pricing files, 2005

More prices changed during period 3 (between weeks 3 and 4) than during any other period. Drug card sponsors submitted a larger percentage of increases and decreases between weeks 3 and 4 (July 5 and July 12, 2004) than between any of the other weeks. Overall, drug card sponsors increased about 11 percent of all prices between these 2 weeks and decreased about 12 percent of all prices.

Analyzing by sponsor, we found that of the 60 sponsors with prices posted on the price comparison Web site during weeks 3 and 4, 18 sponsors were responsible for 95 percent of all the price changes. Each of these 18 sponsors increased between 14 and 22 percent of their prices, while the remaining 42 sponsors increased between 0 and 3 percent of their prices. For the price decreases, these same

F I N D I N G S

18 sponsors decreased between 17 and 56 percent of their prices, while 37 out of the 42 sponsors decreased less than 1 percent of their prices.

These large price fluctuations only occurred once throughout the study period: during period 3, which was relatively early in the program. It is possible that some of the large fluctuations are due to changes in prices negotiated by pharmacy benefit managers. For example, of the 18 drug card sponsors responsible for 95 percent of the price changes, 16 share the same pharmacy benefit manager.

About 4 percent of the prices changed during period 16. Two drug card sponsors were responsible for 62 percent of all the prices that changed between weeks 16 and 17, October 4 and October 11, 2004. These two drug card sponsors submitted multiple pricing files for low-income and all other beneficiaries, with up to seven specific pricing files for pharmacy chain contracts. The changes predominantly appear in two pricing files that are related to specific pharmacy chain contracts and do not occur across all price files submitted by these two sponsors.

Of the prices that fluctuated, most changed only a few times

Of the approximately two million prices that drug card sponsors submitted that changed, 53 percent had only one change between June and December 2004. Another 20 percent of prices had two changes during this 28-week period. Only 147 prices out of 2 million had 10 or more changes detected between June and December 2004. Over the 28 weeks, some prices increased compared to the previous week and then decreased in the following week.

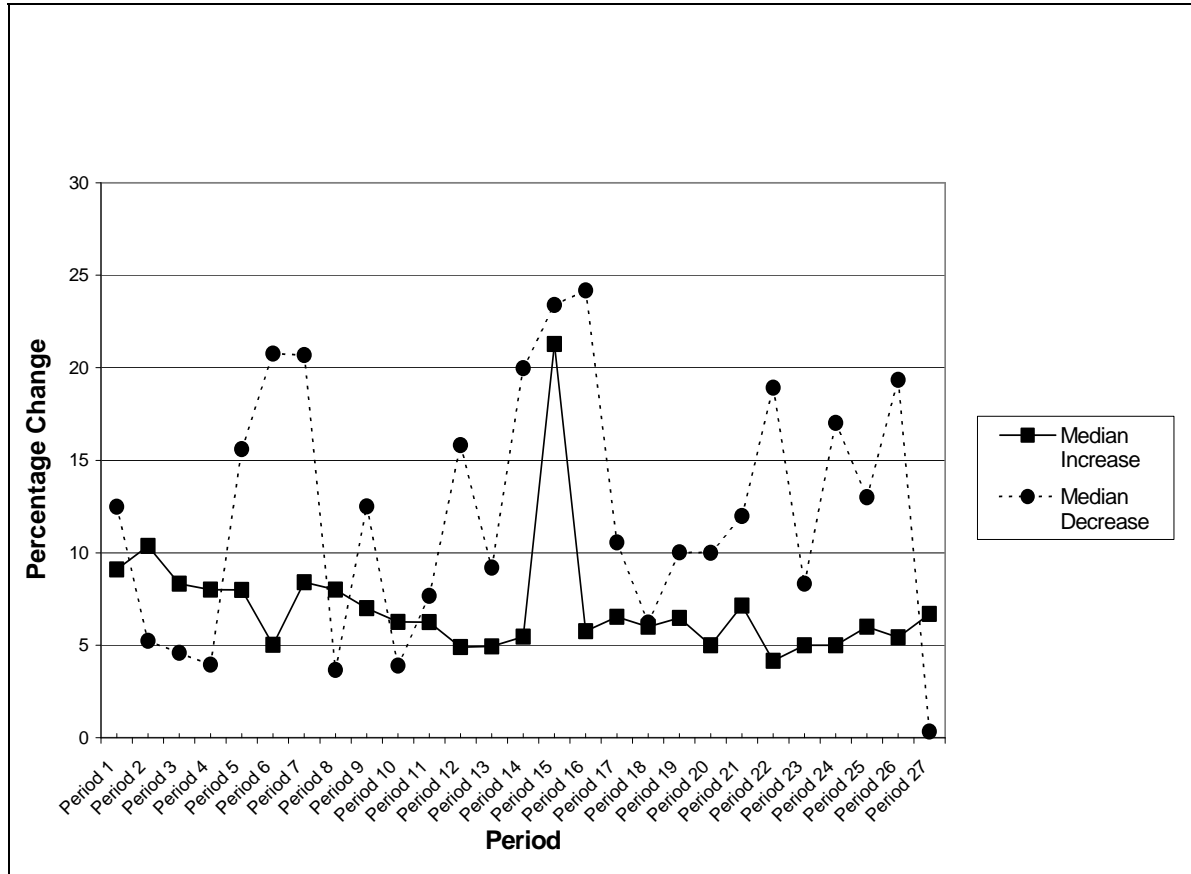
Of the prices that fluctuated, some increased, while at the same time others decreased

Among prices that changed, the increase in price ranged from 4 to 21 percent with an average median increase of 7 percent in any given period. In 17 out of 27 periods examined, the median reported increase in prices was approximately 7 percent or less. In only two periods were the median reported increases greater than 10 percent.

The median price decreases were more varied. In 10 of the 27 periods examined, the median decrease in prices exceeded 15 percent. In 5 of the 27 periods, the median decrease in prices was less than 5 percent. See Chart 3 for the median percentage price increases and decreases between June and December 2004.

FINDINGS

CHART 3
 Analysis of weekly price changes: Median percentage of increases and decreases by period



Source: OIG analysis of June–December 2004 Medicare drug card sponsors’ pricing files, 2005

While 67 percent of the prices remained the same throughout the 28 weeks we reviewed, 20 percent of the last reported prices were at their highest reported price. Eleven percent were at their lowest reported price. The remaining 1 percent were between the highest and lowest price reported between June and December 2004.*

* Numbers do not add up to 100 percent due to rounding.

F I N D I N G S

Most drug card sponsors exhibit similar patterns of minimal fluctuation in prices

Forty-four of the sixty-five drug card sponsors submitted price changes—both increases and decreases—for 2 percent or less of all their prices. Reported prices changed by drug card sponsors ranged from a low of 0.5 percent of their prices to a high of 6 percent. At the high end of the range, two drug card sponsors increased or decreased about 6 percent of their prices within the entire review period of June 21 and December 27, 2004.

Many of the drug card sponsors that exhibited similar patterns of changes in prices were affiliated with the same pharmacy benefit managers. For example, 16 different drug card sponsors affiliated with the same pharmacy benefit manager each changed 2.2 percent of their prices. It is possible that these changes may be due to changes in the pharmacy benefit manager's negotiated price rather than changes made by individual drug card sponsors.



S U M M A R Y

The objective of this inspection was to determine the extent to which prices offered by Medicare drug card sponsors fluctuated between June and December 2004. We found that two-thirds of the six million prices submitted by drug card sponsors did not change at all during the study period. Among the one-third of prices that did change, only about 1 percent changed in most weeks. Further, most drug card sponsors exhibited similar patterns of minimal fluctuation in prices. Based on these findings, we do not recommend that CMS take any action at this time.

▶ E N D N O T E S

- ¹ Centers for Medicare & Medicaid Services, “Medicare Fact Sheet: Final Rules Implementing the New Medicare Law: A New Prescription Drug Benefit for All Medicare Beneficiaries, Improvements to Medicare Health Plans and Establishing Options for Retirees,” January 21, 2005, p. 3.
- ² Congressional Budget Office, “The Budget and Economic Outlook: Fiscal Years 2006 to 2015,” January 2005, p. 55. Also, Centers for Medicare & Medicaid Services, “Releasing the HHS Proposed Budget for FY 2006,” February 7, 2005.
- ³ Centers for Medicare & Medicaid Services, “Fact Sheet: Medicare Modernization Benefits in the First Year,” December 8, 2004.
- ⁴ Centers for Medicare & Medicaid Services’ Press Release, “CMS Strengthens Efforts to Reduce Fraud and Abuse in Medicare and Medicaid,” August 27, 2004.
- ⁵ MMA, Title I Sec. 101, Subpart 5, Sec. 1860D-41 (a)(2) references exclusions at Title I, Sec. 101, Subpart 1, Section 1860D-2 (e) (2), which references exclusions in the Social Security Act, Title XIX, Sec. 1927(d)(2) except (E) and 1927(d)(3).
- ⁶ Centers for Medicare & Medicaid Services Web site, “Overview” of Medicare Prescription Drug Discount Card and Transitional Assistance Program, <http://www.cms.hhs.gov/discountdrugs/overview.asp>, accessed September 16, 2004.



A C K N O W L E D G M E N T S

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