UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM — MINORITY STAFF
SPECIAL INVESTIGATIONS DIVISION
NOVEMBER 2005

NEW MEDICARE DRUG PLANS FAIL TO PROVIDE MEANINGFUL DRUG PRICE DISCOUNTS

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Republican leaders and Bush Administration officials have repeatedly promised that the new prescription drug benefit being offered through Medicare Part D would benefit seniors and protect federal taxpayers by keeping drug costs down. According to former Health and Human Services Secretary Tommy Thompson, the health insurance companies sponsoring the Medicare drug plans "are going to be able to purchase in bulk with the pharmaceutical companies and hold down prices." When Democrats argued that Medicare should be authorized to negotiate directly with drug companies for low prices, Senate Majority Leader Bill Frist rejected the proposal, claiming that "competition through the private sector, through bulk purchasing and negotiation, is a more effective means to hold down prices."

At the request of Rep. Henry A. Waxman, this report examines whether the Republican promises of low drug prices have been achieved. The analysis in the report is based on a comparison of the drug prices offered by ten leading Medicare drug plans with four benchmarks: (1) the drug prices negotiated by the federal government and available on the Federal Supply Schedule; (2) the drug prices paid by consumers in Canada; (3) the drug prices currently available on-line through Drugstore.com; and (4) the drug prices currently available at Costco stores. The drugs whose prices are evaluated in the report are the ten best-selling drugs among seniors in 2004.

The report finds that the complicated Medicare drug benefit now being offered to seniors has not succeeded in reducing drug prices. The average drug prices offered by the ten leading Medicare drug plans are higher than each of the four benchmark prices. Specifically, the report finds that the drug prices offered by the Medicare drug plans are:

- **Over 80% higher than the prices negotiated by the federal government.**
- **Over 60% higher than the prices available to consumers in Canada.**
- **Over 3% higher than the prices available on Drugstore.com.**
- **Almost 3% higher than the prices available at Costco.**

These findings have significant implications for seniors, federal taxpayers, and the design of the Medicare drug benefit. For seniors, high drug prices increase out-of-pocket costs and reduce purchasing power, especially for those whose drug spending falls within the "donut hole," where seniors are responsible for paying 100% of their drug bills. For taxpayers, high drug prices increase the costs of funding the Medicare drug benefit. And for the program itself, high drug prices call into question whether the vast complications injected into Medicare Part D by allowing private insurers to offer competing drug plans are providing any tangible benefits to anyone but drug manufacturers and the insurers themselves.

BACKGROUND

Seniors and people with disabilities are now presented with complicated and confusing choices for Medicare drug benefits. The full extent of this confusion was felt by seniors on November 15, 2005, the first day that they could sign up for coverage. Most beneficiaries faced a choice of over 40 different Medicare drug plans; millions more had to cope with the uncertainty over whether they should retain their existing retiree or Medigap coverage or switch to the new drug benefit.[1]

The new drug benefit being offered through Medicare Part D is considerably more complicated for beneficiaries than other parts of Medicare or Social Security. The primary reason for the added complexity is that Medicare Part D was designed to allow for the participation of large numbers of private insurers. When the drug benefit was being constructed, Republican leaders in Congress and President Bush and other senior Administration officials argued that competition among many private insurers would be the most effective way to keep prices low for seniors and the taxpayer. In October 2003, as Congress was debating the Medicare legislation, the President claimed:

> The best way to provide our seniors with modern medicine, including prescription drug coverage … is to give them better choices under Medicare. If seniors have choices, health plans will compete for their business by offering better coverage at more affordable prices.[2]

Similarly, Secretary of Health and Human Services Tommy Thompson promised:

> Health insurance companies are going to get into this market. … 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.[3]

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1 *Problems Cited in Medicare Drug Benefit Sign Up*, Washington Post (Nov. 16, 2005).

2 The White House, *President Calls on Congress to Complete Work on Medicare Bill* (Oct. 29, 2003).

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

During the congressional debate, Democrats argued that the federal government could provide a simpler benefit and do so at lower cost by negotiating directly with the drug companies, but these proposals, opposed by the Republican leadership in Congress and the Bush Administration, were defeated. In fact, the final legislation contains a provision that expressly bans the federal government from negotiating with drug manufacturers for lower drug prices.[4] According to the Republicans on the House Ways and Means Committee, the Medicare legislation as passed "will allow competitive forces in the private market to generate the best savings for seniors."[5] Senate Majority Leader Bill Frist asserted that "competition through the private sector, through bulk purchasing and negotiation, is a more effective means to hold down prices."[6]

As the Bush Administration implemented the new Medicare program, these promises of low drug prices through competition have been regularly reiterated. In September 2004, Medicare Administrator Mark McClellan claimed that private drug plans would be able to obtain prices for seniors at least as low as those paid by the federal government. He stated:

> Our approach is expected to provide the best discounts on drugs, discounts as good or better than could be achieved through direct government negotiation.[7]

Just three months ago, Dr. McClellan asserted that "competition among the drug plans is working to drive down prices … for the prescription drugs that seniors and people with disability need."[8] The very same day, the White House issued a press release claiming that "competition is working to drive down prices,"[9] and President Bush stated: "Competition works, by the way. If you've got one provider, the federal government, it doesn't give consumers a lot of choice. But when you provide consumers choice, it's amazing what can happen. People start

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4 Public Law 108-173, § 1860D-2(l).

5 Committee on Ways and Means, *Negotiating Lower Prices for America's Seniors* (Dec. 11, 2003).

6 *Does Medicare or private insurance do a better job of controlling health care costs?,* The New York Times (November 27, 2003).

7 Dr. Mark McClellan, before the Senate Finance Committee, Hearings on the Medicare Prescription Drug Benefit (Sept. 14, 2004).

8 The White House, *Press Briefing by Conference Call with Dr. Mark McClellan* (Aug. 29, 2005).

9 The White House, *New Medicare Prescription Drug Benefit to Offer Low-Cost Options* (Aug. 29, 2005).

bidding for your service, so to speak. They want to attract your business. And it's going to work in Medicare, too."[10]

PURPOSE AND METHODOLOGY

At the request of Rep. Henry A. Waxman, this report analyzes whether the private insurers offering Medicare drug benefits have been successful in delivering low prices to Medicare beneficiaries.

Under Medicare Part D, each private insurer selling a drug benefit plan negotiates with drug manufacturers and pharmacies for the prices that will be offered to beneficiaries. These prices are posted on the Medicare website.[11] Under a standard Medicare drug plan, beneficiaries pay the full cost for the first $250 worth of drugs used, and then receive a 75% subsidy until their drug spending reaches $2,250. At this point, beneficiaries enter the "donut hole": subsidies are eliminated, and beneficiaries pay the full cost until their drug spending reaches $5,100. Beneficiaries then receive a 95% subsidy on all additional drug purchases in a given year.[12] 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."[13]

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[10] The White House, *President Participates in Conversation on Medicare*, El Mirage, Arizona (Aug. 29, 2005).

[11] CMS, *Find A Medicare Prescription Drug Plan* (Nov. 2005) (online at https://www.medicare.gov/MPDPF/ Public/Include/DataSection/ Questions/Questions.asp).

[12] This standard plan is defined in the Medicare law. Plans must either provide this level of benefit or benefits that are "actuarially equivalent." Public Law 108-173, § 1860D-2(b). Some plans have used the flexibility allowed by the law to lower the deductible amount or provide some coverage within the "donut hole."

[13] Public Law 108-173, § 1860D-2(d)(l). The law provides:

> Under qualified prescription drug coverage offered by a PDP sponsor offering a prescription drug plan or an MA organization offering an MA-PD plan, the sponsor or organization shall provide enrollees with access to negotiated prices used for payment for covered part D drugs, regardless of the fact that no benefits may be payable under the coverage with respect to such drugs because of the application of a deductible or other cost-sharing or an initial coverage limit (described in subsection (b)(3)). … For purposes of this part, negotiated prices shall take into account negotiated price concessions, such as discounts, direct or indirect subsidies, rebates, and direct or indirect remunerations, for covered part D drugs, and include any dispensing fees for such drugs.

In the rulemaking implementing this provision, the Center for Medicare and Medicaid Services (CMS) determined that market forces could be relied upon to ensure that price concessions negotiated by the insurers would be largely passed through to beneficiaries.

There are dozens of different Medicare drug plans listed on the Medicare website, with the average senior having a choice of approximately 40 plans. To simplify the analysis, this report examines the drug prices negotiated by ten leading Medicare drug plans. These ten plans are offered by well-established insurers and pharmaceutical benefit managers.[14]

The prices negotiated by these ten plans vary somewhat based on the location of the senior. For this analysis, drug prices for each of the ten plans were obtained from five locations, both rural and urban, across the United States.[15]

The ten drugs with the highest sales to beneficiaries in 2004 were selected for price analysis.[16] For each of the ten plans in each of the five locations, the price offered to a beneficiary in the "donut hole" for one-month supply of each of ten drugs was obtained from the Medicare website. These prices were then averaged to determine the average prices offered by the Medicare drug plans.[17]

The prices offered by the ten Medicare drug plans were then compared to four sets of benchmark prices:

(1) The prices negotiated by the federal government for the ten drugs. These prices are negotiated for the government by the Department of Veterans Affairs, listed on the Federal Supply Schedule, and used by federal agencies when they purchase drugs.

(2) The prices consumers in Canada pay for the ten drugs. Prices in Canada are capped by the country's Patented Medicines Prices Review Board, which requires that the price for a brand-name drug not exceed the average price of the drug in seven other industrialized countries.[18]

Department of Health and Human Services, Medicare Program: Medicare Prescription Drug Benefit, 70 Fed. Reg. 4194 (January 28, 2005).

14 The ten plans are the Advantra Rx Premier Plan, the Aetna Medicare Rx Premier Plan, the Cignature Rx Plus Plan, the Humana PDP Standard Plan, the Medicare Rx Rewards Premier plan, the Silverscript Plus Plan, the Sterling Prescription Drug Plan, the UA Medicare Part D Prescription Drug Plan, the United Medicare MedAdvance Plan, the WellCare Signature Plan, and the YouRx Plan.

15 The five locations are in California, Florida, Missouri, New Mexico, and South Dakota.

16 These drugs are Advair Diskus, Aricept, Celebrex, Fosamax, Lipitor, Nexium, Plavix, Prevacid, Protonix, and Zocor. (Pennsylvania Department of Aging, PACE Program, *2004 High Cost and High Volume Claims* (2005).

17 The additional cost of the premium charged to beneficiaries was not included in this analysis.

18 Patented Medicines Prices Review Board, *PMPRB Annual Report 2004* (2005).

(3) The prices currently available over the internet for the ten drugs on Drugstore.com, a popular internet supplier of prescription drugs.

(4) The prices currently available for the ten drugs at Costco stores. Costco is a large national retailer of consumer products, including prescription drugs.

FINDINGS

The price comparisons in this report reveal that the new Medicare drug plans have failed to deliver meaningful drug discounts. The prices offered by the ten leading Medicare drug plans are higher than each of the four benchmark prices examined in the report, in some cases far higher. These findings have significant implications for seniors, federal taxpayers, and the design of the drug benefit.

Comparison of Medicare Drug Plan Prices to Federally Negotiated Prices

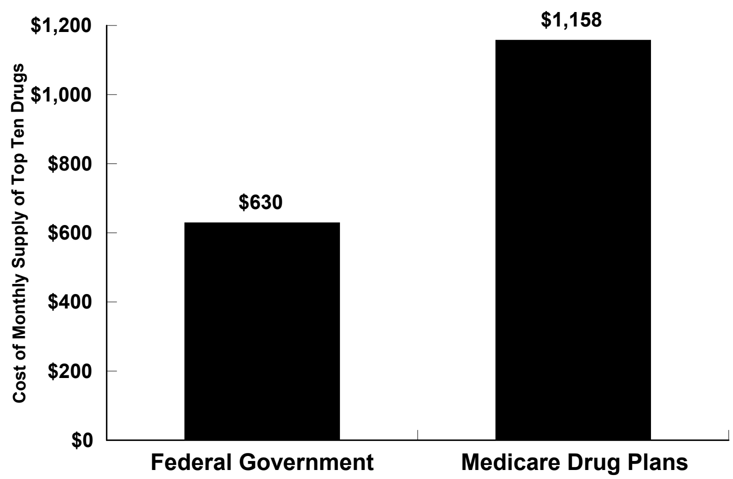
The prices offered by the ten Medicare drug plans are substantially higher than the prices negotiated by the federal government. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is $1,158. In comparison, the price negotiated by the federal government for the same drugs is just $630. In percentage terms, the prices offered by the Medicare drug plans are 84% higher than the federally negotiated prices. Figure 1.

For some plans, the price differences are even greater. Of the ten Medicare plans analyzed, the Advantra Rx Premier plan, offered by Coventry Healthcare, has the highest prices for the ten drugs. The prices offered by this plan for the ten drugs ($1,241) are 97% higher than the federally negotiated prices.

For specific drugs, the price differences can exceed or approach 100%. The Medicare drug plans offer an average price of $113 for a one-month supply of Protonix, the heartburn medication manufactured by Wyeth. This is 437% higher than the $21 price negotiated by the federal government. The Medicare drug plans offer an average price of $132 for a one-month supply of Zocor, the hypertension medication manufactured by Merck. This is 90% higher than the $69 price negotiated by the federal government.

Appendix 1 contains further details on the comparison between the prices negotiated by the Medicare drug plan prices and the federally negotiated drug prices.[19]

Figure 1: Medicare Drug Plan Prices Are Far Higher Than Federally Negotiated Prices



Comparison of Medicare Drug Plan Prices to Canadian Prices

The prices offered by the ten Medicare drug plans are substantially higher than the prices paid by consumers in Canada. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is $1,158. The Canadian price for the same drugs is $717. In percentage terms, the prices offered by the Medicare drug plans are 61% higher than the Canadian prices. Figure 2.

For some plans, the price differences are even greater. Of the ten Medicare plans analyzed, the Advantra Rx Premier plan has the highest prices for the ten drugs. The prices negotiated by this plan for the ten drugs ($1,241) are 73% higher than the Canadian prices.

For specific drugs, the price differences can exceed or approach 100%. The Medicare drug plans negotiated an average price of $135 for a one-month supply of Prevacid, the ulcer medication manufactured by Tap Pharmaceuticals. This is

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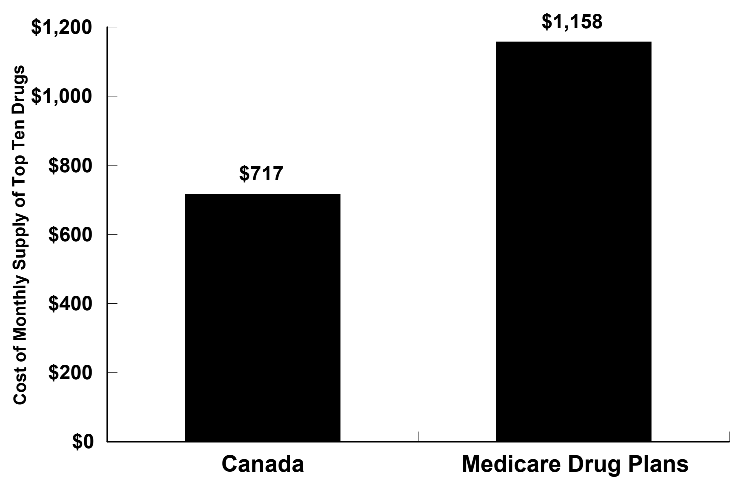
19 One difference between the prices offered by the Medicare drug plans and the federally negotiated prices is that the prices offered by the Medicare drug plans incorporate pharmacy dispensing fees. Typical pharmacy dispensing fees are around $5.00 per prescription. Subtracting these small fees from the prices offered by the Medicare drug plans would not significantly affect the price comparisons.

114% higher than the $63 Canadian price. The Medicare drug plans negotiated an average price of $85 for a one-month supply of Celebrex, the arthritis medication manufactured by Pharmacia. This is 91% higher than the $45 Canadian price.

Appendix 1 contains further details on the comparison between the prices negotiated by the Medicare drug plan prices and the Canadian drug prices.

Figure 2: Medicare Drug Plan Prices Are Far Higher Than Canadian Prices



Comparison of Medicare Drug Plan Prices to Drugstore.com Prices

The prices offered by the ten Medicare drug plans are higher than the prices currently available to consumers in the United States through the popular on-line pharmacy at Drugstore.com. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is $1,158. At Drugstore.com, these ten drugs can be purchased for just $1,119. The average prices negotiated by the Medicare drug plans are over 3.5% higher than the Drugstore.com prices.

For some plans, the price differences are even greater. Of the ten Medicare plans analyzed, the Advantra Rx Premier plan has the highest prices for the ten drugs. The prices negotiated by this plan for the ten drugs ($1,241) are 11% higher than the Drugstore.com prices.

For specific drugs, the price differences can exceed 5%. The Medicare drug plans offer an average price of $128 for a one-month supply of Plavix, the cholesterol medication manufactured by Bristol-Myers Squibb. This is 9% higher than the $117 Drugstore.com price. The Medicare drug plans offer an average price of

$135 for a one-month supply of Prevacid. This is 8% higher than the $125 Drugstore.com price.

The ten Medicare drug plans do offer a mail-order option with lower prices for seniors who need — and can afford — to buy a three-month supply of drugs. However, even the mail-order prices offered by the Medicare drug plans do not represent appreciable discounts. The average cost of a three-month supply of the ten drugs through the Medicare drug plans is $3,200.[20] The cost of the same drugs from Drugstore.com is $3,222, virtually identical.

Appendix 1 contains further details on the comparison between the prices offered by the Medicare drug plan prices and the Drugstore.com drug prices.

Comparison of Medicare Drug Plan Prices to Costco Prices

The prices offered by the ten Medicare drug plans are higher than the prices currently available to consumers in the United States at Costco stores. For the ten Medicare drug plans, the average price for a one-month supply of each of the ten drugs is $1,158. At Costco, these ten drugs can be purchased for just $1,126. The average prices negotiated by the Medicare drug plans are 2.9% higher than the Costco prices.

For some plans, the price differences are even greater. Of the ten Medicare plans analyzed, the Advantra Rx Premier plan has the highest prices for the ten drugs. The prices negotiated by this plan for the ten drugs ($1,241) are 10% higher than the Costco prices.

For specific drugs, the price differences can exceed 5%. The Medicare drug plans offer an average price of $113 for a one-month supply of Protonix. This is 10% higher than the $103 Costco price. The Medicare drug plans offer an average price of $128 for a one-month supply of Plavix. This is 7% higher than the $120 Costco price.

Appendix 1 contains further details on the comparison between the prices offered by the Medicare drug plan prices and the Costco drug prices.

Implications of the High Drug Prices

For seniors, the high drug prices offered by the Medicare drug plans increase out-of-pocket costs, reduce purchasing power, and undercut the value of the

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[20] Mail-order prices for two of the drug cards, the YourRx Plan, and the UA Medicare Part D plan, were not available.

assistance provided by the Medicare drug benefit. Under the standard Medicare Part D plan, seniors must pay the first $250 of their drug costs, 25% of their drug costs from $250 to $2,250, all of their drug costs in the "donut hole" from $2,250 to $5,100, and 5% of their drug costs above $5,100. For any individual senior, the impact of high prices will depend on the level of the senior's drug spending. The impact will be greatest for seniors whose last-dollar of spending falls inside the "donut hole," where high drug prices can rapidly consume seniors' limited financial resources. But even seniors whose last-dollar of spending falls between $250 to $2,250 (where there is a 25% copay) or above $5,100 (where there is a 5% copay) will experience increases in their out-of-pocket expenses.[21]

For taxpayers, the high drug prices have significant fiscal implications because they increase the costs of Medicare Part D. High drug prices expand both the number of seniors who exhaust their deductible and the number of seniors who spend through the "donut hole." Each of these factors raises the overall cost of Medicare Part D coverage. The increase in the number of seniors who spend through the "donut hole" is especially expensive, because the additional drug expenditures of seniors with drug bills above $5,100 are subsidized at a 95% rate.

For policymakers, the failure of the Medicare drug plans to offer meaningful drug discounts raises important questions about the design of the program. When the Medicare drug benefit was enacted, Republican leaders in Congress and Bush Administration officials argued that a complicated structure based on competition among private insurers would save seniors and taxpayers money by keeping drug prices low. The inability of the Medicare drug plans to meet this goal calls into doubt the value of the complicated design of Medicare Part D. A much simpler system that authorizes the federal government to negotiate drug prices — as Democratic members of Congress proposed — would appear likely to lower spending by both seniors and taxpayers.

CONCLUSION

This report compares the drug prices offered by ten leading Medicare plans with four benchmark prices: the prices negotiated by the federal government, the prices available in Canada, the prices offered on-line at Drugstore.com, and the prices available at retail drug discounter Costco. Although Republican leaders in Congress and Bush Administration officials promised that the design of the Medicare drug benefit would ensure that the Medicare drug plans offered the lowest possible prices, this in fact has not occurred. The prices offered by the

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21 In addition to increasing the out-of-pocket costs for seniors, high drug prices may ultimately have the effect of increasing the premiums seniors pay for the Medicare drug benefit. This impact was not examined in this analysis.

Medicare drug plans are higher than all four benchmarks, in some cases significantly so. This increases costs to seniors and federal taxpayers, and makes it doubtful that the complicated design of Medicare Part D provides any tangible benefit to anyone but drug manufacturers and insurers.

Appendix 1: Table of Comparisons

Drug	Manufacturer	Quantity and Dosage	Price				
			Avg. of Ten Medicare Drug Plans	Federally Negotiated Price	Canada	Drugstore.com	Costco
Advair Diskus	Glaxo	250/50, 60 doses	$156.22	$92.35	$89.29	$147.99	$153.97
Aricept	Eisai	10 mg, 30 cap	$142.87	$88.07	$139.92	$134.99	$144.39
Celebrex	Pharmacia	200 mg, 30 cap	$85.08	$50.20	$44.63	$83.99	$82.67
Fosamax	Merck	70 mg, 4 cap	$69.72	$41.11	$42.83	$69.99	$68.08
Lipitor	Pfizer	10 mg, 30 cap	$71.27	$41.57	$55.51	$68.99	$68.35
Nexium	Astra Zeneca	40 mg, 30 cap	$125.23	$81.64	$67.37	$123.99	$127.07
Plavix	Bristol-Myers Squibb	75 mg, 30 cap	$127.60	$74.06	$76.63	$116.99	$119.66
Prevacid	Tap Pharm.	30 mg, 30 cap	$134.86	$70.85	$63.42	$124.99	$127.80
Protonix	Wyeth Ayerst	40 mg, 30 cap	$113.45	$21.11	$64.42	$111.12	$102.67
Zocor	Merck	20 mg, 30 cap	$131.81	$69.27	$73.10	$135.99	$131.29
Total			$1,158.11	$630.23	$717.12	$1,119.03	$1,125.94