Sticker Shock:

Rising Prescription Drug Prices for Seniors

A REPORT BY

Families USA

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Sticker Shock: Rising Prescription Drug Prices for Seniors

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INTRODUCTION

Over the past decade, Families USA has tracked price increases in the top drugs prescribed for seniors. In a series of reports, we have found that annual price increases regularly and substantially exceeded the rate of inflation. Since many seniors live on fixed incomes that, at best, are adjusted for inflation each year, medications have become increasingly unaffordable. This is especially true for the millions of seniors who have no—or only skimpy—drug coverage.

Many, if not most, seniors expected the new Medicare legislation to provide prompt and significant drug price relief. However, the Medicare prescription drug law, which was enacted late in 2003, will mainly go into effect in 2006. Moreover, since the new law prohibits Medicare from bargaining for better drug prices (as the Department of Veterans Affairs currently does for veterans), and since it remains illegal to reimport much cheaper drugs from Canada or other countries, the new law is unlikely to provide meaningful cost moderation.

The new legislation creates a temporary prescription drug discount card program that the Centers for Medicare and Medicaid Services (CMS) projects will serve 7.4 million seniors[1]—approximately 18 percent of the Medicare population. This program begins on June 1, 2004. According to CMS, this new program will offer discounts of 10 to 25 percent on the prices of brand-name drugs[2]—the segment of the drug market that is the main driver of drug price inflation and that places the greatest strain on seniors' wallets.[3]

Our price survey this year, which catalogues price changes for the top 30 brand-name drugs, is, therefore, especially timely. It not only provides new data about recent drug price changes, but it also provides a context for determining whether the new drug discounts will make prescription drugs more affordable than they have been in the past.

Like used car buyers drawn by the promise of a rebate—only to find that the base price has risen dramatically—seniors purchasing a new drug discount card may succumb to "sticker shock." As we found in this study, the

prices of the top 30 brand-name drugs dispensed to seniors have increased by nearly 22 percent over the past three years.

Among the top 30 brand-name drugs, prices, on average, rose by 4.3 times the rate of inflation from January 2003 to January 2004. In the three-year period from January 2001 to January 2004, prices of those drugs, on average, rose by 3.6 times the rate of inflation.

FINDINGS

The prices of the 30 brand-name drugs most frequently used by the elderly rose by 4.3 times the rate of inflation in 2003. On average, the cost of these 30 heavily prescribed drugs increased by 6.5 percent from January 2003 to January 2004, while the rate of inflation, excluding energy, was 1.5 percent during that same period (See Table 1).

Of these 30 drugs:

- 28 increased in price by two or more times the rate of inflation;
- 21 increased in price by three or more times the rate of inflation;
- Only one did not increase in price. (See Table 1.)

Brand-Name Drugs with the Fastest-Growing Prices from January 2003 to January 2004

Among the 30 brand-name drugs most frequently used by seniors, 14 increased in price by more than five times the rate of inflation from January 2003 to January 2004 (See Table 1).

- Combivent, marketed by Boehringer Ingelheim and used to treat chronic asthma and other serious respiratory conditions, increased in price by 13.2 times the rate of inflation.
- Alphagan P, marketed by Allergan to treat glaucoma, and Evista, an osteoporosis treatment marketed by Eli Lilly, each increased in price by 10.3 times the rate of inflation.
- Diovan, used to treat high blood pressure and marketed by Novartis, increased in price by 8.6 times the rate of inflation.

- Detrol LA, a treatment for overactive bladder marketed by Pfizer, increased in price by 8.5 times the rate of inflation.
- Xalatan, a solution used to treat glaucoma and marketed by Pfizer, increased in price by 6.8 times the rate of inflation.
- The prices of the following eight additional drugs rose by more than five times the rate of inflation: Lipitor (10 mg.), marketed by Pfizer and used to lower cholesterol; Plavix, marketed by Bristol-Myers Squibb and used to prevent blood clots; Norvasc (5 mg.), marketed by Pfizer and used to treat high blood pressure; Celebrex, marketed by Pfizer and used for arthritis and joint pain; Protonix, marketed by Wyeth and used for gastric reflux; Zoloft, marketed by Pfizer and used to treat depression; Cozaar, marketed by Merck and used for high blood pressure; and Celexa, marketed by Forest and used to treat depression. (See Table 1.)

Brand-Name Drugs with the Fastest-Growing Prices over the Past Three Years

Of the 30 brand-name drugs most frequently used by the elderly, all but four have been on the market for over three years. The prices of those 26 drugs increased, on average, by 3.6 times the rate of inflation, or 21.6 percent, from January 2001 to January 2004. Inflation for the same period was 6 percent. (See Table 2.)

Of these 26 drugs:

- One increased in price by 9.4 times the rate of inflation, which represented a 56.3 percent price increase over three years.
- Over two-thirds (18 of the 26 drugs) had price increases of three or more times the rate of inflation during the three-year period.
- All but one, Norvasc (10 mg.), increased by more than two times the rate of inflation. (See Table 2.)

Among these 26 brand-name drugs, the following showed the most significant price increases from January 2001 to January 2004:

- Combivent increased in price by 9.4 times the rate of inflation.
- Plavix, the second most frequently prescribed drug for the elderly, increased in price by 5.8 times the rate of inflation.
- Pravachol (20 mg.), marketed by Bristol-Myers Squibb and used to treat high cholesterol, increased in price by 4.9 times the rate of inflation.
- Toprol XL (50 mg. and 100 mg.), a beta-blocker marketed by Astra Zeneca, increased in price by 4.8 times the rate of inflation.
- Evista increased in price by 4.7 times the rate of inflation.
- Protonix increased in price by 4.6 times the rate of inflation.
- Lipitor (10 mg.), a cholesterol-lowering agent marketed by Pfizer and the drug most frequently prescribed to seniors, increased in price by 4.5 times the rate of inflation. (See Table 2.)

Frequent Price Changes

Not only did the prices of these brand-name drugs increase rapidly, but they also increased often. Fifteen of the 30, or half, had more than one price increase in the one-year period from January 2003 to January 2004. Eighteen, or more than two-thirds of the drugs marketed for the three-year period of January 2001 to January 2004, increased in price more than three times. (See Table 3.)

- The price of Toprol XL (50 mg.) increased seven times during the three years.
- Combivent increased in price six times.
- Celexa and Toprol XL (100 mg.) both increased in price five times. (See Table 3.)

Table 1

Annual Percent Change in Price of the Top 30 Brand-Name Drugs Used by the Elderly*

Brand-Name Drug	Strength	Dose Form	Marketer	2003-2004 % Price Change	2003-2004 Multiple of CPI
Lipitor	10 mg	tab	Pfizer	8.3%	5.5
Plavix	75 mg	tab	Bristol-Myers Squibb	7.9%	5.3
Fosamax	70 mg	tab	Merck	6.9%	4.6
Norvasc	5 mg	tab	Pfizer	9.9%	6.6
Celebrex	200 mg	cap	Pfizer	8.1%	5.4
Zocor	20 mg	tab	Merck	4.4%	2.9
Prevacid	30 mg	cap cr	TAP Pharmaceutical	3.0%	2.0
Protonix	40 mg	tab	Wyeth	8.9%	5.9
Lipitor	20 mg	tab	Pfizer	2.9%	1.9
Norvasc	10 mg	tab	Pfizer	4.2%	2.8
Toprol XL	50 mg	tab cr	Astra Zeneca	3.2%	2.1
Nexium	40 mg	cap	Astra Zeneca	6.0%	4.0
Xalatan	0.005%	sol	Pfizer	10.2%	6.8
Vioxx	25 mg	tab	Merck	4.8%	3.2
Zocor	40 mg	tab	Merck	4.4%	2.9
Zoloft	50 mg	tab	Pfizer	8.6%	5.7
Evista	60 mg	tab	Eli Lilly	15.4%	10.3
Cozaar	50 mg	tab	Merck	9.7%	6.5
Combivent	1 mg	aerosol	Boehringer Ingelheim	19.8%	13.2
Toprol XL	100 mg	tab cr	Astra Zeneca	3.1%	2.1
Zocor	10 mg	tab	Merck	4.4%	2.9
Actonel	35 mg	tab	Procter & Gamble	6.1%	4.0
Diovan	80 mg	tab	Novartis	12.9%	8.6
Detrol LA	4 mg	tab	Pfizer	12.8%	8.5
Miacalcin	200 iu/act	spray	Novartis	0.0%	0.0
Pravachol	20 mg	tab	Bristol-Myers Squibb	7.0%	4.7
Alphagan P	0.15%	5ml	Allergan	15.5%	10.3
Aricept	10 mg	tab	Pfizer	4.5%	3.0
Pravachol	40 mg	tab	Bristol-Myers Squibb	7.0%	4.7
Celexa	20 mg	tab	Forest	8.2%	5.5
Top 30 Brands, Average Weighted by Sales[a]				6.5%	4.3
CPI-All Items Less Energy, Percent Change Jan 2003-Jan 2004				1.5%	

* Excludes brand-name drugs available in generic or co-marketed versions. Excludes drugs not marketed for the entire period. Based on prices as of January 15 for each year reported. Drugs are listed in descending order of number of prescriptions in the PACE program in 2003

[a] The weighted average was calculated based on 2003 expenditures for each drug in the Pennsylvania PACE program.

Source: Compiled by Families USA from data provided by the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE) and data found in Medi-Span's MDDB Select published by Medi-Span (First Databank, Indianapolis), April 2004.

Table 2

Rate of Price Change over the Past Three Years of the Top 30 Brand-Name Drugs Used by the Elderly*

Brand-Name Drug	Strength	Dose Form	Marketer	2001-2004 % Price Change	2001-2004 Multiple of CPI
Lipitor	10 mg	tab	Pfizer	27.0%	4.5
Plavix	75 mg	tab	Bristol-Myers Squibb	34.8%	5.8
Fosamax	70 mg	tab	Merck	18.7%	3.1
Norvasc	5 mg	tab	Pfizer	17.2%	2.9
Celebrex	200 mg	cap	Pfizer	23.7%	4.0
Zocor	20 mg	tab	Merck	15.0%	2.5
Prevacid	30 mg	cap cr	TAP Pharmaceutical	19.3%	3.2
Protonix	40 mg	tab	Wyeth	27.5%	4.6
Lipitor	20 mg	tab	Pfizer	19.2%	3.2
Norvasc	10 mg	tab	Pfizer	4.2%	0.7
Toprol XL	50 mg	tab cr	Astra Zeneca	29.1%	4.8
Nexium	40 mg	cap	Astra Zeneca	nm	nm
Xalatan	0.005%	sol	Pfizer	22.3%	3.7
Vioxx	25 mg	tab	Merck	14.9%	2.5
Zocor	40 mg	tab	Merck	15.0%	2.5
Zoloft	50 mg	tab	Pfizer	18.9%	3.2
Evista	60 mg	tab	Eli Lilly	28.0%	4.7
Cozaar	50 mg	tab	Merck	21.9%	3.7
Combivent	1 mg	aerosol	Boehringer Ingelheim	56.3%	9.4
Toprol XL	100 mg	tab cr	Astra Zeneca	29.1%	4.8
Zocor	10 mg	tab	Merck	15.0%	2.5
Actonel	35 mg	tab	Procter & Gamble	nm	nm
Diovan	80 mg	tab	Novartis	nm	nm
Detrol LA	4 mg	tab	Pfizer	18.3%	3.0
Miacalcin	200 iu/act	spray	Novartis	22.6%	3.8
Pravachol	20 mg	tab	Bristol-Myers Squibb	29.2%	4.9
Alphagan P	0.15%	5ml	Allergan	nm	nm
Aricept	10 mg	tab	Pfizer	15.7%	2.6
Pravachol	40 mg	tab	Bristol-Myers Squibb	16.8%	2.8
Celexa	20 mg	tab	Forest	20.7%	3.5
Top 30 Brands, Average Weighted by Sales[a]				21.6%	3.6
CPI-All Items Less Energy, Percent Change Jan 2001-Jan 2004				6.0%	

nm Not marketed during part of the period indicated.

* Excludes brand-name drugs available in generic or co-marketed versions. Excludes drugs not marketed for the entire period. Based on prices as of January 15 for each year reported. Drugs are listed in descending order of number of prescriptions in the PACE program in 2003.

[a] The weighted average was calculated based on 2003 expenditures for each drug in the Pennsylvania PACE program.

Source: Compiled by Families USA from data provided by the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE) and data found in Medi-Span's MDDB Select published by Medi-Span (First Databank, Indianapolis), April 2004.

Table 3

Price Changes of the Top 30 Brand-Name Drugs Used by the Elderly*

Brand-Name Drug	Strength	Dose Form	2003-2004		2001-2004	
			Number of Price Changes	Cumulative % Price Change	Number of Price Changes	Cumulative % Price Change
Lipitor	10 mg	tab	2	8.3%	4	27.0%
Plavix	75 mg	tab	1	7.9%	4	34.8%
Fosamax	70 mg	tab	2	6.9%	4	18.7%
Norvasc	5 mg	tab	2	9.9%	4	17.2%
Celebrex	200 mg	cap	2	8.1%	4	23.7%
Zocor	20 mg	tab	1	4.4%	2	15.0%
Prevacid	30 mg	cap cr	1	3.0%	4	19.3%
Protonix	40 mg	tab	2	8.9%	5	27.5%
Lipitor	20 mg	tab	1	2.9%	4	19.2%
Norvasc	10 mg	tab	1	4.2%	1	4.2%
Toprol XL	50 mg	tab cr	1	3.2%	7	29.1%
Nexium	40 mg	cap	2	6.0%	nm	nm
Xalatan	0.005%	sol	2	10.2%	4	22.3%
Vioxx	25 mg	tab	1	4.8%	4	14.9%
Zocor	40 mg	tab	1	4.4%	2	15.0%
Zoloft	50 mg	tab	2	8.6%	4	18.9%
Evista	60 mg	tab	2	15.4%	4	28.0%
Cozaar	50 mg	tab	2	9.7%	4	21.9%
Combivent	1 mg	aerosol	2	19.8%	6	56.3%
Toprol XL	100 mg	tab cr	1	3.1%	5	29.1%
Zocor	10 mg	tab	1	4.4%	3	15.0%
Actonel	35 mg	tab	2	6.1%	nm	nm
Diovan	80 mg	tab	1	12.9%	nm	nm
Detrol LA	4 mg	tab	2	12.8%	3	18.3%
Miacalcin	200 iu/act	spray	0	0.0%	3	22.6%
Pravachol	20 mg	tab	1	7.0%	4	29.2%
Alphagan P	0.15%	5ml	2	15.5%	nm	nm
Aricept	10 mg	tab	1	4.5%	3	15.7%
Pravachol	40 mg	tab	1	7.0%	3	16.8%
Celexa	20 mg	tab	2	8.2%	5	20.7%
Top 30 Brands, Average Weighted by Sales[a]				6.5%		21.6%
CPI-All Items Less Energy, Percent Change Jan-Jan				1.5%		6.0%

nm Not marketed during part of the period indicated.

* Excludes brand-name drugs available in generic or co-marketed versions. Excludes drugs not marketed for the entire period. Based on prices as of January 15 for each year reported. Drugs are listed in descending order of number of prescriptions in the PACE program in 2003.

[a] The weighted average was calculated based on 2003 expenditures for each drug in the Pennsylvania PACE program.

Source: Compiled by Families USA from data provided by the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE) and data found in Medi-Span's MDDB Select published by Medi-Span (First Databank, Indianapolis), April 2004.

METHODOLOGY

Determining the Most Frequently Used Drugs

This report uses data from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE) program, which is the largest outpatient prescription drug program for older Americans in the United States. On January 3, 2004, 190,071 people were enrolled in PACE, and in FY 2003, PACE filled 9,503,895 prescriptions. Because of the program's large size and the abundance of claims data, the PACE database is commonly used to estimate prescription drug use and expenditures by older Americans.

Using PACE claims data for 2003 (the latest full-year's claims data available), we developed a list of the 30 brand-name-only prescription drugs most frequently used by seniors. Generic drugs and brand-name drugs available in generic or co-marketed versions were excluded from the list. The top 30 brand-name drugs were ranked by the number of claims. This list of brand-name drugs includes the 10 prescription drugs most frequently used by seniors, based on PACE data claims volume. Price histories for the drugs included in this study were obtained from MDDB Select, a database published by Medi-Span. The price indicator used in the report is the average wholesale price (AWP)—the price that drug marketers suggest wholesalers charge pharmacies.

This report uses weighted averages in calculating annual price increases for the entire list of top-selling brand-name drugs. In other words, before averaging, the price of each drug is multiplied by a factor representing the drug's percentage of total sales of all drugs on the list for a given year. This adjustment is made to ensure that price trends accurately reflect the cost of drugs older people use most often.

The Choice to Use AWP as Price Baseline

Some people suggest that AWP is not an accurate measure of drug prices paid by consumers because so many consumers enjoy discounts negotiated by discount card vendors, managed care organizations, and other bulk pur-

chasers. For example, beginning in June 2004, Medicare will endorse multiple vendors that will market "Medicare approved" drug discount cards. These cards will be available to seniors and others in Medicare, similar to the senior discount cards that have been marketed for years.

The availability of discount cards does not negate the importance of AWP as a measure of price and, particularly, as a measure of price increases. AWP is the base price frequently used by payers and discount card vendors when negotiating with drug manufacturers. It is often the base from which consumer discounts are calculated. Changes in AWP signal changes in the base price charged to insurers and other payers and changes in the price from which discounts are calculated. As a result, increases in AWP have a direct bearing on prices paid by a wide range of prescription drug purchasers, including consumers using a discount card. Therefore, AWP continues to be a good measure of drug price inflation.

The Choice to Use Brand-Name Drugs

Brand-name-only drugs—drugs for which there are no generic or co-marketed alternatives—are the primary drivers of inflation in prescription drug costs. Since 1999, Families USA has monitored price increases among the 50 drugs most frequently used by seniors. Our studies have consistently found that prices for generics rose only slightly and that prices for brand-name drugs increased by many times the rate of inflation. Because frequently prescribed brand-name drugs are the principal contributor to drug price inflation, they are the focus of this report. All of the 30 brand-name drugs selected for inclusion in this study are among the top 50 drugs prescribed to seniors and, as noted above, include the 10 drugs prescribed to seniors most frequently.

DISCUSSION

In 2002, overall national spending on prescription drugs increased by 15.3 percent.[4] Over a third of that increase is attributed to rising drug prices.[5] With the price of the brand-name drugs most frequently used by seniors increasing at 4.3 times the rate of inflation from January 2003 to January 2004, drug price inflation will again be a major contributor to rising drug spending.

Without question, drug price increases that run many times the rate of inflation place a strain on the over 65 million Americans without any prescription drug coverage.[6] In 2003, those individuals—including over 30 percent of Medicare beneficiaries—had to shoulder the 6.5 percent rise in prices of brand-name drugs without any insurance assistance. But the impact of rising drug prices is felt far beyond those lacking drug coverage.

Rising Drug Prices and Those with Drug Coverage

Rising prices affect everyone who purchases prescription drugs, even those with drug coverage. Price increases place a strain on the budgets of employers, private insurance companies, Medicaid programs, and other entities that offer health insurance. To counter skyrocketing drug expenses and rising prices, many Medicaid programs have increased the amount that Medicaid beneficiaries must pay for each prescription or have limited the number of prescriptions that will be covered in a given month.[7] For the very low-income individuals who rely on Medicaid, even modest coverage reductions can make prescriptions unaffordable. In addition, many employers have reduced pharmacy benefits coverage or have taken steps to pass costs on to their employees.[8]

Twenty-eight percent of Medicare beneficiaries rely on retiree health care coverage to help them pay for the medicines they need. They are particularly at risk for benefit cutbacks as the result of rising drug costs. Escalating drug expenses have led many employers to reduce or totally eliminate retiree drug coverage. In 2003 alone, 57 percent of firms offering retiree health coverage increased the amount of drug costs paid by retirees.[9] In 2002, 40 percent fewer employers offered drug coverage than in 1994.[10]

Calculating Prescription Drug Inflation

Is AWP a Good Measure?

To calculate price increases for the brand-name drugs most frequently used by seniors, we used changes in the manufacturer's average wholesale price (AWP) for each drug included in this analysis. This is consistent with the methodology that Families USA has used in prior drug pricing reports. Many payers and discount card vendors negotiate price reductions based on a drug's AWP. As a result, many consumers using discount cards may pay less for a prescription than the drug's AWP. Nevertheless, AWP is a good measure of the rate of price increases for prescription drugs.

AWP is the manufacturer's published price for the drug. Price negotiations between insurance companies, other payers, and even discount card vendors are often linked to AWP. For example, the price for a particular drug might be negotiated at "AWP less a certain percent." As AWP goes up, so does the amount that insurance companies, discount card vendors, and ultimately consumers, pay for prescription drugs. Increases in AWP are a good measure of the rate of increase in drug prices for consumers and other payers.

Why Not Use CPI to Measure Drug Inflation?

Families USA uses the Consumer Price Index to measure inflation. This is a common measure of general inflation published monthly by the Bureau of Labor Statistics. The CPI measures changes in the price of a market basket of goods. The Bureau of Labor Statistics determines what items go into the goods measured in the CPI based on frequent purchases of 5,000 families who participate in a multi-year survey.

CPI is an accurate measure of general inflation. The Bureau of Labor Statistics also reports inflation for the broad categories of goods, or "components" of spending, that make up the CPI, such as "food and beverages," "transportation," and "medical care." The "medical care" component includes the cost of items such as medical services and prescription drugs. Even though the Bureau of Labor Statistics publishes a figure showing inflation in "medical care," there is no CPI measure that gives as accurate a picture of prescription drug inflation as do changes in AWP. Here's why:

The closest that the Bureau of Labor Statistics comes to reporting on increases in prescription drug prices is the inflation figure that it publishes for "medical care commodities." While "medical care commodities" includes prescription drugs, that is not all it includes. It measures many items that are unrelated to prescription drugs, such as:

- Prescription medical supplies;
- Non-prescription over-the-counter drugs, such as aspirin, cold remedies, and cough medicines;
- Vitamins;
- Non-prescription medicines and dressings used externally;
- Generally supportive and convalescent medical equipment, including adhesive strips, heating pads, athletic supporters, and wheelchairs.

Using such a broad index to measure prescription drug inflation is akin to using changes in the price of durable goods to measure inflation for automobiles. Because the CPI does not have a distinct measure related solely to drug prices, Families USA believes that a more accurate measure of prescription drug inflation is changes in the manufacturers' prices for those drugs.

NOTE: Recently, the Pharmaceutical Research and Manufacturers of America (PhRMA), the drug industry lobby, issued a report on inflation in prescription drug costs. The PhRMA report's findings were based on increases in the CPI's measure of "medical care commodities," which PhRMA dubbed the "CPI-P." The inflation rate PhRMA reported using this measure was considerably lower than most other published estimates of drug price increases, including any previously released by Families USA. Because PhRMA's measure—CPI's inflation in "medical care commodities"—includes many items other than prescription drugs, it is not an accurate representation of drug price trends.

Rising Drug Prices in the Context of Changes in Medicare

Recent Changes in Medicare will not insulate seniors from rising drug prices. At the end of 2003, The Medicare Prescription Drug, Improvement, and Modernization Act became law. This law establishes a short-term prescription drug discount card program that will begin in June 2004. The full Medicare prescription drug benefit begins in 2006. Neither the discount card nor the drug benefit will keep seniors from feeling the effect of escalating drug prices.

- **Rising Prices and the Drug Discount Card**

  Medicare's Drug Discount Card Program allows seniors to pick one of 73 "Medicare approved" cards.[11] A card, which can cost up to $30 annually, entitles a beneficiary to price discounts on a list of drugs. The discounts are not guaranteed; they can change any time. The list of drugs offered on a discount card can change, as well.[12]

  The Secretary of Health and Human Services has stated that the discount cards will provide seniors with price reductions of between 10 and 25 percent for brand-name drugs.[13] However, the current and long-term value of any discounts should be viewed in light of increases in the base prices of drugs, increases that are many times the rate of inflation year after year after year. The 10 to 25 percent discounts offered are based on highly inflated base prices—prices that have increased by nearly 22 percent over the past three years, more than three times the rate of inflation. Further, the discount card program does nothing to rein in price increases.[14] Consumers can expect drug prices to continue to rise just as they have for the past several years. With prices continuing to rise more than inflation, the value of any discount will erode over time. Seniors, who so often live on fixed incomes indexed to inflation, will still not be able to "keep up" and afford the drugs they need. *Discounts are not a substitute for price moderation.*

- **Rising Prices and Medicare's Drug Benefit**

  Once the Medicare drug benefit begins, rising drug prices will continue to have a direct financial impact on seniors, for two reasons. First, seniors and others in Medicare will still have to pay a portion—often a substantial portion—of their drug costs (see box, "Basics of the Medicare Drug Benefit").

Second, the new law forces seniors to pay more and more out of pocket as the costs of the new program rise. Every year, the amount that seniors and others in Medicare will have to pay will go up in line with increases in Medicare's drug costs. As Medicare's drug costs go up—and rising drug prices will play a large role in any increases in Medicare's costs—so will seniors' prescription drug expenditures.

Basics of the Medicare Drug Benefit

In 2006, seniors and others in Medicare will pay a premium of around $35 a month ($420 a year) and will then pay for their first $250 in drug costs. For the next $2,000 in drug costs, Medicare beneficiaries will pay 25 percent out of their own pockets, and Medicare will cover the remaining 75 percent.

Once annual drug costs reach $2,250, coverage stops. (This gap in coverage is referred to as the "doughnut hole.") Seniors must pay for the next $2,850 in drug expenses on their own. Coverage begins again once drug costs for 2006 reach $5,100. Once drug expenses reach that level, coverage continues for the rest of the year.

In 2007, the process begins again with a new deductible, and seniors will face the specter of another gap in coverage. However, both the deductible and the gap in coverage will increase. How much these amounts will increase will depend on how much Medicare's drug costs go up.

For example, when the drug discount card program expires at the end of 2005, the big gap in drug coverage—the so-called "doughnut hole"—requires seniors to pay 100 percent of annual drug costs between $2,250 and $5,100. This is a gap of $2,850. Due to escalating program costs, the Congressional Budget Office projects that the gap will skyrocket to $5,066 in 2013.[15]

One reason that Medicare's costs—and the amounts that seniors will have to pay—are projected to go up so much is that the new law does not allow the government to negotiate directly with drug manufacturers for lower drug prices, as it does so successfully now for the Department of Veterans Affairs.[16] Each of the various plans that will be providing the drug benefit will negotiate prices on behalf of its enrollees. Multiple plans, each separately negotiating with drug manufacturers, will not be able to exercise the consolidated purchasing power, or achieve the level of price reductions, that the Medicare program could. Even with a drug benefit, absent real price moderation—such as would be achieved by allowing the Medicare program to negotiate for drug price reductions on behalf of all those enrolled in Medicare—seniors will find that medicines are increasingly unaffordable.

CONCLUSION

2003 marked yet another year when prescription drug prices increased well above the rate of inflation. From January 2003 to January 2004, the rate of increase for the brand-name drugs most frequently used by seniors was 4.3 times inflation. 2003 was also the year in which a prescription drug benefit was added to Medicare. However, neither the drug benefit that will begin in 2006 nor the temporary drug discount card that will begin in June 2004 will do anything to control drug price inflation. The new Medicare prescription drug law fails to take any steps that could truly reduce drug price inflation, such as allowing Medicare to negotiate drug prices on behalf of the millions of seniors and people with disabilities that it covers.

Even with the temporary drug discount card, seniors will continue to see prices go up. What's more, the new discounts do not negate years of rapidly rising drug costs. Within the framework of nearly 22 percent price increases from January 2001 to January 2004, a discount of 10 to 25 percent off brand-name prices is little comfort. Without real moderation in drug prices, seniors and other payers—employers, insurers, and governments—will continue to suffer drug price sticker shock.

ENDNOTES

[1] CMS projects an initial enrollment of 7.3 million in 2004, increasing to 7.4 million in 2005. Centers for Medicare and Medicaid Services, Medicare Prescription Drug Discount Card, Interim Rule and Notice, 68 Fed. Reg. 69,840, 69,895 (December 15, 2003).

[2] *HHS Works to Educate Seniors about Savings from New Discount Cards* (Washington: Department of Health and Human Services, April 27, 2004), available online at (www.hhs.gov/news).

[3] Dee Mahan, *Out of Bounds: Rising Prescription Drug Prices for Seniors* (Washington: Families USA, July 2003); Amanda McCloskey, *Bitter Pill: The Rising Prices of Prescription Drugs for Older Americans* (Washington: Families USA, June 2002).

[4] The Kaiser Family Foundation, *Trends and Indicators in the Changing Health Care Marketplace, 2004 Update*, web exclusive available online at (www.kff.org/insurance/7031/ti2004-1-6.cfm).

[5] Steven Findlay, *Prescription Drug Expenditures in 2001: Another Year of Escalating Costs* (Washington: The National Institute of Health Care Management Research and Education Foundation, May 2002); Fred Teitelbaum, PhD, et al, *Drug Trend 2002 Report* (Express Scripts, June 2003). Express Scripts, a large Pharmacy Benefit Manager (PBM) that manages pharmacy benefits for public and private health care insurers nationwide, reported drug cost increases of 18.5 percent and attributed 43 percent of that to inflation in the price of frequently prescribed drugs.

[6] An estimated 23 percent of individuals under 65 do not have prescription drug insurance (approximately 57 million individuals, based on July 2002 US Census data). Approximately 10.7 million Medicare beneficiaries over 65 are also without drug coverage. The Kaiser Family Foundation, *Prescription Drug Trends*, May, 2003; Families USA from data prepared by the Lewin Group, May 2003.

[7] Fourteen states limit the number of prescriptions that can be filled over a set time period. Thirty-five states require Medicaid beneficiaries to pay a copayment for each prescription. Seven states allow pharmacies to withhold medication under certain circumstances if the beneficiary cannot pay. Jeffrey Crowley, et al, *Medicaid Outpatient Prescription Drug Benefits: Findings from a National Survey, 2003* (Washington: Kaiser Commission on Medicaid and the Uninsured, 2003).

[8] The Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2003 Annual Survey* (Washington: 2003).

[9] Frank McArdle, et al, *Retiree Health Benefits Now and in the Future* (Menlo Park, CA and Lincolnshire, IL: The Kaiser Family Foundation and Hewitt Associates, January 2004).

[10] Alliance for Health Reform, *Covering Health Issues: A Sourcebook for Journalists*, available online at (www.allhealth.org/sourcebook2002/ch7_3.html).

[11] *Medicare Drug Discount Cards Continue to Drop Prices and Offer Better Savings* (Washington: Department of Health and Human Services, Centers for Medicare and Medicaid Services, May 12, 2004).

[12] Centers for Medicare and Medicaid Services, *Guide to Choosing a Medicare-Approved Drug Discount Card* (Washington: Department of Health and Human Services, Centers for Medicare and Medicaid Services, March 2004).

[13] Centers for Medicare and Medicaid Services, *Medicare Approved Drug Discount Cards Provide Drug Prices Significantly Below Average Paid by Americans* (Washington: Department of Health and Human Services, Centers for Medicare and Medicaid Services, May 6, 2004), available online at (www.cms.hhs.gov/media/press/files/rxcard_savings_analysis.pdf).

[14] There are no real limits on the rate of price increases for drugs offered on discount. The regulations governing the discount card specify that, during the course of a year, prices should not go up any more rapidly than the Average Wholesale Price (AWP). As this report documents, however, AWP has risen at many times the rate of inflation for years and, for some drugs, prices have been changed frequently. Neither the law nor the regulations limits manufacturers' drug price increases. In November 2004, when Medicare beneficiaries can switch cards, there is no limit on price increases. Medicare Prescription Drug Discount Card, Interim Rule and Notice, 68 Fed. Reg. 69,840, 69,918 (December 15, 2003) (to be codified at 42 C.F.R. Section 403.806(d)(9)).

[15] Letter from the Congressional Budget Office to Senator Don Nickles, November 20, 2003.

[16] Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. No. 108-173, Section 1860D-11(i).

APPENDIX

Table A

Annual Average Wholesale Price[a] of the Top 30 Brand-Name Drugs Used by the Elderly

Brand-Name Drug	Strength	Dose Form	Therapeutic Category	Marketer	2001 Cost/Year	2004 Cost/Year
Lipitor	10 mg	tab	Lipid-Lowering Agent	Pfizer	$742	$943
Plavix	75 mg	tab	Antiplatelet Agent	Bristol-Myers Squibb	$1,232	$1,661
Fosamax	70 mg	tab	Osteoporosis Treatment	Merck	$802	$953
Norvasc	5 mg	tab	Calcium Channel Blocker	Pfizer	$514	$603
Celebrex	200 mg	cap	Anti-Inflammatory/Analgesic	Pfizer	$1,837	$2,273
Zocor	20 mg	tab	Lipid-Lowering Agent	Merck	$1,520	$1,747
Prevacid	30 mg	cap cr	Gastrointestinal Agent	TAP Pharmaceutical	$1,459	$1,740
Protonix	40 mg	tab	Gastrointestinal Agent	Wyeth	$1,095	$1,396
Lipitor	20 mg	tab	Lipid-Lowering Agent	Pfizer	$1,148	$1,369
Norvasc	10 mg	tab	Calcium Channel Blocker	Pfizer	$794	$827
Toprol XL	50 mg	tab cr	Beta Blocker	Astra Zeneca	$221	$286
Nexium	40 mg	cap	Gastrointestinal Agent	Astra Zeneca	nm	$1,710
Xalatan	0.005%	sol	Glaucoma Treatment	Pfizer	$573	$701
Vioxx	25 mg	tab	Anti-Inflammatory/Analgesic	Merck	$958	$1,100
Zocor	40 mg	tab	Lipid-Lowering Agent	Merck	$1,520	$1,747
Zoloft	50 mg	tab	Antidepressant	Pfizer	$882	$1,049
Evista	60 mg	tab	Osteoporosis Treatment	Eli Lilly	$807	$1,033
Cozaar	50 mg	tab	Angiotensin II Inhibitor	Merck	$497	$607
Combivent	1 mg	aerosol	Respiratory Agent	Boehringer Ingelheim	$612	$957
Toprol XL	100 mg	tab cr	Beta Blocker	Astra Zeneca	$332	$429
Zocor	10 mg	tab	Lipid Lowering Agent	Merck	$871	$1,001
Actonel	35 mg	tab	Osteoporosis Treatment	Procter & Gamble	nm	$916
Diovan	80 mg	tab	Angiotensin II Inhibitor	Novartis	nm	$640
Detrol LA	4 mg	tab	Overactive Bladder Treatment	Pfizer	$1,031	$1,220
Miacalcin	200 iu/act	spray	Calcitonin Replacement	Novartis	$765	$938
Pravachol	20 mg	tab	Lipid-Lowering Agent	Bristol-Myers Squibb	$931	$1,203
Alphagan P	0.15%	5ml	Glaucoma Treatment	Allergan	nm	$535
Aricept	10 mg	tab	Alzheimer's Disease Treatment	Pfizer	$1,637	$1,893
Pravachol	40 mg	tab	Lipid-Lowering Agent	Bristol-Myers Squibb	$1,511	$1,765
Celexa	20 mg	tab	Antidepressant	Forest	$789	$952

Note: The top 30 brand-name drugs prescribed to the elderly, listed in descending order based on 2003 claims volume from the Pennsylvania PACE program. List excludes brand-name drugs that have generic or co-marketed versions available.

nm: Not marketed during part or all of the period indicated.

[a] Cost per year is based on Average Wholesale Price (AWP) as of January 15 for 2001 and 2004 and calculated using the usual therapy dosage. This is not necessarily the retail price that seniors pay at the drugstore. However, it is the best measure available to examine base prices and the rate of price increases over time.

Source: Compiled by Families USA from data provided by the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE) and data found in Medi-Span's MDDB Select published by MediSpan (First Databank, Indianapolis), April 2004.

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