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**MEDICARE DRUG PLAN PRICES
ARE INCREASING RAPIDLY**

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MEDICARE DRUG PLAN PRICES ARE INCREASING RAPIDLY

TABLE OF CONTENTS

Executive Summary 1

I. Background.....2

II. Purpose and Methodology.....4

III. Findings.....5

 Drug Plan Prices Increased Rapidly5

 Drug Plan Price Increases Were Spread Across Almost All Drugs.....6

 Drug Plans with the Lowest Prices Experienced the Greatest Price Increases.....7

 Other Price Benchmarks Have Not Exhibited Similar Price Increases8

IV. Conclusion.....9

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. Recently, HHS Secretary Mike Leavitt claimed that “the costs of drugs under the prescription drug plan shows the competitive marketplace is reducing the price of prescription drugs for consumers and taxpayers.”

In fact, independent analyses have shown that the private insurers offering the new Medicare drug plans are not providing seniors and individuals with disabilities with low drug prices. These analyses concluded that drug prices under the new Medicare drug plans are well above prices paid by the federal government, prices in Canada, and even prices at Costco and Drugstore.com.

This report, conducted at the request of Rep. Henry A. Waxman, examines a new aspect of drug pricing under the Medicare drug plans: how drug prices have changed in the first seven weeks of the new program. The report finds widespread, rapid, and significant price increases.

The report is based on a comparison of (1) the prices offered in December 2005 by ten leading Medicare-approved drug plans for the ten most popular drugs used by seniors and (2) the prices offered seven weeks later by the same plans for the same drugs. The report finds:

- **Medicare drug plans increased prices by over 4% between the end of December 2005 and the middle of February 2006. This two-month price increase is over 25% higher than the inflation rate for the entire 12 months of 2005.**
- **Average prices for individual plans increased by as much as 10%, with nine of the ten plans increasing prices in the first weeks of the program.**
- **Over three-fourths of drug prices analyzed in the report increased over the seven week period; almost half increased by over 5%. Under one plan, the price of the heartburn drug Nexium increased by over 65%, from \$78 in December to \$129 in February.**
- **The drug price increases are higher than increases in other comparable benchmarks. The increases in drug prices under the Medicare drug plans are almost twice as high as the increases in prices for the same drugs from Canada and many times higher than the price increases at Drugstore.com. The Medicare drug plan price increases are over 25% greater than the increases in the manufacturers’ published “average wholesale prices” for the ten drugs.**

MEDICARE DRUG PLAN PRICES ARE INCREASING RAPIDLY

A major concern of public health experts has been that Medicare drug plans would engage in “bait-and-switch” tactics, raising prices for seniors after they subscribe to plans. The findings in this report lend credibility to these concerns. The plans with the lowest drug prices in December 2005 had the greatest increase in prices seven weeks later.

I. BACKGROUND

Seniors and people with disabilities are confronting complicated and confusing choices for Medicare drug benefits and a bewildering array of differences in premiums, deductibles, benefits, gaps in coverage, and drug coverage. In large part because of the confusing nature of this benefit, the first weeks of the program have been described as a “fiasco”¹ and a “disaster,”² as millions of seniors and disabled Medicare beneficiaries have been unable to obtain the drugs they need.

The primary reason for the added complexity — and for the problems it has caused — is that Medicare Part D allows for the participation of large numbers of private insurers. This convoluted structure was opposed by many independent health experts, but it was supported by two industries that have been major contributors to the Republican party: drug manufacturers and private health insurers.³ When the drug benefit was being constructed, Republican leaders in Congress, President Bush, and other senior Administration officials frequently repeated the industry claim 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 asserted:

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.⁴

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

¹ Los Angeles Times, *Medicare Fiasco Prompts Gov., Legislators to Team Up* (Jan. 19, 2005).

² Washington Times, *Medicare Part D ... For Disaster*, (Feb. 11, 2005).

³ Since 2000, these industries have given approximately \$120 million in campaign contributions to President Bush and Republican members of Congress. Center for Responsive Politics (online at www.opensecrets.org/industries/index.asp).

⁴ The White House, *President Calls on Congress to Complete Work on Medicare Bill* (Oct. 29, 2003).

MEDICARE DRUG PLAN PRICES ARE INCREASING RAPIDLY

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.⁵

When the Medicare Part D drug program went into effect, the low prices promised by Republican leaders did not materialize. In November 2005, an analysis by the minority staff of the House Committee on Government Reform found that the Medicare drug plan prices were well above prices negotiated by the federal government, prices in Canada, and even prices at Drugstore.com or Costco.com.⁶ A second analysis, conducted by the organization Families USA, confirmed these results.⁷

Despite these findings, Bush Administration officials continue to assert that the drug plans are reducing prices. Douglas S. O'Brien, an HHS Regional Director, claimed, "broader indicators show ... clearly that market forces are having a strong downward impact on prices for beneficiaries."⁸ In his *One Month Progress Report on the Medicare Prescription Drug Benefit*, HHS Secretary Leavitt stated earlier this month that "the competitive marketplace is reducing the price of prescription drugs for consumers" and that "as plans compete for seniors' business, they are driving the costs of prescriptions down."⁹

The new Medicare prescription drug coverage went into effect on January 1, 2006. According to the Centers for Medicare and Medicaid Services (CMS), an estimated 1.5 million seniors signed up before January 1, and 2.0 million more signed up before January 15.¹⁰ An additional 6.4 million seniors, primarily "dual-eligible" seniors previously receiving drug coverage through Medicaid, were automatically enrolled in Medicare Part D.

⁵ Testimony of Dr. Mark McClellan, Senate Finance Committee Hearing, *Implementing the Medicare Prescription Drug Benefit and Medicare Advantage Program: Perspectives on the Proposed Rules* (Sept. 14, 2004).

⁶ House Committee on Government Reform, Minority Staff, *Medicare Drug Plans Fail to Provide Meaningful Price Discounts* (Nov. 2005).

⁷ Families USA, *Falling Short: Medicare Prescription Drug Plans Offer Meager Savings* (Dec. 2005).

⁸ *Chicago's Part D Population Could Cut Prices By Buying Online or From Canada, Dems Say*, BNA's Health Care Daily Report (Feb. 14, 2005).

⁹ U.S. Department of Health and Human Services, *Secretary's One Month Progress Report on the Prescription Drug Benefit* (Feb. 1, 2006).

¹⁰ *Id.*

II. PURPOSE AND METHODOLOGY

At the request of Rep. Henry A. Waxman, this report analyzes what has happened to drug prices in the seven weeks since the Medicare drug benefit went into effect. It examines the prices offered for the ten most popular drugs used by seniors by ten leading Medicare drug plans. It is intended to provide a first snapshot of trends in the prices of popular brand-name drugs offered by leading Medicare drug plans. It is not intended to be a comprehensive analysis of the prices offered by every plan for every drug.

Under Medicare Part D, each private insurer selling a drug benefit plan negotiates with drug manufacturers and pharmacies for the drug 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

There are dozens of different Medicare drug plans listed on the Medicare website, with most seniors having a choice of over 40 plans. To simplify the analysis, this

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

MEDICARE DRUG PLAN PRICES ARE INCREASING RAPIDLY

report examines the drug prices negotiated by ten leading Medicare drug plans. These ten plans are offered by well-established health care insurers and pharmaceutical benefit managers, including Medco, Aetna, Humana, and AARP.¹⁴

The ten brand-name drugs with the highest sales to seniors in 2004 were selected for price analysis.¹⁵ For each of the ten plans, the prices offered to beneficiaries in the “donut hole” for a one-month supply of each of ten drugs was obtained from the Medicare website. To ensure geographic diversity, prices were obtained for each of the ten drugs for each of the ten plans from five different locations in the United States.¹⁶ These prices were then averaged to determine the average prices offered by the Medicare drug plans. The analysis did not take into account the cost of the premiums charged by the plans.

Prices were obtained during two time periods — in December 2005, just before coverage went into effect, and on February 20, 2006, seven weeks after coverage went into effect. These sets of prices were compared to determine whether the private drug plans that administer the new Medicare Part D program increased or decreased prices in the first weeks of the program.

For comparison purposes, the report also analyzes increases in other drug price benchmarks. These benchmarks are the manufacturer’s “average wholesale cost” for the ten drugs, the cost of the drugs in Canada, and the cost of the drugs at the online retailer Drugstore.com.

III. FINDINGS

The price comparisons in this report reveal that drug prices offered by the new Medicare drug plans rose rapidly in the first weeks of the program. The prices offered by ten leading Medicare drug plans in mid-February 2006 were on average over 4% higher than in December 2005, in some cases far higher.

Drug Plan Prices Increased Rapidly

The average cost of a market basket of the ten highest selling drugs for seniors offered by ten leading Medicare drug plans was \$1,144 in December 2005. In

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

¹⁵ 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).

¹⁶ Prices were collected for five locations in the United States — Illinois, South Dakota, Massachusetts, California, and Texas. The prices for one drug plan, the Sterling Prescription Drug Plan, were not available in California.

MEDICARE DRUG PLAN PRICES ARE INCREASING RAPIDLY

February 2006, the average price of the same drugs offered by the same plans was \$1,194, an increase in just seven weeks of 4.3%. This is over 25% higher than inflation for the full 12 months of 2005, which was 3.4%.

Overall, nine of the ten drug plans increased prices in the first weeks of the program. The Silverscript Plus Plan, offered by Caremark, increased prices by 10.2%. The Cignature Rx Plus Plan, offered by Connecticut General Life, increased prices by 8.8%. And the Sterling Prescription Plan, offered by the Sterling Life Insurance Company, increased prices by 7.9%. For the remaining six plans that increased prices, the price changes ranged from 1.3% to 7.0%.¹⁷

Drug Plan Price Increases Were Spread Across Almost All Drugs

Overall, prices increased for seven of the ten drugs included in this analysis. For two of the drugs, average prices increased by more than 10%. The average price of Plavix, the stroke medication manufactured by BristolMyersSquibb, increased from \$120 in December to \$133 in February, an 11% increase. And the average price of Aricept, the Alzheimer's medication manufactured by Pfizer, increased from \$139 in December to \$154 in February, an 11% increase.¹⁸ The average price increases for each individual drug can be seen in Table 1.

Drug	Average Price		% Increase
	December 2005	February 2006	
Advair Diskus	\$159.70	\$156.66	-1.9%
Aricept	\$138.54	\$153.53	10.8%
Celebrex	\$84.15	\$90.00	7.0%
Fosamax	\$68.93	\$72.27	4.8%
Lipitor	\$70.34	\$74.98	6.6%
Nexium	\$123.94	\$132.66	7.0%
Plavix	\$119.64	\$132.74	11.0%
Prevacid	\$133.59	\$132.14	-1.1%
Protonix	\$114.76	\$110.49	-3.7%
Zocor	\$130.42	\$138.25	6.0%
Total	\$1,144.01	\$1,193.72	4.3%

Price increases for individual drugs were widespread, and they were often higher than the average increase. Analyzing the ten drug prices offered by each of the ten plans provided 100 individual drug price comparisons. Overall, 77 of the

¹⁷ The only plan that reduced prices was the AdvantraRx plan, offered by Coventry Health Care, which reduced prices by 1.1%.

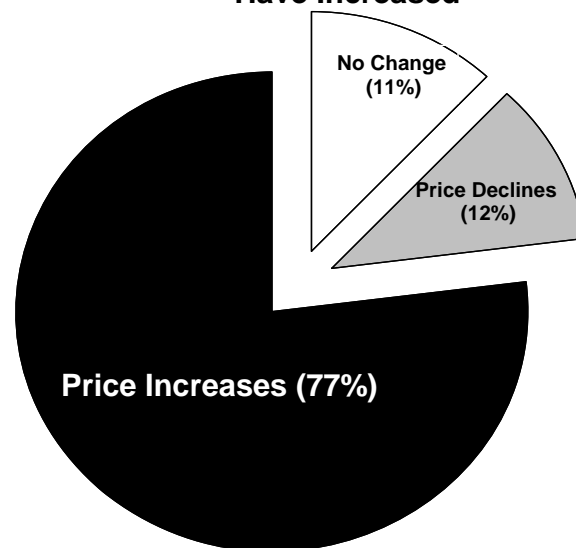
¹⁸ The three drugs with average price decreases were Protonix (-3.7%), Advair (-1.9%), and Prevacid (-1.1%). Even for these drugs though, at least one of the ten private insurance plans increased prices in January.

MEDICARE DRUG PLAN PRICES ARE INCREASING RAPIDLY

price comparisons revealed price increases, while only 12 showed price decreases. Eleven of the price comparisons showed no change in prices. Figure 1. Almost half — 46 — of the 100 individual drug price comparisons showed an increase of 5% or more, and 10% showed an increase of 10% or more.

The price of Nexium, an ulcer medication, increased from \$78 to \$129 under the YOURx plan offered by Medco, a 66% increase. The price of Plavix, a stroke medication, increased from \$114 to \$161 under the Silverscript Plus Plan, a 42% increase. And the price of Aricept, an Alzheimer’s medication, increased from \$140 to \$176 under the Sterling Prescription Drug Plan, a 26% increase.

Figure 1: The Vast Majority of Medicare Drug Prices Have Increased



Drug Plans with the Lowest Prices Experienced the Greatest Price Increases

There is no federal regulation of the prices charged by the private Medicare drug plans. This has raised concern among health experts that the private plans could engage in “bait-and-switch” practices, enticing seniors to enroll in plans that appear to offer lower prices than competitor plans and then raising drug prices after enrollment.

The findings in the report lend credence to these concerns. The plan that had the lowest overall average prices in December, the Silverscript Plus Plan (offered by Caremark) had the largest price increase, 10.2%. The YOURx Plan (offered by Medco) and the Cignature Rx Plus Plan (offered by Connecticut General Life), had the second and third lowest prices among the ten plans analyzed in December. These plans also had price increases that were among the highest of all ten plans analyzed —7.0% and 8.8% respectively.

MEDICARE DRUG PLAN PRICES ARE INCREASING RAPIDLY

The same pattern appears in the case of specific drugs. Of the ten plans analyzed in December 2005, the YOURx plan offered the lowest price for Nexium. But the price for Nexium offered by YOURx increased by 66% after January 1, 2006. The Silverscript Plus Plan offered the lowest price for Plavix in December 2005, but this price increased by 41% just weeks later.

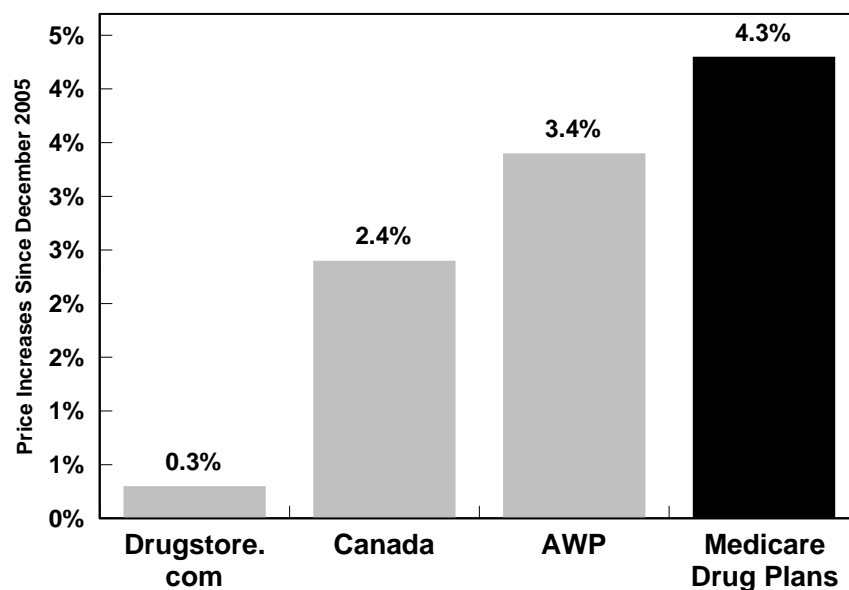
Other Drug Price Benchmarks Do Not Show Similar Price Increases

The prices offered by the Medicare drug plans have increased more rapidly than other benchmarks since December. In Canada, a one-month supply of each of the ten drugs cost \$717 in December. These prices increased to \$735 by February, a 2.4% price increase. The 4.3% price increase under the Medicare drug plans is almost 80% higher than the increase in Canadian prices.

The Medicare drug plans have also raised prices far more rapidly than the online drug retailer Drugstore.com. At Drugstore.com, a one-month supply of each of the ten drugs cost \$1,119 in December. These prices increased to \$1,122 by mid-February, a 0.3% price increase. The 4.3% price increase under the Medicare drug plans is over 14 times larger than the increase in Drugstore.com prices.

The equivalent of a drug manufacturer's "list price" is the manufacturer's "average wholesale price" (AWP). For the ten drugs examined in this report, the manufacturers' published AWP has increased by an average of 3.4% since December 2005. The 4.3% price increase under the Medicare drug plans is over 25% higher than the increase in the AWP. Figure 2.

Figure 2: Medicare Drug Plan Prices Are Increasing Faster Than Other Benchmarks



IV. CONCLUSION

This report analyzes the changes in drug prices offered by the new Medicare drug plans during the first weeks of the Part D program. It finds widespread, rapid, and significant price increases. The drug prices for ten popular drugs offered by ten leading drug plans increased by over 4%. In some cases, price increases for individual drugs and individual plans were significantly higher. These price increases are much greater than the price increases of comparable benchmarks.