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Rep. Pete Stark, Ranking Member
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Bush Administration Data Indicate Medicare Drug Premiums Could be Significantly Higher than Advertised: *Wide State-by-State Variations Likely*

Data posted on the CMS website to help potential private prescription drug plans assess whether to participate in the new Medicare Part D program indicate that monthly premiums for drug coverage may vary tremendously from state-to-state and may be significantly higher than the average $35 touted by proponents of the Medicare Modernization Act (MMA) of 2003.

Based on these data, beneficiary premiums could vary by more than 700 percent based on location. For example, Indiana's potential premiums are the highest at more than $50 per person per month; Georgia and West Virginia follow at about $48 per person per month. Potential premiums in North Dakota appear to be the lowest at just under $7. *[Details in attached charts and table.]*

The illustrative premiums shown in this analysis could be dramatically affected by a number of factors that have not yet been finalized. For example, the number and size of regions could mitigate some of the variation. If regions are equal to states, then significant variations could remain. If regions encompass multiple states, variation would likely be reduced.

In addition, variation could be reduced if geographic, utilization or price adjusters were applied. However, CMS stated in the proposed rule to implement the program that they are not planning to implement such adjustors for the first few years (see p 46684, Fed. Reg., 8/3/2004 http://www.cms.hhs.gov/providerupdate/regs/cms4068p.pdf). In fact, the Administration has repeatedly implied that there is no

reason to believe that drug prices vary significantly by state. These data appear to at least partially refute that assumption.

Conclusion

Absent key adjustors, this analysis shows that beneficiaries may be subject to dramatically different premium amounts depending on where they live. While these data are only proxies for potential Part D premiums, they remain useful indicators of the uncertainty and variability that is likely to exist in the new program.

It is also important to note that these premium differentials are not based on benefit differences, but on other factors that could be at least partially adjusted for. The Part D benefits are likely to vary as well, ultimately making it even more difficult to compare packages.

These data raise serious new geographic equity issues, and reinforce earlier concerns about the detrimental effects of requiring Medicare beneficiaries to purchase drug coverage through an untested private insurance-based system.

Methodology

CMS posted three data sets at http://www.cms.hhs.gov/pdps/ – (1) FEHBP data for 2000-2002 for federal retirees 65+ who are enrolled in the Blue Cross plan, (2) distributions based on the Medicare Current Beneficiary Survey and (3) Medicaid data. These calculations are based on the FEHBP CY 2002 data as those data are the only ones in the available sets that reflect the most recent data from a private insurance-based delivery system and thus reflect the best possible approximation for the new private insurance system created in the MMA.

The potential premiums are calculated by deriving the national average bid from the $35 premium ($35/.255 – the beneficiary's share – which equals $137.26), and adjusting for each state's dollar index as indicated in the FEHBP data. This analysis used the data that encompassed total spending (e.g., mail order and retail), assuming that Part D coverage will also have both components.

Note that industry data also show significant state-level utilization variation (see Express Scripts' Prescription Drug Atlas at *http://www.express-scripts.com/ourcompany/news/outcomesresearch/prescriptiondrugatlas/research.htm*), which supports the variation observed in FEHBP data.

State-by-State Projected Illustrative Monthly Medicare Part D Premium, based on FEHBP Data for Enrollees Aged 65+

(bold indicates values above national average $35 assumption)

State	Premium
AL	**$46.94**
AK	$ 9.18
AZ	$21.09
AR	$34.40
CA	$29.30
CO	$25.65
CT	$22.38
DE	**$44.38**
DC	$27.47
FL	**$36.82**
GA	**$48.22**
HI	$17.81
ID	$25.79
IL	$24.01
IN	**$50.82**
IA	$18.81
KS	**$35.18**
KY	**$42.99**
LA	**$45.25**
ME	$21.23
MD	**$44.15**
MA	$22.15
MI	**$37.05**
MN	$16.57
MS	**$40.98**
MO	**$35.11**
MT	$12.93
NE	$24.80
NV	$23.65
NH	$24.35
NJ	$32.84
NM	$13.72
NY	$19.00
NC	**$42.32**
ND	$ 6.79
OH	**$36.89**
OK	**$47.21**
OR	$24.32
PA	**$35.08**
RI	$18.02
SC	**$47.57**
SD	$ 7.56
TN	**$45.43**
TX	**$39.61**
UT	**$44.95**
VT	$17.55
VA	**$42.75**
WA	$23.24
WV	**$47.91**
WI	$14.24
WY	$ 9.84

Source: Calculations based on national benchmark and $35 national average premium, using data from http://www.cms.hhs.gov/pdps/ (FEHBP Drug Utilization Index CY2002 data set)