

## **Statement of Patricia Neuman, Sc.D.**

Thank you, Mr. Chairman and Members of the Committee, for the opportunity to testify on the issue of prescription drug discount card programs for Medicare beneficiaries. I am Patricia Neuman, a vice president of the Kaiser Family Foundation and Director of the Foundation's Medicare Policy Project. I am also an associate faculty member in the Department of Health Policy and Management at the Johns Hopkins University Bloomberg School of Public Health.

### **Prescription Drugs and the Medicare Population**

Medicare plays a critical role in the lives of over 40 million elderly and disabled Americans, offering a reliable source of health insurance at a time in their lives when they are most likely to need medical care. Medicare pays for much-needed basic medical services, such as physician and hospital care, but generally does not pay for outpatient prescription drugs. This gap in Medicare's benefit package is a growing problem given the rising costs of prescription drugs, the increasingly central role they play in medical treatment, and the erosion of drug coverage available to seniors through other sources.

More than a quarter (27%) of all beneficiaries lacked drug coverage for the full year in 1998 and as many as 38% were without prescription drug coverage in the Fall of 1999, the most recent year for which national survey data are available (Exhibit 1). Using the same point-in-time estimates, half of all beneficiaries living in rural areas and 45 percent of seniors ages 85 and older lacked drug coverage in 1999. Most beneficiaries get help from their drug expenses through supplemental insurance. However, coverage under private-sector sources—including employer-sponsored programs and Medicare+Choice plans—is eroding while premiums for Medigap drug policies are escalating. And, while Medicaid has traditionally been a critical source of drug coverage for Medicare's lowest-income population, a growing number of states are turning to a range of strategies to contain drug spending, given that prescription drugs are the fastest-growing cost item in the Medicaid program (Exhibit 2). These changes could further diminish drug coverage for elderly and disabled beneficiaries.

Seniors rely heavily on prescription drugs—filling four times as many prescriptions as do younger adults ages 19 to 44 (Exhibit 3). The Medicare population tends to have high rates of multiple chronic conditions, such as arthritis, hypertension, and heart disease, which are commonly managed with medications (Exhibit 4). At the same time, a large share of Medicare beneficiaries live on modest incomes, limiting their ability to purchase needed medications or absorb high drug costs in the absence of adequate drug coverage. Four in ten beneficiaries live on an income below twice the federal poverty level, or below about \$16,000 for an individual and \$22,000 for a couple in 1999 (Exhibit 5).

Evidence suggests that seniors without coverage are less likely to take medications as prescribed by their doctors, sometimes skipping doses and splitting pills because they are unable to pay the full cost of their prescriptions. Those without drug coverage fill fewer prescriptions than do those with insurance, yet pay more out-of-pocket for their medicines (Exhibit 6). Beneficiaries without drug coverage typically pay more out-of-pocket than do seniors with insurance for two reasons: They do not have the benefit of

an insurer to cover a portion of their drug costs, and they often lack access to the same discounts that insurers typically negotiate with pharmacists or manufacturers. The predicted increase in prescription drug spending for the Medicare population will put seniors without drug coverage or access to substantial discounts at even greater risk in the future (Exhibit 7).

Against this backdrop, making prescription drugs affordable for seniors has become a top priority for policymakers and the general public. While debate continues on proposals for a universal Medicare drug benefit, the Administration has proposed incremental measures, including a new Medicare-Endorsed Prescription Drug Card Assistance Initiative as an interim strategy to help beneficiaries buy prescription drugs at lower costs. This approach would build upon the range of private and publicly sponsored discount card programs currently in operation.

### **Overview of Existing Prescription Drug Discount Card Programs**

To help understand the operations and benefits of existing private discount card programs, the Kaiser Family Foundation commissioned a study by Health Policy Alternatives to assess their implications for consumers.<sup>1</sup> As reported in that study, there is currently a wide array of prescription drug discount card programs in operation.

Private-Sector Discount Card Programs. The majority of these are voluntary programs sponsored by private entities such as pharmacy benefit managers (PBMs) and retail stores (e.g., chain pharmacies). Many discount card sponsors market directly to consumers, but others offer programs through intermediaries, such as employers, insurers, associations, and financial institutions. Many Medigap carriers, for example, offer discount cards in conjunction with their Medigap policies to help enrollees pay for prescription drugs. Membership-based organizations may sponsor discount card programs as a means of attracting and retaining members. In some cases, the programs offer benefits in addition to prescription drugs, such as discounts on dental and vision services.

In general, consumers may enroll in any number of these programs and receive discounts on their prescription drugs at the point of sale. The vast majority of these programs are marketed nationwide and are available to the general public, regardless of income or age. Typically, there is an enrollment fee, which may be charged on a one-time, monthly, or annual basis.

For the most part, private discount drug card programs are unregulated, as they are not generally considered to be insurance. There are exceptions, however; some states require discount card companies to register as insurance companies and also require discount card sponsors to comply with rules related to marketing practices.

Discount card programs are able to offer savings off retail prices at the point of sale through a combination of lower dispensing fees paid to pharmacists, the use of internet and mail-order pharmacies, and lower manufacturer prices negotiated through volume discounts or rebates. These programs vary widely in terms of where and how consumers may purchase their drugs in order to obtain discounts (i.e., in retail

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<sup>1</sup> *Prescription Drug Discount Cards: Current Programs and Issues*. Prepared by Health Policy Alternatives for the Kaiser Family Foundation, February 2002.

pharmacies, by mail-order, or over the internet), the magnitude of the savings offered, and the particular drugs to which the discounts apply. Most of the consumer discount is believed to be the result of concessions on the pharmacy mark-up and dispensing fees, rather than the manufacturer rebates. According to the report prepared by Health Policy Alternatives, among the cards that get rebates from manufacturers, there is considerable variation in the degree to which the rebates are passed on to consumers in the form of lower prices.

Other Prescription Drug Discount Card Programs. Along with discount cards sponsored by private entities, there are at least five states that now offer a discount program to help reduce drug costs for Medicare beneficiaries (California, Florida, Iowa, New Hampshire, and West Virginia).

In addition, there are now four private discount card programs that are sponsored by drug manufacturers themselves. These programs offer assistance to seniors with modest incomes, although they provide discounts on only the drugs they produce. Two of these (Glaxo SmithKline and Novartis) offer a percentage discount on the purchase of their drugs, while the others, Pfizer and Eli Lilly, charge a flat fee per prescription (of \$15 and \$12, respectively) for their drugs.

### **Implications of Prescription Drug Discount Card Programs for Beneficiaries Today**

While there appears to be a growing number of private-sector and state-sponsored discount card programs, these programs are relatively new and little is known about how well they are serving their target populations. It is not known, for example, how many people are enrolled in one or more discount card programs, primarily because private card sponsors generally consider enrollment data proprietary. The extent to which these programs are providing meaningful discounts to a significant share of the population in need depends on their capacity to achieve a number of objectives.

Reducing Seniors' Drug Costs. There is some evidence that existing drug discount card programs lower costs for seniors. A recent report published by the U.S. General Accounting Office suggests that discount cards generate prices that are lower than typical retail prices—although the relative discounts vary by discount card program, by drug, and by retail outlet (GAO, 2001). While such findings are helpful in terms of understanding the potential magnitude of these programs' impact on price, they do not necessarily speak to the savings to be achieved at the individual consumer level. In addition to price, the degree of assistance provided will depend on the characteristics of consumers themselves, including the number and type of medications they take and the length of time they are on a given drug regimen. Further research is needed to assess the magnitude of the savings achieved under existing discount card programs for seniors.

While discount card programs appear to lower drug costs for consumers, they are not a substitute for drug coverage. When seniors go to a pharmacy with a discount card, they tend to pay less than full retail price, but still pay substantially more than they would if they had drug coverage and were only required to pay a share of total costs. Exhibit 8 presents illustrative prices for medications commonly purchased by the elderly and compares the out-of-pocket expenses that a typical senior might face under three scenarios: (1) the senior pays the full retail price, with no drug coverage or discount card; (2) the senior uses a discount card; and (3) the senior has health insurance under

the Blue Cross/Blue Shield PPO offered under the Federal Employees Health Benefits Program (FEHBP). Based on available price data from current discount programs and retail outlets, discount card users would pay less out-of-pocket per prescription than would seniors paying full retail price, but substantially more than those with meaningful insurance coverage, such as that provided under this particular FEHBP plan (assuming these drugs are included in the plan's formulary).

Finally, while discount drug card programs lower costs, they are unlikely to make medications significantly more affordable for beneficiaries living on a fixed income. Take, for example, an elderly woman with an annual income of \$15,615, or about \$1,300 per month (the mean income for women ages 65 and older in 1999), who is prescribed the four medications listed in Exhibit 8. She would save money using her discount drug card, but still spend about 25 percent of her monthly income filling her prescriptions—with or without the card. By contrast, if she had drug coverage under the FEHBP PPO, her prescriptions would account for roughly 8 percent of her income.

Facilitating Cost Comparisons for Consumers. Consumers face a number of challenges comparing existing discount card programs in deciding which programs would best meet their needs. There is currently wide variation in the nature of price information made available by discount card programs and there is no central place to access and compare information across programs. As a result, seniors must contact each program individually to obtain prices. Many discount card programs—6 of the 14 private discount card programs surveyed by Health Policy Alternatives—do not list drug prices or discounts on their own websites (Table 1).

Among the programs that do provide price or discount information on their websites, direct price comparisons are not always possible because they do not use a common benchmark or reference price. While some plans provide price information for specific medications by dose level, others present it in a way that is far more difficult to understand or compare. For instance, some programs present discounts for a given drug as the retail price (which is not specified) minus a percentage. Others report discounts as the dollar amount of the discount itself, without referring to the base price at all. This variation has implications not only for consumers, but also for the feasibility of deriving accurate estimates of the savings that consumers actually receive.

Additional sources of potential confusion include variations in enrollment fees, the range of additional benefits offered under discount card programs such as dental or vision discounts, frequent fluctuations in drug prices, and shipping fees for mail-order purchases, where available. Taken together, variation along all of these dimensions may be especially problematic for the Medicare population. Only 16 percent of the elderly report being regular users of the internet, although this share is increasing rapidly (Vastag, 2001). A recent study found that more than half of all Medicare beneficiaries have difficulty comparing information about health plans (Hibbard, 2000) and almost a quarter have cognitive impairments (Kaiser, 2002). This suggests that a substantial share of the Medicare population may not be able to choose among a range of discount card programs in deciding which one best meets their needs.

Monitoring and Improving Quality. Discount card programs also vary in their quality assurance and patient safety programs. Some programs, for example, provide access to a pharmacist through a toll-free hotline, along with information on appropriate dosages and possible side effects. A limitation of these programs is that they take into account

only those drugs that are purchased with the card, without regard to other medications that the consumer may be taking or other underlying health conditions.

These quality features can be important to seniors and younger Medicare beneficiaries with disabilities, particularly those who are among the highest users of medications. However, there is some concern that discount card programs may have an incentive to steer consumers to drugs for which the programs themselves will receive the greatest rebate, rather than to the specific drugs considered clinically optimal by the patients' physicians. The pressure to substitute discounted drugs for those initially prescribed may pose concerns about quality of care.

In sum, private discount card programs are currently an option for lowering the cost of drugs for seniors who tend to pay full retail. Discount programs today are voluntary, generally unregulated, and vary widely in many ways. Seniors are free to sign up for more than one program, and may use multiple cards to get the best possible savings. The evidence to date suggests that discount cards lower costs, but little is known about the magnitude of savings offered by these programs and the number and characteristics of people they serve.

### **Medicare-Endorsed Prescription Drug Card Assistance Initiative**

Last week, the Administration issued a proposed regulation to establish a Medicare-Endorsed Prescription Drug Card Assistance Initiative as a first step and building block for a possible Medicare drug benefit. The Administration's proposal differs from the status quo in several ways. Most significantly, it would create and authorize the use of a Medicare-Endorsed Prescription Drug Assistance Emblem that could be used by discount card sponsors that meet specified qualifications. It would also highlight Medicare-endorsed card programs in Medicare publications, brochures, enrollment publications, and on the program's website, as part of a broader package of beneficiary education activities. Medicare-endorsed card sponsors would be required to assure that beneficiaries enroll in only one qualified program at a time in order to give sponsors greater leverage in negotiating rebates or discounts from manufacturers. A new consortium, funded by contributions from qualified sponsors, would be established to monitor the activities of Medicare-endorsed programs.

A new Medicare discount card program has the potential to lower drug costs for seniors, provide new information to help consumers compare prices across Medicare-endorsed programs, and enhance patient care by encouraging programs to establish improved quality assurance programs. At the same time, a new Medicare-endorsed discount card program raises several issues for consideration.

**Would a Medicare-endorsed discount card program provide greater discounts than those currently available under existing discount card programs?** Given the challenges of both comparing discounts across programs today and estimating savings either nationally or at the individual level, this question is difficult to answer. Existing discount card programs lower costs for beneficiaries who typically pay the full retail price when they fill their prescriptions. A new Medicare-endorsed card could lower costs somewhat further as discount card sponsors may be able to attract more beneficiaries as a result of the Medicare endorsement and thus negotiate higher discounts and rebates. If, however, such discounts do not apply to all drugs within each therapeutic class, then the number of people who would be helped under such a program would be

limited. Furthermore, unless a minimum discount is required, the extent to which these efforts would result in lower prices than those currently available to seniors is uncertain.

**Would a Medicare-endorsed discount card program help beneficiaries compare drug prices across programs?** One of the challenges facing seniors today is the absence of a central information source to compare drug prices across programs. A Medicare-endorsed discount card program could provide consumers with direct access to information about participating programs, allowing consumers to compare prices for the medications they take. This would be a significant improvement over the status quo—particularly if prices were presented in a standard way across programs and in terms that consumers could readily understand and compare.

**Would Medicare-endorsed discount card sponsors be required to meet minimum standards to assure quality and guard against marketing abuses?** In the current environment, with few exceptions in a small number of states, discount card programs are unregulated. If card sponsors are required to meet certain minimum standards, then consumers could be offered greater protections than they have today.

In the past, Congress has explicitly prohibited the inappropriate use of the Medicare name, limited the circumstances under which private entities may market Medicare-label products, and established federal oversight and enforcement procedures to assure compliance with federal standards. For example, in 1980 and again in 1990, Congress stepped in to protect consumers from well-documented problems in the Medicare supplemental insurance (Medigap) market by imposing new standards for benefits, sales practices, and loss ratios; and by establishing penalties for non-compliance.

Appropriate and enforceable standards for discount card sponsors bearing the Medicare name are important given the vulnerability of the Medicare population and many seniors' urgent need for help with their drug costs. Attention to privacy concerns may be especially critical given the potential for sponsors and drug manufacturers to share beneficiary information for marketing purposes.

Finally, extending the Medicare name to private discount card programs could potentially raise expectations among seniors that a Medicare-endorsed card would provide a minimum, guaranteed benefit—or, in this case, a discount of some minimum amount. In return for allowing private firms to benefit from Medicare's good name and reputation, it may be worth considering standards to require card sponsors to provide a minimum, guaranteed discount as a condition for receiving the Medicare seal of approval.

**Would a Medicare-endorsed discount card program make prescription drugs more affordable for seniors?** As the Administration notes, the proposed Medicare discount card program would not deliver the same level of savings to seniors as a Medicare benefit. Recent public-opinion surveys indicate that making prescription drugs affordable for seniors remains a high priority for the public (Exhibit 9). And, while a recent Kaiser Family Foundation poll finds the public paying close attention to developments related to discount cards, focus groups conducted for the Foundation indicate a high level of public support for a meaningful Medicare drug benefit, comparable to what many insured workers get today (McInturff and Garin, 2001).

Given the high level of public interest in Medicare and prescription drugs, educating the public about a new Medicare discount card program—how it works and how it differs

from a full Medicare drug benefit—could be critically important for minimizing confusion among seniors.

## **Summary**

Today, a wide variety of discount card programs are available to seniors to help lower the costs of prescription drugs. Many of these programs are relatively new. The programs vary widely in terms of how they operate, the savings they offer, and ultimately, their impact on consumers. A Medicare-endorsed discount card program could help lower drug costs and could help provide an infrastructure that would lay the foundation for a Medicare drug benefit. However, even a successful Medicare discount card program will not be a substitute for meaningful drug coverage for the Medicare population.