

**TESTIMONY OF
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ON
MEDICARE PRESCRIPTION DRUG DISCOUNT PROGRAM
BEFORE THE
SENATE FINANCE COMMITTEE**

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Chairman Grassley, Senator Baucus, distinguished Committee members, thank you for inviting me here to discuss the Medicare-Approved Drug Discount Card and the Transitional Assistance Program, which was enacted into law on December 8, 2003, as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). Today, we reached the six-month mark since the legislation was enacted. In that time, CMS has worked diligently to meet the short deadline we had to implement the drug card and transitional assistance program by June 1st – and we have done so. We issued an interim final regulation and guidance, we implemented new contracting and oversight mechanisms for card sponsors, we set up new information and outreach systems that provide a new level of price transparency and price shopping for prescription drugs, and we are working every day to make the drug card program even better.

As a result, we are no longer just talking about the need to do something about high drug prices for Medicare beneficiaries – for the first time ever, Medicare is starting to provide real help and real savings with drug costs, ahead of the full drug benefit in 2006. Drug card sponsors began marketing and enrollment efforts on May 3, as scheduled, and last week, beneficiaries began realizing significant saving on their drug purchases. To date, around three million Medicare beneficiaries have enrolled in one of the various card programs.

As we meet today, Medicare beneficiaries are enrolling in and using Medicare-approved drug cards to get some immediate assistance with their drug costs. Seniors are already seeing significant savings not only off the high retail prices that they have long had to pay; in general, they are now able to pay prices below the average paid by all Americans, including Americans with price discounts through private or public prescription drug coverage. And with the new transparency and competition, prices offered under card programs have fallen since CMS first began posting pricing data. As a result, beneficiaries who are struggling with drug costs can generally recoup the cost of enrollment within one or two months – and many cards have a low annual enrollment fee, or none at all, so that not signing up for a card means leaving money on the table. And while any Medicare beneficiary who is struggling with drug costs is eligible to sign up, regardless of their income, the savings are even greater for low-income beneficiaries. Low-income beneficiaries without good coverage who are struggling with paying for their drugs on the one hand and paying for other basic necessities on the other, out of a fixed Social Security check, can get up to thousands of dollars in assistance through this program – including a \$600 annual credit on the discount card and substantial additional discounts on many brand-name and generic prescription drugs.

HOW BENEFICIARIES CAN TAKE ADVANTAGE OF THIS PROGRAM

We are working hard to help beneficiaries get accurate information that they can use about whether the drug card program is worth it for them, and how they can get the most out of it. Beneficiaries need to know, first, that there are real savings available through the program at their neighborhood pharmacies and by mail-order; second, there are a few specific steps that they

can take to find out how much the drug card program can help them – and the most important step may be contacting us at 1-800-MEDICARE to get the personalized information they need; and third, once they have found a good fit with a card and they want to start saving, enrolling just involves a phone call or filling out a two-page enrollment form.

Retail Savings.

Medicare beneficiaries who are struggling with their drug costs – particularly those without good coverage today – need to know that the drug discount cards can provide real savings on their medications. Currently, many seniors are able to get some discounts off list retail prices through a variety of pharmacy discount cards. But the Medicare-approved cards also require manufacturer discounts that are passed on to beneficiaries, and so larger savings are generally possible. In fact, recent studies show that the prices on brand-name drugs available through the cards are 11 to 18 percent or more below the average prices actually paid in neighborhood pharmacies by all Americans – including Americans who receive discounts on their drug prices through their public or private insurance plans.

Generic Savings

Potential savings from generics are even greater. A new study just released by CMS shows that the savings on generic drugs range from 37 to 65 percent below the average prices actually paid by all Americans. Generic drugs are just as safe and effective as the brand-name drugs when they are approved by FDA, they are available in 55 percent of the 209 categories of drugs included in the drug cards, they account for a majority of prescriptions in the United States

today, they generally cost about 70 percent less than brand-name drugs to begin with, and now they are even less expensive at neighborhood pharmacies for Medicare beneficiaries.

Mail Order Savings

Finally, the drug cards offer real savings on mail-order prescriptions. Prescriptions available by mail-order and on the Internet from licensed U.S. pharmacies are generally less expensive because they are available less quickly, in higher volumes, and without face-to-face assistance and advice from a pharmacist. For seniors who prefer such prescriptions – and the latest evidence suggests about 1 in 5 seniors buys drugs by mail – the Medicare-approved drug discount cards also compare favorably to mail-order prices available from safe Internet drug sources. For example, a recent study found savings of 5 to 20 percent or more on mail-order prices for brand-name drugs through Medicare-approved cards in comparison to such Internet sources as drugstore.com and costco.com.

Low-Income Savings

Finding out about the drug card program and enrolling is especially urgent for the 7 million low-income Medicare beneficiaries who do not have drug coverage today, and who can get major relief from their drug costs through the Medicare-approved drug card program. CMS has recently completed analysis of the savings low-income beneficiaries (incomes below 135 percent of the federal poverty line, or FPL) who are eligible for \$600 in transitional assistance and, in many cases, additional manufacturer discounts on drug prices, can expect to see under the drug card program. Our results indicate that our illustrative low-income beneficiaries can save 29 – 77 percent over the next 7-month period through the end of 2004 compared to national average

retail prices for “baskets” of commonly used brand name drugs when both discounts and \$600 in transitional assistance are taken into account. In addition, our analysis indicates that low-income beneficiaries can save 39 percent to over 96 percent on individual brand name drugs that are commonly used by the Medicare population when both the discount and transitional assistance are taken into account. Five of the nine brand name drugs we examined had savings of over 90 percent when including the transitional assistance.

Furthermore, this analysis does not reflect the special pricing arrangements some manufacturers have with certain discount cards after the \$600 in transitional assistance is spent. These additional sources of savings may provide thousands of dollars in further help this year and next for low-income beneficiaries. As an illustration, based on our analysis, one example beneficiary’s savings increased from 58.4 percent with the drug card alone to 88 percent with the added special manufacturer offerings.

And low-income beneficiaries should keep in mind that the program is completely free: they do not pay the annual enrollment fee, and they can begin using the \$600 transitional assistance on any prescription medication they need as soon as they get their card.

Taking all of this evidence on savings together, it’s clear that Medicare beneficiaries who are struggling with drug costs today can generally save 10 to 25 percent or more compared to what they would otherwise spend, just by using the cards. That’s why it’s important for beneficiaries who are struggling today, particularly those without good drug coverage, to find out about how they can get the most out of this program. There are no deadlines or late fees for enrollment in

this voluntary program, but savings will start as soon as the cards are put to work. Medicare beneficiaries' market clout is finally being used in their favor when it comes to drug purchases, and we would urge beneficiaries to take advantage of this opportunity to save.

Specific Steps - How You Can Find Out What the Drug Card Program Means for You

After all they may have heard about the general features of the drug card program, many beneficiaries may wonder what exactly it means for them. Can it help them meet their prescription drug needs at a lower cost? Anyone who is eligible for Medicare who does not already have drug coverage through Medicaid is eligible for the card program. This is a voluntary program that does not affect any other benefits you may receive. So, if you're already on Medicaid, you don't need to do anything. If you get your Medicare benefits through a Medicare Advantage plan, you probably have some drug benefits already, and you generally also have access to a special card associated with your plan (in many cases, you've already received a drug card). And if you have comprehensive coverage through an employer retirement plan or some other source, you may not need a card, but you may want to check on any additional savings. But it's probably worth finding out the facts about what the drug card program means for you, especially if you don't have good coverage for all of your drug needs today. This includes, obviously, people who don't have any coverage or full coverage. It also includes most people with drug coverage through Medigap, because their coverage is usually capped and it often provides insubstantial price discounts. And of course, it's especially true for low-income beneficiaries without good coverage, who stand to save thousands of dollars through the drug card program.

If you decide to look into what the drug card program can do for you, the best way to start is usually to contact Medicare to get the personalized facts based on your needs. While you can get the facts by using a computer to visit us on-line at www.medicare.gov, you don't have to go anywhere near a computer to take advantage of this new program. You can call us 24-7 at 1-800-MEDICARE and talk to a trained customer service representative who can answer your questions and provide you with personalized information as well. When you contact us, you need to be ready with a few pieces of information about your particular needs, since Medicare beneficiaries have very diverse drug needs and preferences about how they get their medicines. You should be ready with your zip code, your drugs and dosages (which can be found on their prescription labels), and your monthly income, if you have limited means. If you have any other special preferences about your medicines, you can tell us about those as well – for example, whether you have a preferred pharmacy, whether you want a low-fee or no-fee card, whether you want to find out whether a particular card that you've heard about is a good deal for you, and whether you're interested in additional savings through mail-order or generic drugs.

Whether you call us at 1-800-MEDICARE or go to www.medicare.gov on the Internet, you can use the specific information on actual discounted drug prices that Medicare provides in this program to answer the most important thing you need to know: how much can the drug cards save for you, at your neighborhood pharmacy or whatever means you most prefer to get your medicines. And in addition to talking with us about it, you can get a personalized brochure in the mail that lets you read about additional details on the savings at your leisure.

In addition to information on Medicare approved prescription drug discount cards, our customer service representatives at 1-800-MEDICARE and the www.medicare.gov website can provide additional help if you have limited means – not only about the details of what you can save with the drug card discounts and the \$600 credit, this year and next, and the additional low-income discounts, but also about Medicaid, state pharmacy assistance programs, and over a hundred manufacturer discount programs. Some of these programs provide assistance for beneficiaries with family incomes up to nearly 300 percent of the poverty line.

Right now, it usually takes just a few minutes at most to talk to a customer service representative at 1-800-MEDICARE, and even at peak times the maximum wait times have generally been less than 10 minutes. It then takes less than 14 minutes on average to speak with a customer service representative to get the personalized information you need to find out about how much you can save.

Finally, we know that many of our beneficiaries need even more personalized assistance. Face-to-face personal help is available through the local offices of the State Health Insurance Assistance Programs, and through other organizations that have extensive experience with assisting low-income seniors.

How to Enroll

This is a voluntary program, so it's up to you whether to sign up. After you get the facts about what the program means for you, there are a couple of ways to enroll in a card. One way is to fill out a two-page enrollment form and mail it in to the card you choose. You can get this form

from the drug card sponsor of your choice, it's included in the personalized brochure you can get from 1-800-MEDICARE, it's available through www.medicare.gov, or it's available through local SHIP offices and many seniors' organizations. The other way to enroll is to call the 1-800 customer service number for the card you choose. When you contact us for your personalized information on the drug card program, we will give you the specific address or phone number of the card sponsor you select. If you want to apply for the \$600 in transitional assistance, there's a similar two-page form. You will generally receive your card in the mail in a matter of days, and the discounts start the month after you sign up.

The Bottom Line for Medicare Beneficiaries

There are real savings on drug costs available through Medicare-approved drug discount cards. If you are struggling with drug costs, it's probably worth getting the facts about what the drug card program means for you – and it's definitely worth getting the facts now if you have limited means. So many cards offer significant savings that the important step right now is simply to get enrolled. The easiest way to do this is to call 1-800-MEDICARE or to go to www.medicare.gov, and when you do, be ready with your zip code, your drugs and doses (from the prescription labels), and your income (if you have a limited income). We'll tell you about what your drugs will cost on the cards that are the best fit for your needs, and if you're interested, we'll tell you about more ways to save. We'll send you a personalized brochure to go over at your leisure. And we'll give you the two-page enrollment form, and the 1-800 number to call, if you decide to enroll.

It's also important to know that there's no deadline for signing up and no late enrollment penalties. However, if you're struggling with drug costs, it's also important not to leave the money you can save through this new program on the table for too long. I've talked with many beneficiaries who have been struggling with drug costs for years, who are finding that the cards pay for themselves in the first month or two, and who are taking the steps I just described to start saving right now.

BENEFICIARY ACCESS IMPROVEMENTS

As you all know, in the few months since MMA was signed into law, CMS took the drug card program – the first of its kind to be offered through Medicare – from concept to reality.

Implementing the drug card in such a short period of time presented many challenges for the Agency, including issuing regulations, qualifying card programs, and developing the technical platforms to support enrollment, eligibility determinations, and providing the American public with unprecedented transparency about prescription drug pricing. In spite of substantial progress we have made in just six months and the fact that beneficiaries are seeing savings, we recognize that there have been some operational problems. However, we are identifying and correcting these problems and, with each passing day, improving the efficiency of this program.

The initial phase of a major new program is clearly a time of learning, and what we have seen is that millions of seniors and people with disabilities are very interested in learning about the best ways to save on their drugs. During the first few days of May, we averaged 400,000 calls to 1-800-MEDICARE each day. We received more than 3.8 million calls during the entire month of May. This is an extraordinary call volume, particularly when you consider that we had 5.6

million calls in all of 2003. Responding to this volume of calls was a significant challenge to our high customer service standards in Medicare. Even with this unprecedented level of interest, we are committed at 1-800-MEDICARE to provide service that reliably gets customers the help they need in a matter of minutes.

We have worked quickly to improve the program and we will continue to do so as we identify problems. At 1-800-MEDICARE, we greatly increased the number of customer service operators from several hundred to 3,000 as of last week, and we expect to maintain this number of trained representatives to handle the unprecedented number of callers in a timely and effective manner. We have also taken steps to reduce the time that our customers have to take when they call, by adding voice messages that can help callers to be better prepared when they reach a customer service representative. We have also provided self-service information in our interactive voice response system so that callers can get information to address their questions without needing to speak with a customer service representative. And, we have also developed additional tools to help our customer service representatives use “best practices” to work more efficiently -- reducing our call handle time significantly and allowing our representatives to serve more callers more quickly. As a result, we are achieving much better support results – the kind of results our beneficiaries deserve and expect. We are tracking our call center wait times and call times, and we are reaching the balance we want between calls and caller support. Callers are now waiting between two and eleven minutes to have their call answered, and processing times, once they have been answered, average 14 minutes to discuss options with the customer service representative.

We are committed to getting people with Medicare the information they need to get the most out of the drug cards, and that starts with personalized facts now available at 1-800-MEDICARE or www.medicare.gov. To help callers and web visitors who have trouble matching up their medicines with the discount information, we have added a “drug lookup” feature to the website to assist with the spelling of their drug names and we are expanding our drug entry list – a growing “dictionary” of drug names that now covers an extremely broad range of drugs. We have also provided instructions to users that they can “add another drug” if they do not find their drug on our initial drug entry screens. We also are providing special tips for entering information on inhaled and topical medicines on the website. Of course, if you don’t want to do these steps yourself, you can just call us – our customer service representatives have been trained to help with all of these specialized needs as well.

We are committed to continuing improvements to our customer support based on feedback from all of our users. And that’s why we appreciate the unprecedented level of interest and feedback we are receiving from beneficiaries and others in the first days of this new program. We will continue to refine and improve our 1-800 number and our web site by using feedback from all interested parties, including the suggestions we have received from Members of Congress.

GETTING RELIEF TO LOW-INCOME BENEFICIARIES

One of the many important messages I want to convey today is the tremendous help the drug card will provide for low-income beneficiaries. Medicare beneficiaries are eligible to enroll in the drug card of their choosing, unless they have drug coverage through Medicaid. If beneficiaries receive help with prescription drug costs through other sources – retiree insurance,

Medigap coverage, or health plan benefits, they don't have to enroll if they don't want to – the program is completely voluntary. However, beneficiaries with limited incomes, and without drug coverage, unquestionably can get much needed financial assistance. More than 7 million beneficiaries with incomes below \$1,047 a month (\$12,569 a year) for single people or less than \$1,405 a month (\$16,862 a year) for couples who do not have drug coverage may qualify for the \$600 drug credit as early as this month and an additional \$600 again in January of next year.

The discounts from the cards combined with the \$600 credit available now and again in January, and substantial additional manufacturer discounts specifically targeted at low-income individuals make this an exceptional program for low-income people with Medicare – our most vulnerable beneficiaries. We want to make sure that everyone who qualifies for the \$600 credit gets it, and we want to do so much more quickly than has been the case when other new Federal low-income assistance programs began. So we are taking some unprecedented steps.

First, we are conducting new kinds of beneficiary outreach. We have worked closely with our partners at the Social Security Administration (SSA) to send letters to millions of low-income beneficiaries who are potentially eligible for the \$600 credit. We are using broadcast advertising campaigns in English and Spanish – proven tools for reaching difficult-to-reach populations.

Second, we have set up an “auto-enrollment” program that states can use to automatically enroll beneficiaries currently in state pharmaceutical assistance programs (SPAPs) into the Medicare-approved drug discount card program. Based on the state's income determination, these beneficiaries are likely to be eligible for the \$600 credit, and because of the additional assistance provided through the state program, the beneficiary is likely to get the most savings through the

card sponsor, or sponsors, that contract with the state. Auto-enrollment can benefit both Medicare beneficiaries and the states. Medicare and the states want low-income beneficiaries to get the additional \$600 credit, and auto-enrollment is one way to increase the number of people who take advantage of the program. In addition, the \$600 contribution from Medicare frees up additional money for states to finance their own drug assistance programs.

We are working with states to automatically enroll their SPAP members into a Medicare-approved drug card and obtain the \$600 credit so there is no loss in coverage or confusion for the beneficiaries. Several conditions must be met for auto-enrollment to occur for SPAP beneficiaries. In accordance with state law, states must have the authority to act as the beneficiary's authorized representative. In addition, the auto-enrollment process must allow a beneficiary the option to decline being enrolled in a Medicare-approved card before the actual automatic enrollment takes place. And, because auto-enrollment is a state option, states must choose to provide auto-enrollment. States that have agreed to automatically enroll Medicare beneficiaries thus far include Connecticut, Maine, Massachusetts, Michigan, New Jersey, New York, and Pennsylvania. CMS is currently in the process of auto-enrolling 393,000 individuals from these states.

Ohio and Rhode Island are facilitating enrollment by mailing out pre-filled enrollment forms to beneficiaries participating in their state pharmacy assistance plans. The beneficiaries need only sign the form and send it back to be enrolled, as the state will take care of submitting those signed forms. Approximately 65,000 individuals will be receiving these forms. A number of other states are also considering auto-enrollment, which could result in 35,000 more individuals receiving a discount card. We will continue to work with states to facilitate this process.

Third, we have started a new partnership with leading non-profit organizations with the specific goal of informing and enrolling low-income seniors. In particular, on May 27, CMS announced that we are making \$4.6 million available to organize and fund community-based organizations to help inform and enroll seniors who qualify for the \$600 transitional assistance. We are committed to working together in a complementary fashion with the Access to Benefits Coalition, a group of 68 diverse, national non-profit organizations, all of which are committed to assisting low-income Medicare beneficiaries to find significant savings on their prescription drugs. The Coalition's short-term objective is to ensure that by the end of 2005, at least 5.5 million low-income beneficiaries get the \$600 annual transitional assistance benefit now available to them as well as other public and private benefits that can save them money. These organizations have extensive experience and credibility with the low-income beneficiary population and CMS believes that this grant will produce real results in terms of getting the benefit to seniors who are most in need. We also believe that outreach efforts for the drug card will be beneficial as we move toward enrollment for the drug benefit in 2006, which will need to reach even more beneficiaries. CMS is also working with the Administration on Aging and the Indian Health Service to reach out to their constituencies, to make sure they sign up for the program.

Finally, we are taking additional steps to help all beneficiaries find out about the drug card program and enroll if they choose to do so. We recently announced unprecedented new funding for state health insurance assistance programs (SHIPs). The SHIPs provide one-on-one assistance to Medicare beneficiaries through volunteer counselors who are trained by CMS.

Among other things, these volunteers can help Medicare beneficiaries learn about, and enroll in a drug discount card of their choosing. Last year we awarded \$12.5 million in grants to the SHIPs. This year, we are increasing that amount by 69 percent, to \$21.1 million. And next year we are proposing an even larger increase, to \$31.7 million. Based on our initial experience with the SHIP counseling and outreach activities, we are identifying best practices for informing and assisting beneficiaries in determining how they can get the most out of the drug card program, and then enrolling in a card if they choose to do so. In addition, especially through our regional offices, we are working with community organizations to make sure these beneficiaries are aware of the substantial savings and assistance now available to them through the drug card program. These community organizations include such entities as the American Library Association, the National Association for Hispanic Elderly in Philadelphia, Pennsylvania, the Asian Counseling and Referral Services, Takoma, Washington, the National Asian Pacific Center on Aging in King County, Washington and the Nevada Beneficiary Coalition.

Further, CMS has established a standard enrollment form that all card sponsors must accept to make it even easier to sign up for a discount drug card as well as the \$600 credit. This form will also be used by State Health Insurance Assistance Programs (SHIPs), and other partners and community-based organizations that assist beneficiaries with their health care decisions. This standard form has been widely downloaded from the Internet (at <http://www.cms.hhs.gov/discountdrugs/forms/>), and is included in the personalized brochures mailed to beneficiaries who call 1-800-MEDICARE.

SAVINGS THROUGH PRICE SHOPPING AND NEGOTIATING POWER

The Medicare-approved drug discount cards give beneficiaries new savings for two main reasons. First, just as Americans with public and private drug coverage have long done, beneficiaries can join together and stick together to negotiate better prices on their medicines. Unlike other discount programs generally available to Medicare beneficiaries, the Medicare drug cards require negotiated discounts from drug manufacturers that are passed on to beneficiaries. Beneficiaries will get lower prices for their drug purchases because they will be able to pool their purchasing clout to leverage discounts from drug makers.

Second, for the first time, beneficiaries can get accurate information on actual drug prices at their neighborhood pharmacies and by mail-order, for card options, so that they can comparison-shop. Today, beneficiaries comparison-shop for many things in their daily lives, comparing the price and quality of a product or a service. But Medicare beneficiaries with and without prescription drug coverage often find it difficult to find the best prices on prescription drugs, especially at neighborhood pharmacies. Now, even after a beneficiary receives the card, they can use the information available from Medicare to determine which pharmacy in their card's network is assuring the best price during any given week. That's changing with the new Medicare Price Compare tool that makes actual drug prices available to beneficiaries, their advisers, and all Americans through 1-800-MEDICARE and www.medicare.gov.

The Medicare Price Compare feature – the website and the assistance available through 1-800-MEDICARE – is designed to help people with Medicare lower their drug costs by selecting a discount card. Price Compare is a unique tool that allows users to customize their search to get

the best prices available for that drug or mix of drugs. Making price comparisons on a drug-by-drug basis is difficult for many beneficiaries who take multiple medications, and Price Compare permits comparisons involving multiple drugs. Price Compare provides this information for the retail pharmacy setting – where most Medicare beneficiaries purchase their drugs. But mail order and generic alternatives information is available as well. Moreover, card sponsors must assure beneficiaries that they will pay no more than the discounted prices listed on Price Compare. The price the beneficiary ultimately pays may be even lower due to the increased visibility of prices and ongoing competition among card sponsors.

Through the new website, beneficiaries for the first time in the Medicare program will have access to prices for approximately 60,000 drug products (including the particular dosages and packaging beneficiaries might prefer) sold at nearly 75,000 pharmacies around the country – all turned into information they can use to get the best bargains on the drugs they need.

Seniors, who until this time have not been able to use their potential group buying power for prescription drugs, now have more power than ever to get lower prices – and we are seeing these drug savings in the card program already. By combining unprecedented transparency of prescription drug prices with individualized assistance and educational resources, we are working to use modern technology to provide the medicines Medicare beneficiaries need at a lower cost. Transparent prices for Medicare-approved cards give beneficiaries important information to help them choose the best card to address their needs.

CMS is currently working on a tool for the website that will allow a person to look up a clinical condition, like high cholesterol, and see average prices for Lipitor as well as for other therapeutic alternative cholesterol-lowering agents like Zocor and Crestor – options that may be worth discussing with their doctor if they are less expensive and clinically appropriate. In addition, patients also get information on generic alternatives, which are just as safe and effective as the brand-name versions when approved by the FDA.

We are working with card sponsors to ensure that the prices they have submitted to us for posting on the website are prices they can assure to beneficiaries at the included participating pharmacies. Based on our work with card sponsors, we believe the information now on the website reflects just that, though many card sponsors may be able to provide even larger discounts in many cases. We have also taken new steps to make sure that Medicare and the HHS Office of the Inspector General can take effective enforcement actions against cards that don't live up to their promises. But in the meantime, we remain committed to our requirement that beneficiaries must pay no more than the discounted price listed by Medicare.

With the unprecedented amount of information now available on drug prices through Price Compare, CMS has put comprehensive systems in place to help beneficiaries use this information to find the best deals on their prescription drugs. The 1-800 MEDICARE customer service representatives will provide detailed information over the phone and then follow up by sending out a personalized report that includes information on how the drug card program works and detailed information on the best cards for that beneficiary. Beneficiaries can even designate the number of cards they want to review – two, three, or as many as they want. The Price

Compare search can also turn up cards that get the lowest prices on certain drugs, cards with low or no fee, networks that include specific neighborhood pharmacies, and/or cards from specific sponsors familiar to beneficiaries. We'll also include information on total drug costs, and additional ways to save, such as purchasing generic drugs. The brochure also includes information on how to sign up for the card the beneficiary chooses – including the 1-800 numbers for the card sponsor choices with the best prices for that beneficiary and our standard 2-page enrollment form. After enrolling, beneficiaries will get their cards in a matter of days.

REAL SAVINGS FOR BENEFICIARIES - EXAMPLES

I have already described the substantial and growing evidence that the drug cards allow beneficiaries who are struggling with drug costs to get help now – to reduce those costs by 10 to 25 percent or more, and by much more in the case of lower-income beneficiaries. Some case study examples can further illustrate the level of potential savings, which are consistent with the savings that many beneficiaries are obtaining right now.

CMS' May 6, 2004 study gives data for the following real-life examples:

- A person taking Celebrex (osteoarthritis), Zocor (high cholesterol), Paxil (depression), and Norvasc (hypertension) on average pays \$363.60 each month for these drugs at a retail pharmacy according to the IMS Health data. A Medicare beneficiary taking these medications who lives in Portland, Oregon could enroll in a Medicare-approved drug discount card and pay \$295.85 -- a 18.6% savings over what a typical person would pay. That is a savings of \$67.75 every month or \$813.00 a year.

- A person taking Coumadin (anti-coagulant), Vioxx (osteoarthritis), and Fosamax (osteoporosis), on average pays \$187.47 per month for these drugs at a retail pharmacy. A Medicare beneficiary taking these medicines residing in Arlington, Virginia, could enroll in a Medicare-approved discount card and save about 17 percent. This beneficiary could save \$31.24 per month, or \$374.88 per year, over what the typical American would pay.

- The discount cards are offering lower prices on generic drugs as well. For example, a person taking furosemide could enroll in a Medicare-endorsed drug discount card in Albuquerque, New Mexico and save nearly 54 percent on the cost of furosemide. A person residing in Little Rock, Arkansas, taking metformin could save about almost 77 percent. So, in addition to the savings achieved by using generics, the discount cards further lower the cost of generic drugs. Beneficiaries who choose to use mail order pharmacies can also save significant amounts, even when compared to prices available from on-line retailers such as Costco.com and drugstore.com. CMS data indicate savings as high as 24 percent in this case.

We are continuing to analyze the data on Price Compare, and we have generally seen the discounted prices decline as more sponsors have come online. CMS analysts also used the data from the FDA analysis of national average retail prices to illustrate potential savings for low-income Medicare beneficiaries in a number of geographic areas. In all of these cases, Medicare would pay the annual enrollment fee, if any. For example:

- A person taking Prinivil (hypertension), Glucophage (diabetes) and Lasix (congestive heart failure) would expect to pay \$913.50 over a 7-month period. A low-income Medicare beneficiary in Orange County, California could enroll in a Medicare-approved drug discount card and save 77 percent over the 7 months. The savings include a discount of 11.3 percent and \$600 of transitional assistance.

- A typical person taking Enalapril, a generic medication for hypertension, might expect to pay \$170.10 over 7 months for this medicine. A beneficiary residing in Louisville, Kentucky with income over 100 percent FPL but no more than 135 percent FPL could enroll in a Medicare-approved discount drug card and save about 95 percent over 7 months, including savings from the discount and the transitional assistance. The beneficiary would have several hundred dollars to roll over for use, if necessary, in 2005.

- An individual taking Celebrex for osteoarthritis might expect to pay \$636.30 over a 7-month period. A beneficiary with income at or below 100 percent FPL residing in Portland, Oregon could enroll in a Medicare-approved drug discount card and save over 95 percent over 7 months, a savings of over \$609.

The figures above are for model beneficiaries that CMS used in setting up its studies. However, CMS has also received information on some real-life individuals who are already realizing substantial savings by using their discount cards.

- A senior from Louisville, Kentucky taking Toprol, Ranitidine, Lipitor, Androderm patch, Glipizide, Metformin and Lisinopril will save \$2,774.28 annually, and because they are eligible for the \$600.00 low-income subsidy, this senior will save \$3,374.28 annually.

- A senior from Phoenix, Arizona taking Zoloft, Digitek, Diovan, Lipitor, Norvasc, Miacalcin, Coreg, Coumadin and Dilantin will save \$3,252.36, and because they are eligible for the \$600.00 low-income subsidy, this senior will save \$3,852.36 annually.

- A senior from Fresno, California taking Aciphex, Advair, Xanax, Combivent, Albuterol, Neurotonin, Paxil, Darvocet, Permarin, Triamcinolone and Mobic will save \$4,682.16, and because they are eligible for the \$600.00 low-income subsidy, this senior will save \$5,282.16 annually.

- A senior from Louisville, Kentucky taking Celebrex, Flonase, Norvasc, Zyprexa, Plavix and Enulose will save \$4,092.96, and because they are eligible for the \$600.00 low-income subsidy, this senior will save a total of \$4,692.96 annually.

- A senior from Tulsa, Oklahoma taking Hydrochlorothiazide, Prevacid, Neurontin, Nortriptyline, Ranitidine and Toprol XL will save \$2,112.48, and because they are eligible for the \$600.00 low-income subsidy, this senior will save \$2,712.48 annually.

The dollars these seniors are saving are substantial, particularly when compared to their income levels. These cards are making a significant difference in their lives by providing them with financial relief from very difficult circumstances.

As examples like these illustrate, beneficiaries who look into the program find that Medicare-approved drug discount cards are providing significantly lower drug prices and real help compared to what they have to pay for their drugs today. These initial price comparisons demonstrate that signing up for a Medicare-approved drug discount card means that seniors need no longer have to pay the highest prices for their drugs, or anything close to retail list prices, and that they can start to get real help with their drug costs. Again, the important step for beneficiaries at this point is simply to sign up so that they do not miss out on savings that can be realized as soon as they have their card. This assistance is an important step toward the additional help coming with the full Medicare drug benefit in 2006.

CARD MONITORING

While prices have generally been declining on the drug cards since Price Compare started a month ago, with average price declines of around 15 percent during this period, CMS remains vigilant in overseeing the program and working with outside groups to protect beneficiaries from cards that might try to “bait and switch,” by posting a given price and then inappropriately raising it at a future time. CMS also is monitoring changes in overall drug prices and identifying programs that stray from the expected changes in prices. Drug card sponsors have to report to CMS if price increases exceed any corresponding increase in their sponsors’ costs, such as costs of administering the drug card program or changes in the discounts, rebates, or other price

concessions received from a drug maker or pharmacy. A CMS contractor will be building a relational database that includes the weekly pricing files from the exclusive and general card sponsors from May 2004 – January 1, 2006. The contractor will review all pricing data submitted at the National Drug Code (NDC) level, for prices significantly higher or lower than the standard price for the nation and/or region. This will be accomplished by comparing the prices to national and/or regional benchmarks such as First DataBank and Medispan pricing data, and the established Federal Upper Limit for non-innovator multi-source generic medications. Outliers must be reported to CMS weekly, and in addition, the contractor will monitor price increases from week to week to determine which price increases are greater than one and/or two standard deviation units above the mean price increase for all sponsors per NDC. If a price increase is reported the contractor will verify if the sponsor submitted documentation to justify the price increase and report whether or not the price increase is justified based on federal regulation and guidance. This information will be reported to CMS via the Performance Monitoring Tool (PMT) on a weekly basis. We'll also engage in other activities to ensure that card sponsors are charging the advertised enrollment fees and following other Federal guidelines.

We expect that by making the prices of most commonly prescribed drugs used by Medicare beneficiaries available to the public, the prices will actually drop due to competition. And since the Price Compare site began operation on April 29th, we have been working with the card sponsors to ensure that we change our Price Compare database in a timely manner when they lower the prices even more. We stand by our policy of listing the best discount that beneficiaries can be assured to get on a card, but it is true that some card sponsors may be able to provide

significantly better discounts on many prescriptions than the "assured" prices currently listed on Price Compare.

Because the Medicare-approved programs are competing for beneficiaries, the card programs have a real incentive to negotiate and pass on savings in the form of the lowest possible prices for the drugs that their beneficiaries need. In a discount program like this one, the only way that cards can generate any revenues is by providing attractive prices on the drugs that beneficiaries want, so that beneficiaries use the cards to fill their prescriptions. The cards need to offer savings and service, and we're going to be taking steps like these to make sure beneficiaries get both. Thus, to succeed in holding onto its beneficiaries, and in building up its client base for when their drug benefit becomes available in 2006, a card must offer consistently good deals and consistently reliable service to beneficiaries.

CONTINUED EDUCATION AND OUTREACH

In addition to Price Compare and the personalized drug card information services provided through 1-800-MEDICARE, CMS has a number of education and outreach efforts underway. In particular, CMS has prepared customer service representatives at 1-800-MEDICARE with up-to-date information on the drug card, as well as other CMS programs, and training on using the Price Compare website. As I mentioned earlier in my testimony, we are getting unprecedented volume at our 800 number and on the website. Our call volume statistics show that 1-800-MEDICARE received nearly 407,000 calls on May 3, the day drug card enrollment commenced – quadruple the last highest call record – and another 328,000 on the subsequent day. And during the first week of May, CMS received more than 10 times the regular call volume, with 1.6

million calls to 1-800-MEDICARE and more than 7 million internet visits. Based on our analysis, we estimate 1-800-MEDICARE will receive 12.8 million calls in FY2004. This compares to an FY2003 call volume of approximately 5.6 million calls. To handle this increased volume and attend to beneficiaries in a timely manner, we have increased the number of customer service representatives at the Medicare call centers, bringing the total to 3,000. Enhancements are also being implemented in Medicare's Price Compare services based on feedback from beneficiaries, customer service operators, and advocates, to reduce the time for each beneficiary visit. For example, www.medicare.gov now has a new, easily visible link making the Price Compare database easier to find, and as noted above, the "drug dictionary" of drugs included on Price Compare is being expanded. We will continue to take user feedback to improve and refine these systems to assure beneficiaries get the most up-to-date and easy-to-use information as possible.

CMS also has a number of publications designed for beneficiaries that explain changes in the Medicare program. For example, CMS has published a small pamphlet with an overview of the drug card program and an introduction to the discount cards and the \$600 low-income assistance, as well as a larger booklet with more detailed information about eligibility and enrollment. This larger booklet, the Guide to Choosing A Medicare-Approved Drug Discount Card, also includes a sample enrollment form and a step-by-step guide to comparing and choosing a discount card. The "Guide" is currently available in English, Spanish, Braille and audio-tape (English). We have also prepared a simple document giving the very basics needed to signing up for a discount card. I have appended a copy of this flyer to my testimony so that you can see how truly easy it is to sign up for one of these cards.

CMS is also preparing a booklet specific to the needs of beneficiaries in long-term care facilities. This booklet will give information that they, their family members, or caregivers can use to access drug discounts available to them through pharmacies catering specifically to patients in their situation.

In addition, a brief document that introduces beneficiaries to the discount cards and the Medicare-approved seal has been mailed directly to beneficiary households. CMS has already launched print, radio, and television advertisements to highlight the upcoming changes to the Medicare program, including the addition of the drug discount card.

CMS has produced a variety of products geared toward educating physicians, pharmacists, and providers who often have one-on-one relationship with beneficiaries, to help them assist their patients in drug card enrollment decisions. The products include brochures, articles, and journal ads in major medical publications including the *New England Journal of Medicine* and the *Journal of the American Pharmacists Association*. For states, (including territories and the District of Columbia), and stakeholders, CMS will sponsor a variety of listening sessions and open door forums to make the latest drug card developments available nationwide. For example, we hosted in-person trainings at the Drug Card Kickoff Conference on April 7-8 and the National SHIP Conference on May 24-25, where CMS staff provided technical assistance and support. We will continue to work with our partners to give beneficiaries the personalized information they need to make an informed decision about the voluntary drug card, and to begin

lowering their drug bills now. By following the steps I've outlined above, beneficiaries can get the facts they need to get the most out of this program, and to start saving, in a matter of minutes.

CONCLUSION

The Medicare-approved drug discount card program provides an unprecedented opportunity for beneficiaries to band together to get lower negotiated prices, and to find the best deals through large-scale public reporting of prescription drug prices. On June 1, 2004, this voluntary card program began providing assistance by lowering prescription drug costs for Medicare beneficiaries as an interim step until the new Medicare drug benefit takes effect on January 1, 2006. We recognize the special importance of the discount card program coupled with the low-income credit to lower-income beneficiaries, who have had to struggle with drug costs and the costs of other basic necessities for too long. But all this is starting to change now. Thank you again for this opportunity. I look forward to answering any questions you might have.