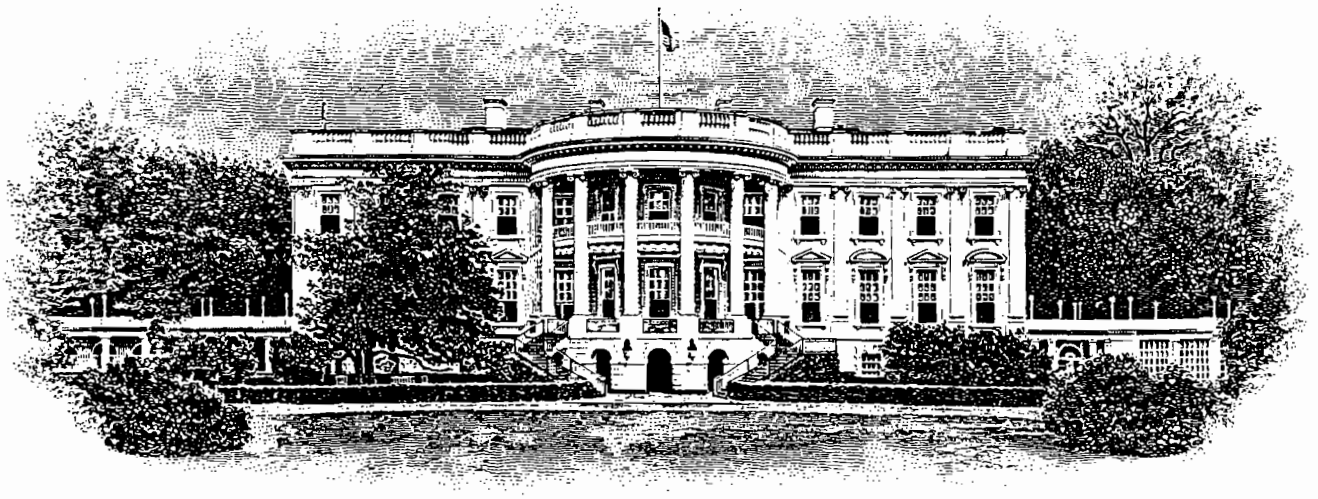
MEDICARE DRUGS

The White House



briefing memo
talking points
Horse study

press paper

November 8, 1999

PRESCRIPTION DRUG EVENT

Date:	**Tuesday, November 9, 1999**
Time:	**11:00 a.m. -12:00 p.m.**
Location:	**Rayburn House Office Building Room 2168**
From:	**Chris Jennings Ann O'Leary**

I. PURPOSE

To join House Democratic Leader Richard Gephardt, House Democratic Whip David Bonior, and Representatives Henry Waxman (D-CA), Pete Stark (D-CA) and Ronnie Shows (D-MS) in calling for Congressional action to address the problem of prescription drug costs for seniors.

The House will also be using the event to release a study of drug companies pricing practices and their impact on senior citizens without prescription drug coverage. The event will also allow the Democrats to announce their intent to collect signatures for a discharge petition.

II. BACKGROUND

As you know, in this year's State of the Union the President outlined his plan to modernize and strengthen the Medicare program. In June, he announced the specifics of the plan that included a proposal to establish a new voluntary Medicare "Part D" prescription drug benefit. Since the State of the Union address, there has been an enormous increase in interest in developing policies to address this issue. This is driven not only because it is impossible to defensibly reform Medicare without modernizing it to include at least some prescription drug coverage, but because this issue has become one of the highest priority domestic policy issues for the electorate.

It is clear, however, that the Congress will recess for the year without acting on any issue related to either prescription drug cost or coverage. The Democrats have a number of legislative proposals on the table and plan to spend the recess getting ready for the battle ahead in the next year. [Note: Interestingly, one of the reasons why the BBA provider give-back provisions have become so complicated to navigate through the Congress is that the Republican leadership fears that Democrats will offer prescription drug amendments to whatever provider give-back legislative vehicle is pending.]

President's Proposal

As a reminder, the President's drug benefit, in the context of broader reform, has a zero deductible and pays for half of all drug costs up to a $5,000 cap when fully implemented. It uses private sector purchasers to negotiate discounts for Medicare beneficiaries that are also accessible after the cap has been reached.

Legislative Proposals on the Hill

The Hill is tackling the prescription drug problem within three distinct areas: (1) expanding prescription drug coverage (2) reducing prices of prescription drugs (3) international drug parity.

Expanding Prescription Drug Coverage

Congressmen Stark and Dingell and Senators Kennedy and Rockefeller have introduced a more expensive and comprehensive but complicated prescription drug benefit. While promising front end and catastrophic coverage, it leaves seniors with drug costs of $1,500 to $3,200 exposed and vulnerable. With a 75 percent premium subsidy, our actuaries estimate that it costs nearly $300 billion over 10 years (compared to our $116 billion).

Reducing Prices of Prescription Drugs

Congressmen Allen, Waxman, Turner, and Berry have introduced legislation (the "Allen bill") that would require pharmacists serving seniors to provide them with access to the same discounts they provide to Federal and corporate purchasers. This policy is viewed by the drug industry as straight-up price controls, and this criticism has been validated by a number of businesses, insurers, and elite policy validators. Congressman Allen, a "New Democrat" from Maine, counters that this policy is not price controls, since the drug industry can choose the level of discounts it provides to large purchasers and thus the discount provided to Medicare beneficiaries through their local pharmacists. The bill, which has a broad based collection of Democratic sponsors (over 130 sponsors including Blue Dogs, New Dogs, and traditional liberals), is not going anywhere and has very few advocates in the Senate, but is attractive to many because there are no new Federal costs since it provides no new insurance coverage; rather, it simply requires access to discounts that are currently unavailable.

Congresswoman Thurman recently offered a version of the Allen bill during the Ways and Means markup of the BBA provider give-back legislation. It was rejected along party lines with subcommittee Chair Thomas arguing that this was the wrong vehicle to use for broad Medicare reform. (Parenthetically, Mr. Thomas does not appear to have problems with including GMNE reforms, which have nothing to do with the BBA and are harmful to New York teaching hospitals, in the package to submitted to the floor last week.)

International Drug Parity

Fairly recently, Congressman Sanders and Berry and Senators Dorgan and Wellstone introduced legislation permitting the re-importation of prescription drugs from Canada to pharmacies in the United States in order to access the discounts that Canadian pharmacists receive. The FDA has raised strong safety concerns about this legislation, but it can be cited as an example of the frustration members of Congress and the public at large are having with the price differentials between drugs sold in Canada and the United States, even though these medications were initially manufactured in this country.

Other Legislative Proposals

Numerous other prescription drug initiatives have either been unveiled or suggested by members of Congress. Senators Wyden and Snowe have introduced legislation to provide subsidies for HMOs and Medigap plans to offer prescription drug coverage. (We have criticized this legislation because it is a block grant approach that undermines Medicare's guarantee of coverage and does not provide for a workable fee-for-service benefit, thus making access to affordable prescription drugs impossible for millions of beneficiaries living in rural communities.)

At 10:00 a.m. just prior to your event, Senators Breaux and Frist will offer a prescription drug benefit in the context of broader Medicare reforms; at the time of the release of their plan, they had suggested a Medicaid benefit for beneficiaries up to 150 percent of the poverty level. (We have criticized this benefit as inadequate because over half of the seniors without prescription drug coverage have incomes over 150 percent of the poverty level.)

The Republican tax package included a tax deduction to offset the cost of prescription drug insurance for seniors. This proposal was widely criticized because the seniors who most need the drug benefit do not file taxes and would not be eligible for the tax deduction, and because the proposal does nothing to make affordable insurance more accessible.

Recommendation

We would advise that you use all of these bills as illustrations of the importance of moving ahead on the prescription drug cost and coverage issue. Rather than endorsing any approach – other than the President's – we would recommend that you highlight these initiatives in that context. They can be used to underscore the numerous problems Americans face in accessing affordable prescription drugs, as well as to highlight the unwillingness of this Congress to act. The Republican leadership continues to quietly support the status quo and not move any of the bills designed to address this challenge forward.

III. PARTICIPANTS

Speaking Program

Minority Leader Richard Gephardt
First Lady
Representative Henry Waxman (D-CA)
Ed Dillon, pharmacist
Representative Bonior (D-MI), House Democratic Whip
Rep. Ronnie Shows (D-MS)
Rep. Pete Stark (D-CA)

Bios

Edward F. Dillon is a registered pharmacist who has been practicing in a community retail pharmacy in Maryland for over 25 years. His pharmacy practice emphasizes patient contact and counseling and working with other professionals to optimize patient care.

Audience

The audience will include 38 senior citizens. They come from 3 different senior groups - Older Women's League, National Committee to Preserve Social Security and Medicare, and the National Council of Senior Citizens.

Press and Hill staff will also be in the audience.

IV. SEQUENCE OF EVENTS

Speaking Program

- Gephardt will open by welcoming you and give the broad overview of the need for prescription drug coverage for seniors.
- You will then outline the problem, applaud the Democrats for putting forward solutions, call for the Majority to act, and introduce the pharmacist.
- Representative Henry Waxman (D-CA) will release the investigative study that was conducted in over 100 congressional districts examining the price differentials between the manufactures, preferred customers, seniors, and international comparisons. The studies find that senior citizens who pay for their own drugs pay, on average, 134% more.
- Ed Dillon, pharmacist, will talk about problems seniors face every day in accessing affordable prescription drugs
- Representative Bonior (D-MI), House Democratic Whip, will announce the intent to file a discharge petition for the Allen Bill and the Stark bill.
- Rep. Ronnie Shows (D-MS) will talk about the importance of the Allen bill and the need for lower prices.
- Rep. Pete Stark (D-CA) will talk about the Stark bill and the need for comprehensive coverage.
- Gephardt will close the event and will excuse you before they take press questions.

V. PRESS PLAN

- Open press
- No Q&As

VI. REMARKS

- Talking Points Attached

FIRST LADY HILLARY RODHAM CLINTON CALLS FOR ACTION ON A MEDICARE PRESCRIPTION DRUG BENEFIT
November 9, 1999

Today, the First Lady will join House Democratic Leader Gephardt, House Government Reform Ranking Democrat Henry Waxman and many other House Democrats in urging Congress to act promptly to make prescription drugs more affordable for millions of disabled and older Americans. She will relate her numerous experiences with seniors facing tremendous costs and access challenges related to their growing need for life saving and enhancing medications. The First Lady will endorse the efforts announced by the House Democrats today to initiate an open House debate on policy options to respond to this challenge. She will also praise the work of the House Government Reform Committee documenting the difficulties millions of older Americans face in accessing affordable prescription drugs.

MILLIONS OF MEDICARE BENEFICIARIES LACK STABLE AND AFFORDABLE PRESCRIPTION DRUG COVERAGE. Prescription drugs have never been more important, but those who rely on them most – the elderly and people with disabilities – increasingly find themselves uninsured or with coverage that is becoming more expensive and less meaningful.

- **Millions of beneficiaries have no prescription drug coverage and millions more are at risk of losing coverage.** Over 13 million Medicare beneficiaries have no prescription drug coverage. Millions more are at risk of losing coverage or have inadequate, expensive coverage. Lack of drug coverage is not just a problem for low-income beneficiaries; over half of Medicare beneficiaries without drug coverage have incomes in excess of 150 percent of the poverty level – an annual income of $17,000 for couples. Nearly one in three of non-elderly Medicare beneficiaries, almost half of rural beneficiaries, and about 41 percent of beneficiaries older than the age of 85 do not have coverage for prescription drugs.

- **Current prescription drug coverage is unstable and declining.** The number of firms offering retiree health coverage has dropped 25 percent over the past four years, and Medigap premiums have been rising at double-digit rates and increasing with age.

STRONG STEPS ARE NEEDED TO MOVE THE DEBATE FORWARD. At the Capitol Hill event, the First Lady will:

- **Praise the work of the Government Reform Committee Democrats in highlighting the prescription drug issue.** The First Lady will praise the tireless work of Congressmen Waxman, Allen, Berry and many other members in helping to produce over 100 reports documenting the problems older Americans face in accessing affordable drugs. The report being released today found that senior citizens in the United States that pay for their own prescription drugs are charged on average, 134 percent more – over twice as much – for prescription drugs as the drug companies' favored customers. She will state her belief that these reports have made a valuable contribution towards pushing the Congress to act on this long unmet need.

- **Support the House Democrats efforts to promote an open debate on the prescription drug cost and coverage issue.** The First Lady will praise the House Democrats efforts to secure an agreement from the Republican leadership allowing for an open debate on how best to address the prescription drug challenge. She will underscore her belief that the Nation must address both the cost and coverage issue for disabled and older Americans by providing for a long over-due, optional Medicare prescription drug benefit. The First Lady will describe how a new prescription drug benefit not only provides new insurance coverage option for the 39 million Medicare beneficiaries, but will secure discounts from the retail prices now charged to seniors through private sector volume purchasing.

THE CLINTON ADMINISTRATION'S PLAN TO STRENGTHEN AND MODERNIZE THE MEDICARE PROGRAM. In June, President Clinton put forth a detailed proposal to strengthen and modernize the Medicare program. The President's plan includes a new, voluntary Medicare drug benefit. Called Medicare Part D, it would offer all beneficiaries, for the first time, access to affordable, high quality prescription drug coverage beginning in 2002. This new benefit would provide:

- **Meaningful coverage that is available to all beneficiaries.** Medicare would cover half of drug costs from the first prescription up to $5,000 in spending per year ($2,500 in plan payments). The spending limit would be phased in from 2002 to 2008 and, in subsequent years, adjusted for inflation. Beneficiaries would have access to discounts negotiated by private managers. For the over 13 million beneficiaries who have absolutely no coverage, it would provide significant financial relief. For the several million beneficiaries who rely on Medigap or Medicare managed care, this benefit would ensure that their coverage will always be there, without excessive rate increases or reductions in the generosity of the benefit.

- **Affordable premiums.** Beneficiaries would pay separate premium for Medicare Part D -- an estimated $24 per month in 2002, and $44 per month in 2008, when fully implemented. Cost sharing protections for low-income beneficiaries would be expanded.

- **Low income protections.** Beneficiaries with incomes up to 135 percent of poverty ($11,000 for singles, $15,000 for couples) would pay no premiums or cost sharing, with the premium subsidy phased out from 135 to 150 percent of poverty. The Federal government would pay for all of the costs associated with beneficiaries with incomes above poverty.

- **Private management.** Beneficiaries in managed care would be covered through their plan. For the rest, Medicare would contract out with numerous private pharmacy benefit managers (PBMs) or similar entities to manage the benefit. This partnership would provide beneficiaries with the same high quality benefits they expect from Medicare while allowing for more flexibility and innovation in program management over time. No price controls would be used.

FIRST LADY HILLARY RODHAM CLINTON MEDICARE PRESCRIPTION DRUG EVENT
WASHINGTON, D.C.
NOVEMBER 9, 1999

Talking Points

- I would like to thank Leader Gephardt for his warm welcome and his leadership on this and so many other important issues.

- We are now entering the closing days of the first session of the 106th Congress. I am confident that when the 107th Congress opens, we will have a new Speaker. His name will be Dick Gephardt. This will happen because, under the leadership of the President, the Vice President, and Mr. Gephardt, our party is the only party fighting for the issues the American people care about - whether it is the economy, health care, Social Security, education, the environment, or prescription drug coverage for our nation's seniors.

- It is a privilege to join so many Democratic members of Congress who are committed to helping our nation's seniors afford the medicine they need to stay healthy.

➢ Henry Waxman, through his leadership of the Government Reform Committee, has produced over 100 reports highlighting just how difficult it has become for seniors to afford essential, lifesaving drugs.

➢ John Dingell, Pete Stark, and Sherrod Brown and the Democratic colleagues on their committees have worked hard to develop Medicare prescription drug policies.

➢ Tom Allen, Jim Turner, Ronnie Shows, and Marion Berry have taken a leadership role in addressing the differential pricing issue.

- And just last week, Karen Thurman sponsored an amendment to help seniors get discounts on their medications. And, on a straight party-line vote, it was rejected at the Ways and Means Committee.

- I thank these members and countless other Democrats in the House and Senate who will not allow this Congress to adjourn without responding to the needs of older and disabled Americans.

- We come together today for one simple reason. Millions of older Americans cannot afford the prescription drugs they need to live their lives in dignity.

- As Congressman Waxman's Government Reform reports have so well documented, the high cost and lack of coverage for prescription drugs in America poses a very real threat to the health and economic security of our most vulnerable citizens – seniors and people with disabilities.

- These are the cold hard facts: More than two thirds of all beneficiaries have no coverage or inadequate Medigap coverage. This is not just a problem for low-income beneficiaries -- over half of Medicare beneficiaries without drug coverage have incomes greater than 150 percent of the poverty level. And the problem is getting worse. The number of firms offering health insurance for retirees have dropped 25 percent over the past four years, and Medigap premiums – which increase with age -- have been rising at double-digit rates.

- The drug industry can buy all the ads they want to provide cover for their inaction – but the one thing their ads cannot deny is that the problem is real and the time for action is now.

- I wish that these companies had to respond to the letters we have received from countless older Americans and their families on this issue. We've heard from:

  A couple from Georgia who said that their prescription drug costs are now their biggest expense – more than food, or even housing. They said they didn't care if their Medicare premium went up – it wouldn't come close to the bill for their drugs.

  A woman from Indiana who told us she has been cutting her medication dosages in half because she cannot afford the cost of her prescriptions.

  And right here in Washington, I met Judy Cato, whose mother moved in with her because she could not afford to buy her medications unless she stopped paying her rent.

- The President, in his comprehensive Medicare reform plan, has proposed a prescription drug benefit that has no deductible and pays for half of all drug costs up to $5,000. It uses private sector buyers to negotiate discounts for Medicare beneficiaries, including those who have exceeded the cap. It is a sound plan.

- The more I travel and talk to Americans about their real hopes and concerns, the more I understand why people think that the folks here in Washington just don't get it. This Republican led Congress can pass a huge tax scheme that Americans don't want and that will undermine our economy. But for some reason, they put off even having a debate over the prescription drug cost and coverage issue.

- Providing access to affordable prescription drugs should not be a Democratic or Republican issue. This is an American issue.

- The time for waiting has ended – the time for debating has come. I know that if we follow the lead of the Democrats gathered here today, we will succeed in meeting this challenge. We cannot afford to fail.

- And we will not fail – as long as we have the type of commitment that Henry Waxman has given to this issue for decades. Congressman Waxman has won so many legislative victories because he's never given up on fighting for the people he was elected to serve. As long as we follow his lead to represent the people's interests and not the special interests, we can't go wrong. It is an honor and pleasure to introduce Congressman Henry Waxman.

DRAFT -- DRAFT – DRAFT – DRAFT – DRAFT – DRAFT – DRAFT

EMBARGOED UNTIL NOV. 9, 1999

Prescription Drug Pricing in the United States: Drug Companies Profit at the Expense of Older Americans

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Minority Staff
Special Investigations Division
Committee on Government Reform
U.S. House of Representatives

November 9, 1999

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EXECUTIVE SUMMARY

Many senior citizens in the United States cannot afford the high prices of prescription drugs. One of the principal causes of these high prices is price discrimination by drug manufacturers. This report by the minority staff of the Committee on Government Reform quantifies the extent of prescription drug price discrimination in the United States and its impacts on seniors.

The report finds that older Americans and others who pay for their own drugs are charged far more for their prescription drugs than are the drug companies' most favored customers, such as health maintenance organizations and the federal government. The report finds that a senior citizen in the United States paying for his or her own prescription drugs must pay, on average, more than twice as much for the drugs as the drug companies' favored customers. And the report finds that this is an unusually large price differential -- more than six times greater than the average price differential for other consumer goods.

In effect, the pricing strategies of drug manufacturer victimize those who are least able to afford it. As a result of price discrimination, large corporate and governmental customers with market power are able to buy their drugs at low prices while senior citizens, who often have the greatest need and the least ability to pay, are forced to pay the highest prices for prescription drugs.

A. Methodology

This study investigates the pricing of the five brand name prescription drugs with the highest sales to the elderly. It estimates the differential between the prices charged to the drug companies' most favored customers, such HMOs and the federal government, and the prices charged to seniors who lack prescription drug coverage. The results are based on surveys of retail prescription drug prices in over 1000 chain and independently owned drug stores in nearly 100 congressional districts in 38 states and the District of Columbia. These prices are compared to the prices paid by the drug companies' most favored customers. For comparison purposes, the study also estimates the differential between prices for favored customers and retail prices for other consumer goods.

B. Findings

Older Americans pay inflated prices for commonly used drugs. For the five drugs investigated in this study, the average price differential was 134% (Table 1). This means that senior citizens and other individuals who pay for their own drugs pay more than twice as much for these drugs than do the drug companies' most favored customers. In dollar terms, senior citizens must pay on average $58.46 to $97.88 more per prescription for these five drugs than favored customers.

Table 1: Average Prices for the Five Best-Selling Drugs for Older Americans Are More Than Double the Prices That Drug Companies Charge Their Most Favored Customers.

Prescription Drug	Manufacturer	Use	Prices For Favored Customers	Average Prices For Seniors	Average Differential For Senior Citizens	
					Percent	Dollar
Zocor	Merck	Cholesterol	$27.00	$107.66	299%	$80.66
Norvasc	Pfizer, Inc.	High Blood Pressure	$59.71	$118.96	99%	$59.25
Prilosec	Astra/Merck	Ulcers	$59.10	$117.56	99%	$58.46
Procardia XL	Pfizer, Inc.	Heart Problems	$68.35	$133.22	95%	$64.87
Zoloft	Pfizer, Inc.	Depression	$125.73	$223.61	78%	$97.88
Average Price Differential					134%	

For other popular drugs, the price differential is even higher. This study also analyzed a number of other popular drugs used by older Americans, and in some cases found even higher price differentials. The drug with the highest price differential was Synthroid, a commonly used hormone treatment manufactured by Knoll Pharmaceuticals. For this drug, the average price differential for senior citizens was 1,566%. A typical prescription for this drug would cost the manufacturer's favored customers only $1.75, but would cost the average senior citizen over $29.00. For Micronase, a diabetes treatment manufactured by Upjohn, a prescription would cost favored customers $10.05, while seniors in the United States are charged an average of $50.52, a price differential of 403%.

Price differentials are far higher for drugs than they are for other goods. The report compared drug prices at the retail level to the prices that the pharmaceutical industry gives its most favored customers, such as HMOs and the federal government. Because these customers typically buy in bulk, some difference between retail prices and "favored customer" prices would be expected. The study found, however, that the differential was much higher for prescription drugs than it was for other consumer goods. The average price differential for the five prescription drugs was 134%, while the price differential for other goods was only 22%.

Pharmaceutical manufacturers, not drug stores, are primarily responsible for the discriminatory prices that older Americans pay for prescription drugs. In order to determine whether drug manufacturers or retail pharmacies cause the high prescription drug prices paid by seniors in the United States, the report compared average wholesale prices that pharmacies pay for drugs to the prices at which the drugs are sold to consumers. This comparison revealed that the pharmacies appear to have relatively small markups between the prices at which they buy prescription drugs and the prices at which they sell them. Average retail prices in the United States are actually below the published national Average Wholesale Price, which represents the manufacturers' suggested price to pharmacies. The differential between retail prices and a second indicator of pharmacy costs, the Wholesale Acquisition Cost, which represents the average price wholesalers actually pay for drugs, is only 22%. This indicates that it is drug manufacturer pricing policies that account for the inflated prices charged to older Americans and other customers.

I. THE VULNERABILITY OF OLDER AMERICANS TO HIGH DRUG PRICES

Numerous surveys and studies have concluded that older Americans pay high costs for prescription drugs and are having a difficult time paying for the drugs they need. The cost of prescription drugs is particularly important for older Americans because they have more medical problems, and take more prescription drugs, than the average American. This situation is exacerbated by the fact that the Medicare program, the main source of health care coverage for the elderly, fails to cover the cost of most prescription drugs.

According to the National Institute on Aging, "as a group, older people tend to have more long-term illnesses -- such as arthritis, diabetes, high blood pressure, and heart disease -- than do younger people."[1] Other chronic diseases which disproportionately affect older Americans include depression and neurodegenerative diseases such as Alzheimer's disease, Lou Gehrig's disease, and Parkinson's disease. Older Americans spend almost three times as much of their income (21%) on health care than those under the age of 65 (8%).[2]

The latest survey data indicate that 86% of Medicare beneficiaries are taking prescription drugs.[3] Almost 14 million senior citizens, 38% of all Medicare beneficiaries, use more than $1,000 of prescription drugs annually.[4] The average older American uses 18.5 prescriptions annually.[5] It is estimated that the elderly in the United States, who make up 12% of the population, use one-third of all prescription drugs.[6]

Although senior citizens have the greatest need for prescription drugs, they often have the most inadequate insurance coverage for the cost of these drugs. With the exception of drugs administered during inpatient hospital stays, Medicare generally does not cover prescription

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[1] National Institute on Aging (NIA), *NIA Age Page* (1997) (online at www.nih.gov/nia/health/pub/medicine.htm).

[2] AARP Public Policy Institute and the Lewin Group, *Out of Pocket Health Spending By Medicare Beneficiaries Age 65 and Older: 1997 Projections* (Feb. 1997).

[3] Health Affairs, *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, 237 (Jan./Feb. 1999).

[4] National Economic Council, Domestic Policy Council, *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage* (July 22, 1999).

[5] *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries*, *supra* note 3, at 237.

[6] Senate Special Committee On Aging, *Developments in Aging: 1993*, 103d Cong., 2d Sess. 35 (1994) (S. Rpt. 403).

drugs. According to a recent analysis by the National Economic Council, approximately 75% of Medicare beneficiaries lack dependable, private-sector prescription drug coverage.[7]

Thirty-five percent of Medicare recipients, over 13 million senior citizens, do not have any insurance coverage for prescription drugs.[8] In rural areas, the problem is even worse, with 48% of Medicare recipients lacking any prescription drug coverage.[9] In total, Medicare beneficiaries pay more than half of their drug costs out of their own pockets.[10]

Even when seniors have prescription drug coverage, the coverage is often inadequate. The number of firms offering retirees prescription drug coverage is declining, from 40% in 1994 to 30% in 1998.[11] Medigap policies are often prohibitively expensive, while offering inadequate coverage.[12] Medicare managed care plans are also sharply reducing benefits and coverage.[13]

The high costs of prescription drugs and the lack of insurance coverage cause enormous hardships for older Americans. One survey found that 13% of older Americans -- more than one

[7] *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage, supra* note 4.

[8] *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries, supra* note 3.

[9] *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage, supra* note 4 (supplemental materials).

[10] Health Care Financing Administration, *The Characteristics and Perceptions of the Medicare Population*, 107 (1996).

[11] *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage, supra* note 4.

[12] For example, one typical Medigap policy requires beneficiaries to meet a $250 deductible, and then covers only 50% of the cost of prescription drugs, up to a maximum benefit of $1,250. *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries, supra* note 3.

[13] While some Medicare managed care plans may offer optional prescription drug coverage, these plans are dramatically reducing coverage, with nearly 60% reporting that they will cap prescription drug benefits below $1,000, and 28% reporting that they will cap benefits below $500 in the year 2000. These managed care plans are also withdrawing coverage for over 400,000 seniors this year, and are expected to drop coverage for an additional 50,000 next year. Overall, only 6% of Medicare recipients obtain prescription drug coverage through managed care plans. *Disturbing Truths and Dangerous Trends: The Facts About Medicare Beneficiaries and Prescription Drug Coverage, supra* note 4; *Prescription Drug Coverage, Utilization, and Spending Among Medicare Beneficiaries, supra* note 3.

out of every eight -- were forced to choose between buying food and buying medicine.[14] By another estimate, five million older Americans are forced to make this difficult choice.[15]

II. ARE DRUG COMPANIES EXPLOITING THE VULNERABILITY OF OLDER AMERICANS?

Independent analysts who have investigated the drug industry have concluded that drug manufacturers engage in "price discrimination." In 1998, for example, the Congressional Budget Office (CBO) conducted a detailed examination of drug pricing. CBO found that drug manufacturers employ pricing practices that force consumers without prescription drug coverage to pay the highest prices for drugs. According to CBO:

> Different buyers pay different prices for brand-name prescription drugs. . . . In today's market for outpatient prescription drugs, purchasers that have no insurance coverage for drugs . . . pay the highest prices for brand name drugs.[16]

In March 1999, the Federal Trade Commission (FTC) released a comprehensive analysis of prescription drug pricing that reached a similar conclusion. As in the CBO study, the FTC study found that drug manufacturers engage in price discrimination. According to the FTC: "A notable example of differential pricing is the so-called 'two tiered pricing structure" under which pharmaceutical companies set lower prices to large buyers like hospitals, HMOs, and PBMs, and charge higher prices to other buyers that include the uninsured and independent and chain retail pharmacies."[17]

Although these and other analyses conclude that drug manufacturers engage in price discrimination, few analyses have sought to quantify the extent of price discrimination and its impact on senior citizens. This report investigates these issues. It analyzes whether the drug companies are exploiting the vulnerability of older Americans through discriminatory pricing practices and whether these pricing practices cause the high drug prices being paid by older Americans. The results presented in this report are a compilation of the results of prescription drug pricing studies prepared by the minority staff for nearly 100 members of Congress.

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[14] Families USA Foundation, *Worthless Promises: Drug Companies Keep Boosting Prices*, 6 (Mar. 1995).

[15] Senate Special Committee on Aging, *A Status Report -- Accessibility and Affordability of Prescription Drugs For Older Americans*, 102d Cong., 2d Sess. 2 (1992) (S. Rpt. 100).

[16] Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry*, xi (July 1998).

[17] Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change*, 75 (Mar. 1999).

III. METHODOLOGY

A. Selection of Drugs

The principal drugs investigated in this report are the five patented, nongeneric drugs with the highest annual sales to older Americans in 1997. The list was obtained from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). The PACE program is the largest outpatient prescription drug program for older Americans in the United States for which claims data is available, and is used in this study, as well as by several other analysts, as a proxy database for prescription drug usage by all older Americans. In 1997, over 250,000 persons were enrolled in the program, which provided over $100 million of assistance in filling over 2.8 million prescriptions.[18]

B. Determination of Drug Prices for Seniors

In response to requests from members of Congress, the minority staff has analyzed prescription drug pricing in nearly 100 congressional districts in 38 states since July 1998.[19] In conducting these investigations, the minority staff and the staff of the members of Congress have

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[18] Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly January 1 - December 31, 1997* (Apr. 1998).

[19] The members of the U.S. House of Representatives who have released reports analyzing prescription drug pricing in their districts are Reps. Neil Abercrombie (HI); Thomas H. Allen (ME); Tammy Baldwin (WI); Thomas M. Barrett (WI); Ken Bentsen (TX); Shelley Berkley (NV); Marion Berry (AR); David E. Bonior (MI); Leonard L. Boswell (IA); Sherrod Brown (OH); Lois Capps (CA); Robert E. Cramer, Jr. (AL); Joseph Crowley (NY); Elijah E. Cummings (MD); Danny K. Davis (IL); Peter A. DeFazio (OR); Diana DeGette (CO); William D. Delahunt (MA); Rosa L. DeLauro (CT); Lloyd Doggett (TX); Michael F. Doyle (PA); Chet Edwards (TX); Harold E. Ford, Jr. (TN); Martin Frost (TX); Charles A. Gonzalez (TX); Gene Green (TX); Baron P. Hill (IN); Maurice D. Hinchey (NY); Ruben Hinojosa (TX); Steny H. Hoyer (MD); Eddie Bernice Johnson (TX); Dennis H. Kucinich (OH); Nick Lampson (TX); John B. Larson (CT); Barbara Lee (CA); Ken Lucas (KY); Bill Luther (MN); James H. Maloney (CT); Frank Mascara (PA); Carolyn McCarthy (NY); James P. McGovern (MA); Martin T. Meehan (MA); George Miller (CA); John P. Murtha (PA); Eleanor Holmes Norton (DC); David R. Obey (WI); Nancy Pelosi (CA); David D. Phelps (IL); Earl Pomeroy (ND); Ciro D. Rodriguez (TX); Bobby L. Rush (IL); Bernard Sanders (VT); Max Sandlin (TX); Janice D. Schakowsky (IL); Ronnie Shows (MS); Louise McIntosh Slaughter (NY); Debbie Stabenow (MI); Fortney Pete Stark (CA); Ted Strickland (OH); Bart Stupak (MI); Mike Thompson (CA); John F. Tierney (MA); Karen Thurman (FL); Jim Turner (TX); Mark Udall (CO); Tom Udall (NM); Bruce F. Vento (MN); Peter J. Visclosky (IN); Henry A. Waxman (CA); Robert E. Wise, Jr. (WV); Lynn Woolsey (CA); David Wu (OR); and Albert R. Wynn (MD). Senators Max Baucus (MT) and Tim Johnson (SD) have also released reports.

surveyed over 1000 chain and independently owned pharmacies. In this report, average drug prices for seniors are calculated by averaging the prices obtained from these pharmacies.

C. Determination of Drug Prices for Favored Customers

Drug pricing is complicated and drug companies closely guard their pricing strategies. For example, drug companies require HMOs to sign confidentiality agreements before offering them pricing discounts. The best publicly available indicator of the prices drug companies charge their most favored customers is the prices the companies charge the federal government.

The federal government pays for prescription drugs through several different programs. One important program is the Federal Supply Schedule (FSS), which is a price catalogue containing goods available for purchase by federal agencies. Drug prices on the FSS are negotiated by the Department of Veterans Affairs (VA) and approximate the prices that the drug companies charge their most favored nonfederal customers. According to the U.S. General Accounting Office, "[u]nder GSA procurement regulations, VA contract officers are required to seek an FSS price that represents the same discount off a drug's list price that the manufacturer offers its most-favored nonfederal customer under comparable terms and conditions."[20] To obtain additional price discounts available to the private sector, the VA has established at least two additional negotiated-price programs: (1) a VA formulary that operates similarly to the formularies established by well-managed HMOs,[21] and (2) a Blanket Price Agreement (BPA) program, under which the VA commits to purchasing minimum quantities of particular prescription drugs. Yet another program through which the federal government obtains prescription drugs is section 340(b) of the Public Health Service Act, which entitles four agencies (the VA, the Indian Health Service, the Department of Defense, and the Public Health Service) to purchase drugs at a maximum price of 24% below the manufacturer's average nonfederal price.

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[20] U.S. General Accounting Office, *Drug Prices: Effects of Opening Federal Supply Schedule for Pharmaceuticals Are Uncertain* 6 (June 1997) (emphasis added). In an April 21, 1999, letter to Rep. Henry A. Waxman, GAO confirmed that "federal supply schedule prices represent the best publicly available information on the prices that pharmaceutical companies charge their most favored customers." Letter from William J. Scanlon, Director, GAO Health Financing and Public Health Section.

[21] For a detailed description of the Department of Veterans Affairs Formulary program, see the National Formulary Content Page, online at www.dppm.med.va.gov/newsite/national.htm.

This analysis uses the lowest negotiated price paid by the federal government as a proxy for the prices paid by drug companies most favored customers.[22] All prices were updated in September 1999 to reflect current pricing.

D. Determination of Drug Prices for Pharmacies

The report also examines two other pricing indicators: (1) the Average Wholesale Price (AWP) and (2) the Wholesale Acquisition Cost (WAC). These two prices provide an indicator of the extent of markups that are attributable to the pharmacy (in contrast to those that are due to the drug manufacturer). The AWP represents the price that manufacturers suggest that wholesalers charge retail pharmacies; the WAC represents the actual average price that wholesalers pay to acquire drugs. The typical wholesaler markup on drugs for sale to pharmacies is an additional 2% - 4%.[23] Both AWP and WAC were obtained from the Medispan database and were updated in June 1999 to reflect current pricing.

E. Determination of Drug Dosages

When comparing prices, the study used the same criteria (dosage, form, and package size) used by the GAO in its 1992 report, *Prescription Drugs: Companies Typically Charge More in the United States Than In Canada.* For drugs that were not included in the GAO report, the study used the dosage, form, and package size common in the years 1994 through 1997, as indicated in the *Drug Topics Red Book.* The dosages, forms, and package sizes used in the study are shown in Appendix B.

F. Price Differentials for Other Consumer Goods

In order to determine whether the differential between the most favored customer prices and retail prices for drugs commonly used by older Americans is unusually large, the study compared the prescription drug price differentials to price differentials on other consumer products. To make this comparison, a list of consumer goods other than drugs available through the FSS was assembled. FSS prices were then compared with the retail prices at which the items could be bought at a large national chain.[24]

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[22] For Norvasc, Prilosec, Procardia XL, Zoloft, Micronase, and Synthroid, the Federal Supply Schedule price was used as the indicator of best price. For Zocor the VA's formulary price was used as the indicator of best price.

[23] Patricia M. Danzon, *Price Comparisons for Pharmaceuticals: A Review of U.S. and Cross-National Studies* (April 1999).

[24] The items used were paper towels, envelopes, rubber bands, toilet paper, pencils, Rolodexes, tape dispensers, waste baskets, correction fluid, post-it notes, paper clips, and scissors.

IV. DRUG COMPANIES CHARGE OLDER AMERICANS DISCRIMINATORY PRICES

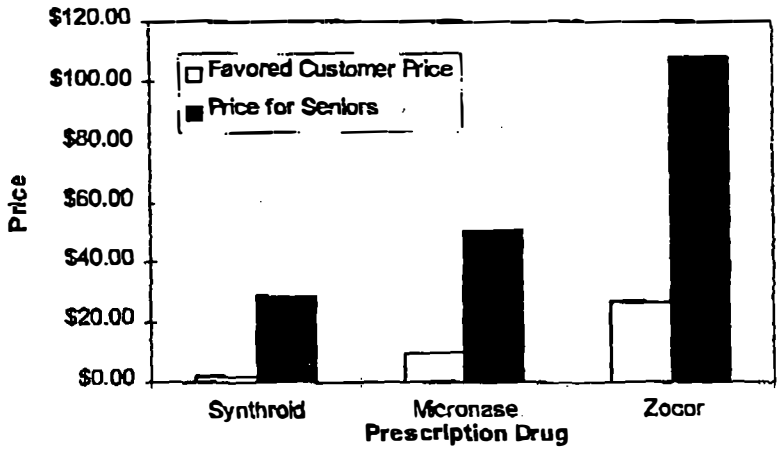
A. Discrimination in Drug Pricing

In the case of the five drugs with the highest sales to seniors, the average price differential between the price that would be paid by a senior citizen in the United States and the price that would be paid by the drug companies' most favored customers was 134% (Table 1). This means that the average price that older Americans and other individual consumers pay for these drugs is more than double the price paid by the drug companies' favored customers, such as HMOs and the federal government.

For individual drugs, the price differential was even higher. Among the five best selling drugs, the highest price differential was 299% for Zocor, a cholesterol treatment manufactured by Merck. The average senior without drug coverage must pay $107.66 for 60 tablets of Zocor, compared to a favored customer price of just $27.00.

For other popular drugs, the study found even greater price differentials. The drug with the highest price differential was Synthroid, a commonly used hormone treatment manufactured by Knoll Pharmaceuticals. For this drug, the average price differential for senior citizens was more than 1,550%. One hundred tablets of this drug would cost the most favored customers only $1.75, but would cost the average senior citizen $29.15. For Micronase, a diabetes treatment manufactured by Upjohn, the average price differential was 403% (Figure 1).

Figure 1: Older Americans Pay Inflated Prices for Prescription Drugs.



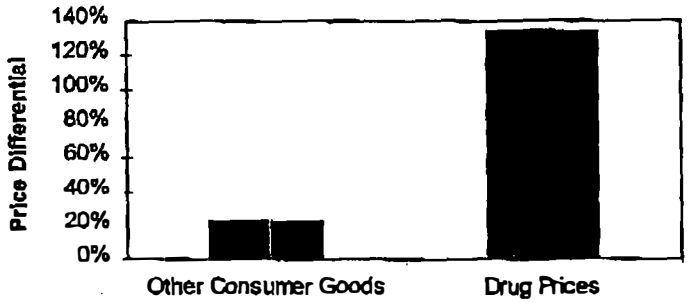
Every drug looked at in this study had a large price differential. Among the five highest selling drugs, four (Zocor, Norvasc, Prilosec, and Procardia XL) had price differentials that exceeded 90%. The lowest price difference was still high -- 78%, for Zoloft.

In dollar terms, Zoloft, an antidepressant, had the highest price differential. Senior citizens in the United States must pay nearly $100 more for 100 tablets of Zoloft than a favored customer. The difference between seniors' prices and prices for favored customers was more than $80.00 for 60 tablets of Zocor and over $50.00 per prescription for each of the remaining three best selling drugs (Procardia XL, Norvasc, and Prilosec).

B. Comparison with Other Consumer Goods

The report analyzed whether the large differentials in prescription drug pricing could be attributed to a volume effect. The drug companies' most favored customers, such as HMOs and the federal government, typically buy large volumes of drugs. Thus, it could be expected that there would be volume-related differences between the prices charged the most favored customers and retail prices. The report found, however, that the differentials in prescription drug prices were much greater than the differentials in prices for other consumer goods. The report found that, in the case of other consumer goods, the average difference between retail prices and the prices charged most favored customers, such as large corporations and institutions, was only 22%. The average price differential in the case of prescription drugs was more than six times larger than the average price differential for other consumer goods (Figure 2). This indicates that a volume effect is unlikely to explain the large differential in prescription drug pricing.

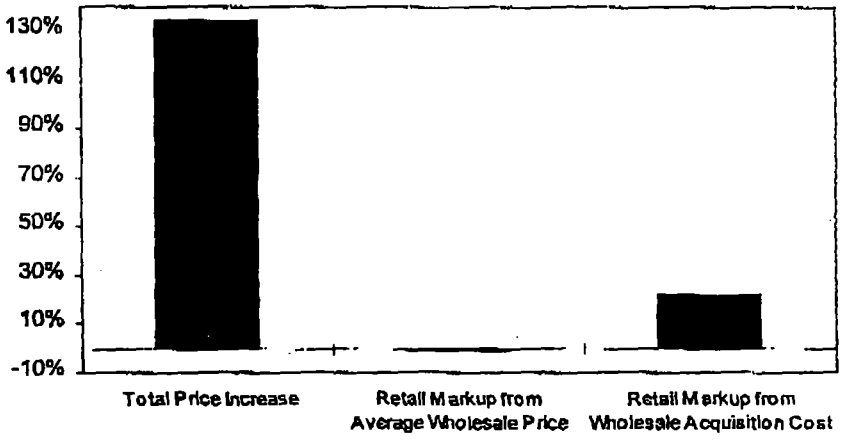
Figure 2: Price Differentials on Drugs Commonly Used by Older Americans Are Far Higher Than Differentials for Other Consumer Goods.



C. Drug Company Versus Pharmacy Responsibility

The report also sought to determine whether drug companies or retail pharmacies are responsible for the high prices being paid by older Americans. To do this, the report compared the average wholesale prices that pharmacies pay for drugs to the prices at which the drugs are sold to consumers. This comparison revealed that pharmacies appear to have relatively small markups between the prices at which they buy prescription drugs and the prices at which they sell them. The report found that the average retail price for the five best-selling prescription drugs was actually lower than the published Average Wholesale Price, and only 22% above the Wholesale Acquisition Cost (Figure 3). This finding indicates that it is drug company pricing policies, not retail markups, that account for the inflated prices charged to older Americans and other individual customers. These findings are consistent with other experts who have concluded that because of the competitive nature of the pharmacy business at the retail level, there is a relatively small profit margin for retail pharmacists.[25]

Figure 3: Drug Companies, Not Retail Pharmacies, Are Responsible for High Prescription Drug Costs

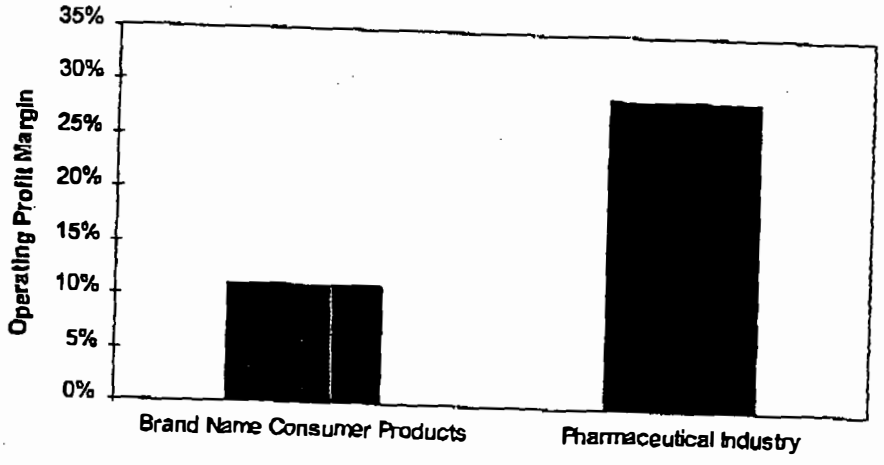


[25] National Association of Chain Drug Stores, *Did You Know . . .* (pamphlet) (citing financial data assembled by Keller Bruner & Company, P.C., Certified Public Accountants 1995).

V. DRUG MANUFACTURER PROFITABILITY

Drug industry pricing strategies have boosted the industry's profitability to extraordinary levels. The annual profits of the top ten drug companies are over $25 billion.[26] Moreover, the drug companies make unusually high profits compared to other companies. The average manufacturer of branded consumer goods, such as Proctor & Gamble or Colgate-Palmolive, has an operating profit margin of 10.5%. Drug manufacturers, however, have an operating profit margin of 28.7% -- nearly three times greater (Figure 4).[27]

Figure 4: The Pharmaceutical Industry's Profit Margins Are Larger Than Those for Other Companies.



These high profits appear to be directly linked to the pricing strategies observed in this report. For instance, Merck, the country's largest pharmaceutical manufacturer, had a 24% increase in sales and a 12% increase in profits in the first quarter of 1999.[28] According to industry analysts, Merck's increased profits have been due in large part to sales of Zocor,[29] which is sold in the United States at a price differential of 299%. Zocor itself accounts for 13% of Merck's revenues.[30]

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[26] Fortune, *1999 Fortune 500 Industry List* (1999) (Online at www.pathfinder.com/fortune500/ind21.html).

[27] Paul J. Much, Houlihan Lokey Howard & Zukin, *Expert Analysis of Profitability* (Feb. 1998).

[28] AP, *Merck Sales Jump by 24 Percent* (April 23, 1999).

[29] USA Today, *Drugmakers Have Healthy Outlook* (July 20, 1998).

[30] *Merck Sales Jump by 24 Percent, supra* note 28.

Pharmaceutical companies have been rapidly increasing their prices for drugs used by senior citizens. These price hikes make it even more difficult for uninsured senior citizens to afford prescription drugs. In 1998, the prices for the 50 prescription drugs most frequently used by senior citizens increased by 6.6%, more than four times the inflation rate.[31] The price of Synthroid, which is sold at a price differential of more than 1,550%, increased by more than six times the inflation rate.[32]

Overall, profits for the major drug manufacturers grew by over 21% in 1998, compared to 5% to 10% for other companies on the Standard & Poors Index. The drug manufacturers' profits are expected to grow by up to an additional 25% in 1999.[33] According to one analyst, "the prospects for the pharmaceutical industry are as bright as they've ever been."[34]

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[31] Families USA, *Hard to Swallow: Rising Drug Prices for America's Seniors* (Nov. 1999).

[32] *Id.*

[33] *Drugmakers Have Healthy Outlook, supra* note 29.

[34] *Id.*

Appendix A

The Five Top Selling Patented, Nongeneric Drugs for Seniors Ranked by 1997 Total Dollar Sales

Rank	Drug	Manufacturer	Indication
1.	Prilosec	Astra/Merck	Ulcer
2.	Norvasc	Pfizer, Inc.	High Blood Pressure
3.	Zocor	Merck	Cholesterol reduction
4.	Zoloft	Pfizer, Inc.	Depression
5.	Procardia XL	Pfizer, Inc.	Heart Problems

Source: Pharmaceutical Assistance Contract for the Elderly ("PACE"), Pennsylvania Department of Aging, *Annual Report to the Pennsylvania General Assembly: January 1 - December 31, 1997* (Apr. 1998).

Appendix B

Information on Prescription Drugs Analyzed in This Study

			Prices (Dollars)				
Brand Name Drug	Dosage and Form	Indication	Favored Customer Price	Wholesale Acquisition Cost	Average Wholesale Price	Average Retail Price	Price Differential (Average Retail Price vs. Favored Customer Price)
Zocor	5 mg, 60 tablets	Cholesterol reducer	$27.00	$86.07	$106.84	$107.66	299%
Norvasc	5 mg, 90 tablets	High Blood Pressure	$59.71	$96.00	$119.17	$118.96	99%
Prilosec	20 mg, 30 cap.	Ulcer	$59.10	$100.34	$119.57	$117.56	99%
Procardia XL	30 mg, 100 tab.	Heart Problems	$68.35	$111.46	$138.37	$133.22	95%
Zoloft	50 mg, 100 tab.	Depression	$125.73	$182.98	$227.13	$223.61	78%
Synthroid	.05 mg, 100 tab.	Hormone Treatment	$1.75	N/A	N/A	$29.15	1566%
Micronase	2.5 mg, 100 tab.	Diabetes	$10.05	N/A	N/A	$50.52	403%

Appendix C

Price Comparisons For Non-Prescription Drug Items

Item	FSS Price	Retail Price	Differential
Binder Clip, small, 1 box	$0.49	$0.49	0%
Rubber Bands, 1 lb.	$2.57	$2.67	4%
Toilet Paper, 96 Rolls	$44.74	$47.98	7%
Rolodex, 500 Card	$13.24	$14.29	8%
Tape Dispenser	$1.44	$1.69	17%
Wastebasket, Plastic, 13 qt.	$2.95	$3.49	18%
Scissors	$10.88	$12.99	19%
Pencils, #2, 20-pack	$1.03	$1.26	22%
Paper Towels, 30 Rolls	$22.94	$29.98	31%
Post-It Notes	$2.08	$2.89	39%
Envelopes, 500, White, 20 lb. weight	$6.45	$9.49	47%
Correction Fluid, 18 ml., dozen.	$6.66	$9.99	50%
Average Price Differential			**22%**

FIRST LADY HILLARY RODHAM CLINTON CALLS FOR ACTION ON A MEDICARE PRESCRIPTION DRUG BENEFIT
November 9, 1999

Today, the First Lady will join House Democratic Leader Gephardt, House Government Reform Ranking Democrat Henry Waxman and many other House Democrats in urging Congress to act promptly to make prescription drugs more affordable for millions of disabled and older Americans. She will relate her numerous experiences with seniors facing tremendous costs and access challenges related to their growing need for life saving and enhancing medications. The First Lady will endorse the efforts announced by the House Democrats today to initiate an open House debate on policy options to respond to this challenge. She will also praise the work of the House Government Reform Committee documenting the difficulties millions of older Americans face in accessing affordable prescription drugs.

MILLIONS OF MEDICARE BENEFICIARIES LACK STABLE AND AFFORDABLE PRESCRIPTION DRUG COVERAGE. Prescription drugs have never been more important, but those who rely on them most – the elderly and people with disabilities – increasingly find themselves uninsured or with coverage that is becoming more expensive and less meaningful.

- **Millions of beneficiaries have no prescription drug coverage and millions more are at risk of losing coverage.** Over 13 million Medicare beneficiaries have no prescription drug coverage. Millions more are at risk of losing coverage or have inadequate, expensive coverage. Lack of drug coverage is not just a problem for low-income beneficiaries; over half of Medicare beneficiaries without drug coverage have incomes in excess of 150 percent of the poverty level – an annual income of $17,000 for couples. Nearly one in three of non-elderly Medicare beneficiaries, almost half of rural beneficiaries, and about 41 percent of beneficiaries older than the age of 85 do not have coverage for prescription drugs.

- **Current prescription drug coverage is unstable and declining.** The number of firms offering retiree health coverage has dropped 25 percent over the past four years, and Medigap premiums have been rising at double-digit rates and increasing with age.

STRONG STEPS ARE NEEDED TO MOVE THE DEBATE FORWARD. At the Capitol Hill event, the First Lady will:

- **Praise the work of the Government Reform Committee Democrats in highlighting the prescription drug issue.** The First Lady will praise the tireless work of Congressmen Waxman, Allen, Berry and many other members in helping to produce over 100 reports documenting the problems older Americans face in accessing affordable drugs. The report being released today found that senior citizens in the United States that pay for their own prescription drugs are charged on average, 134 percent more – over twice as much – for prescription drugs as the drug companies' favored customers. She will state her belief that these reports have made a valuable contribution towards pushing the Congress to act on this long unmet need.

- **Support the House Democrats efforts to promote an open debate on the prescription drug cost and coverage issue.** The First Lady will praise the House Democrats efforts to secure an agreement from the Republican leadership allowing for an open debate on how best to address the prescription drug challenge. She will underscore her belief that the Nation must address both the cost and coverage issue for disabled and older Americans by providing for a long over-due, optional Medicare prescription drug benefit. The First Lady will describe how a new prescription drug benefit not only provides new insurance coverage option for the 39 million Medicare beneficiaries, but will secure discounts from the retail prices now charged to seniors through private sector volume purchasing.

THE CLINTON ADMINISTRATION'S PLAN TO STRENGTHEN AND MODERNIZE THE MEDICARE PROGRAM. In June, President Clinton put forth a detailed proposal to strengthen and modernize the Medicare program. The President's plan includes a new, voluntary Medicare drug benefit. Called Medicare Part D, it would offer all beneficiaries, for the first time, access to affordable, high quality prescription drug coverage beginning in 2002. This new benefit would provide:

- **Meaningful coverage that is available to all beneficiaries.** Medicare would cover half of drug costs from the first prescription up to $5,000 in spending per year ($2,500 in plan payments). The spending limit would be phased in from 2002 to 2008 and, in subsequent years, adjusted for inflation. Beneficiaries would have access to discounts negotiated by private managers. For the over 13 million beneficiaries who have absolutely no coverage, it would provide significant financial relief. For the several million beneficiaries who rely on Medigap or Medicare managed care, this benefit would ensure that their coverage will always be there, without excessive rate increases or reductions in the generosity of the benefit.

- **Affordable premiums.** Beneficiaries would pay separate premium for Medicare Part D -- an estimated $24 per month in 2002, and $44 per month in 2008, when fully implemented. Cost sharing protections for low-income beneficiaries would be expanded.

- **Low income protections.** Beneficiaries with incomes up to 135 percent of poverty ($11,000 for singles, $15,000 for couples) would pay no premiums or cost sharing, with the premium subsidy phased out from 135 to 150 percent of poverty. The Federal government would pay for all of the costs associated with beneficiaries with incomes above poverty.

- **Private management.** Beneficiaries in managed care would be covered through their plan. For the rest, Medicare would contract out with numerous private pharmacy benefit managers (PBMs) or similar entities to manage the benefit. This partnership would provide beneficiaries with the same high quality benefits they expect from Medicare while allowing for more flexibility and innovation in program management over time. No price controls would be used.

FIRST LADY HILLARY RODHAM CLINTON CALLS FOR ACTION ON A MEDICARE PRESCRIPTION DRUG BENEFIT
November 9, 1999

Today, the First Lady will join House Democratic Leader Gephardt, House Government Reform Ranking Democrat Henry Waxman and many other House Democrats in urging Congress to act promptly to make prescription drugs more affordable for millions of disabled and older Americans. She will relate her numerous experiences with seniors facing tremendous costs and access challenges related to their growing need for life saving and enhancing medications. The First Lady will endorse the efforts announced by the House Democrats today to initiate an open House debate on policy options to respond to this challenge. She will also praise the work of the House Government Reform Committee documenting the difficulties millions of older Americans face in accessing affordable prescription drugs.

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STRONG STEPS ARE NEEDED TO MOVE THE DEBATE FORWARD. At the Capitol Hill event, the First Lady will:

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- **Support the House Democrats efforts to promote an open debate on the prescription drug cost and coverage issue.** The First Lady will praise the House Democrats efforts to secure an agreement from the Republican leadership allowing for an open debate on how best to address the prescription drug challenge. She will underscore her belief that the Nation must address both the cost and coverage issue for disabled and older Americans by providing for a long over-due, optional Medicare prescription drug benefit. The First Lady will describe how a new prescription drug benefit not only provides new insurance coverage option for the 39 million Medicare beneficiaries, but will secure discounts from the retail prices now charged to seniors through private sector volume purchasing.

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- **Meaningful coverage that is available to all beneficiaries.** Medicare would cover half of drug costs from the first prescription up to $5,000 in spending per year ($2,500 in plan payments). The spending limit would be phased in from 2002 to 2008 and, in subsequent years, adjusted for inflation. Beneficiaries would have access to discounts negotiated by private managers. For the over 13 million beneficiaries who have absolutely no coverage, it would provide significant financial relief. For the several million beneficiaries who rely on Medigap or Medicare managed care, this benefit would ensure that their coverage will always be there, without excessive rate increases or reductions in the generosity of the benefit.

- **Affordable premiums.** Beneficiaries would pay separate premium for Medicare Part D -- an estimated $24 per month in 2002, and $44 per month in 2008, when fully implemented. Cost sharing protections for low-income beneficiaries would be expanded.

- **Low income protections.** Beneficiaries with incomes up to 135 percent of poverty ($11,000 for singles, $15,000 for couples) would pay no premiums or cost sharing, with the premium subsidy phased out from 135 to 150 percent of poverty. The Federal government would pay for all of the costs associated with beneficiaries with incomes above poverty.

- **Private management.** Beneficiaries in managed care would be covered through their plan. For the rest, Medicare would contract out with numerous private pharmacy benefit managers (PBMs) or similar entities to manage the benefit. This partnership would provide beneficiaries with the same high quality benefits they expect from Medicare while allowing for more flexibility and innovation in program management over time. No price controls would be used.