

Because this will be the first year of the Medicare prescription drug discount card program, we do not have the benefit of the experience of prior years. Therefore, we present a range rather than a single estimate for the amount of beneficiary savings resulting from negotiated prices obtained by endorsed sponsors. Another limitation of this particular analysis is that our most recent available data on beneficiary use of prescription drugs come from self-reported survey data from the 2000 Medicare Current Beneficiary Survey (MCBS). The MCBS is a continuous multipurpose survey of a representative sample of the Medicare population. We have adjusted the data for projected growth in drug spending and for under reporting.

Another limitation of our analysis is that we make no adjustments to the savings estimates to take into account that some beneficiaries who enroll in this program already receive sizable discounts on drugs, and thus the savings potential from this program may be overstated for these individuals. For example, estimated savings from discount card activities may be overstated for beneficiaries enrolled in Medicare managed care organizations and beneficiaries participating in manufacturer discount card programs, since both are likely to already receive significant discounts.

As we discuss later in this document, other limitations to our analysis include that we have made no adjustments to take into account: possible effects of the program on beneficiary drug utilization and possible changes in the type of outlets through which beneficiaries purchase prescription drugs. We did not believe that we had adequate data to inform assumptions concerning these issues.

Additional limitations of the analysis relate to our estimate of the number of beneficiaries who enroll in the Medicare prescription drug discount card program. First, our estimate of the number of beneficiaries with standardized Medigap drug coverage who will enroll in the Medicare prescription drug discount card program may be somewhat imprecise. As discussed in more detail later in the analysis, we believe some beneficiaries who have drug coverage through standardized Medigap policies are likely to enroll in the Medicare prescription drug discount card program. The MCBS provides data on the number of beneficiaries with "individually purchased" insurance policies, which includes but is not limited to the standardized Medigap policies. Using data on beneficiaries who have drug

coverage through individually purchased insurance policies, we developed a rough estimate of the number of beneficiaries with Medigap standardized drug coverage by excluding from this group individuals who appeared unlikely to have standardized Medigap drug coverage. In particular, we excluded individuals whose out-of-pocket drug spending was less than \$250 and whose individually purchased insurance plan covered some drug costs, since this is inconsistent with the benefit structure of the standardized Medigap plans. However, some beneficiaries with individually purchased policies that are not the standardized Medigap drug coverage policies are still likely to be included in our estimates. In addition, some beneficiaries have multiple sources of coverage, for example, some beneficiaries are enrolled in Medicare+Choice (M+C) but also report having individually purchased supplemental insurance. Therefore, we also excluded from the estimate of the number of beneficiaries with Medigap drug coverage anyone who was also enrolled in M+C during at least one month of the year since we believe that the drug coverage was more likely to come from a M+C plan than from a Medigap plan.

Second, our enrollment estimates do not factor in the possibility that some Medicare managed care plans that are exclusive card sponsors may decide to group enroll all of their members into an endorsed discount card program that they are sponsoring. If this occurs, overall enrollment in the Medicare prescription drug discount card program may be somewhat higher than we have estimated. However, given that we are uncertain about the frequency with which this might occur, we have taken a conservative approach and used the same assumptions concerning enrollment rates for beneficiaries in M+C and Medicare Fee-For-Service. Savings estimates from discount card activities are unlikely to be affected by group enrollment since beneficiaries who might be recipients of group enrollment into an endorsed discount card program by a Medicare managed care organization are likely to have already been obtaining discounts on prescription drugs through their plan, so this would not represent new savings for these beneficiaries. However, it is possible that estimated savings from the \$600 transitional assistance may be slightly understated due to this issue.

Third, while we are able to exclude most beneficiaries who have drug coverage through Medicaid from our enrollment estimates (since these

beneficiaries are ineligible for the drug card), difficulties with identifying those beneficiaries who have drug coverage through Medicaid via 1115 Pharmacy Plus Waivers means that some of these beneficiaries may not have been excluded from our enrollment estimates. Similarly, difficulties with precisely identifying in the data the source of a beneficiary's drug coverage, particularly TRICARE and employer-sponsored individually purchased Medigap coverage, means that some beneficiaries not eligible for transitional assistance (that is, those with TRICARE drug coverage) may not have been fully excluded from transitional assistance enrollment estimates, while some beneficiaries eligible for transitional assistance (that is, those with employer-sponsored individually purchased Medigap drug coverage) may not have been fully incorporated into the transitional assistance enrollment estimates.

Finally, as discussed later in this document, we did not make any differential assumptions concerning program uptake for beneficiaries currently enrolled in manufacturer discount card programs—that is, we assumed beneficiaries currently participating in manufacturer card programs will enroll in the Medicare prescription drug discount card program at the same rate as other beneficiaries. It is difficult to predict how both manufacturer card programs and beneficiaries currently enrolled in those programs will behave in terms of participation in the Medicare prescription drug discount card program. Consequently, it is possible that our enrollment estimates for this group of beneficiaries could be overstated or understated. Furthermore, as noted previously in this document, for beneficiaries currently enrolled in manufacturer card programs there are not likely to be significant additional savings beyond what they currently obtain; thus we may be overstating savings on their behalf to some extent. However, it should be noted that the manufacturer card programs generally cover a limited set of drugs, and the Medicare prescription drug discount card program may offer these beneficiaries discounts on a wider set of drugs.

#### *E. Anticipated Effects on Medicare Beneficiaries*

##### *1. Enrollment Assumptions*

Although the Medicare prescription drug discount card program will be available to all Medicare beneficiaries except for those with drug coverage