

discounts and savings from a better understanding of generic alternatives and managing prescription drug expenses will be important sources of savings in this program. For purposes of estimating beneficiary savings from discount card activities, we assume average overall savings of 15 percent off of drug spending. These estimates do not take into account the possible increased use of prescription drugs by Medicare beneficiaries resulting from paying reduced out-of-pocket amounts due to savings from discount card activities. They also do not take into account the likelihood that use of prescription drugs will increase somewhat in response to the \$600 transitional assistance.

In a December 2001 report from the General Accounting Office (GAO) entitled "Prescription Drugs: Prices Available Through Discount Cards and From Other Sources," the GAO collected specific price data on 12 brand name and 5 generic commonly used prescription drugs from one regional and four large discount card programs, as well as pharmacies' prices for the same prescription drugs in four selected geographic areas. In September 2003, GAO issued another report entitled "Prescription Drug Discount Cards: Savings Depend on Pharmacy and Type of Card Used." For 9 drugs (7 brand and 2 generic) commonly used by Medicare beneficiaries, the report provided the median price for each drug across five PBM-administered discount card programs and comparison data on the median retail pharmacy price for each drug in 3 geographic areas. In these studies, pharmacy prices were inclusive of senior discounts for those pharmacies that offered them. The GAO simply reported prices on each drug; they did not calculate average discount card savings. The average discounts that could be calculated from the GAO reported data are difficult to compare to our estimate of roughly 10 to 15 percent savings off total beneficiary drug spending for several reasons.

First, savings for the program are not estimated on a per-prescription basis. For certain drugs for which manufacturer rebates or discounts are secured, we expect to see, under this program, drug-specific discounts comparable to insured products, which are often 25 to 30 percent, or sometimes more, per prescription.

Second, the price data collected by the GAO do not include all drugs or indicate the relative market share that each drug represents; that is, they are not weighted. Savings estimates calculated by simply averaging selected drug prices do not account for the

differences in utilization, and thus, market share.

Finally, the Medicare prescription drug discount card program requires that endorsed discount card sponsors obtain manufacturer rebates or discounts and pass a share of the rebates or discounts through to beneficiaries in the form of lower prices. We believe that this differs from the practices of some of the discount card programs in the GAO studies. Two of the five programs in the 2003 GAO study reported that the pharmacy is not paid for any of the difference between the pharmacies' usual price and the price the cardholder pays.

Because the endorsed discount card programs will be modeled after insured products in terms of enrollment and the use of formularies, combined with the competitive model and the requirement of manufacturer rebates or discounts, we expect that the endorsed programs will achieve new beneficiary savings from manufacturer rebates or discounts. The share of savings will vary depending on the drug, but savings from manufacturers are expected to be substantially greater than those available through existing voluntary cards. According to the HHS study, industry experts report that private insurance plans garner rebates on individual brand name drugs ranging from 2 to 35 percent. To the extent that endorsed discount card sponsors design formularies to mimic those of insured products, the ability to garner manufacturer rebates or discounts will increase.

For purposes of estimating beneficiary savings, it is necessary to make some assumptions concerning the portion of spending that will be affected by discount card activities by endorsed sponsors such as negotiating lower prices and promoting generic substitution. The requirements for endorsement include provision of a discount on one brand name or generic drug in each therapeutic grouping commonly used by Medicare beneficiaries. However, we expect that endorsed programs probably will provide discounts on more than one drug per grouping and be highly likely to provide discounts on commonly used drugs.

We have estimated the percent of total drug spending accounted for by the most commonly used drugs among Medicare beneficiaries based on analysis of the top drugs in terms of both utilization and spending using the 2000 MCBS data (including a special analysis related to disabled beneficiaries). As of 2000, the drugs most commonly used or having the

greatest spending by Medicare beneficiaries accounted for approximately 72 percent of total drug spending for beneficiaries without drug coverage.

The drug classification listing in Table 2, for which endorsed sponsors must include at least one drug, is more extensive than the specific top drug list that was used to estimate 72 percent. In addition, we assume that many endorsed sponsors will choose to include more than one drug for the required drug grouping. Consequently, we set our lower bound estimate of the share of drug card enrollees' total drug spending that will be affected by the program at 75 percent.

We also assume that it is possible that endorsed programs will include a discount on all drugs. To calculate this upper bound, we assume that all beneficiary drug expenditures will be affected by the Medicare prescription drug discount card program. We note, however, that we have made no adjustment to take into account that some beneficiaries currently receive discounts and that some of the savings to beneficiaries will come from generic substitution and not just price reductions.

#### b. Savings From Transitional Assistance

Those drug card enrollees who qualify for transitional savings will realize savings from the annual \$600 transitional assistance. The aggregate amount of savings from the transitional assistance depends in part on the level of drug spending among these beneficiaries. Many of these beneficiaries will exhaust the \$600 transitional assistance each year; however, those who do not will be allowed to roll over any unspent funds from one year to the next. While those beneficiaries with transitional assistance dollars remaining at the end of 2005 will be able to roll over the funds through the first four and one-half months of 2006 or up to the point that they enroll in Medicare Part D (whichever is earlier), it is likely that a small portion will not exhaust the transitional assistance dollars fully by the end of the program. Our estimates of total transitional assistance savings in each year take into account both this roll-over phenomenon and the likelihood that a small portion of beneficiaries will not exhaust the full transitional assistance by the end of the program. In estimating savings from the transitional assistance, we also factor in the proration policy and the tiered coinsurance.