

3. Projection Assumptions

Since our data on Medicare beneficiary prescription drug spending are based on 2000 MCBS data, it is necessary to make several adjustments in order to prepare 2004 estimates. In order to trend 2000 spending to 2004 dollars, we use prescription drug spending projections based on per capita drug expenditure growth from the National Health Expenditure (NHE) Projections 2002 to 2012. These projections can be found on our Web site at: <http://www.cms.hhs.gov/statistics/nhe/projections-2002/t11.asp>.

MCBS data on prescription drug utilization are self-reported by beneficiaries, and consequently are subject to under reporting. We are studying this under reporting in order to develop adjustment factors to be used for estimating purposes. For purposes of the estimates in this rule, the spending data from the MCBS has been increased by 20.5 percent to adjust for under reporting that has been identified through our research thus far. It is also necessary to adjust for future growth in the Medicare beneficiary population. The adjustments are made based on the assumptions about growth in the overall Medicare population from the 2003 Medicare Trustees Reports and assumptions about growth in the dual eligible population (that is, the group of

beneficiaries not eligible for the program).

These assumptions are detailed in Table 7, which shows the projected increase in Medicare enrollment and per capita drug expenditures from 2000 to 2004, and annually from 2004 to 2006, using 2000 as the base year for the projections. As discussed in more detail in later sections of the impact analysis, the table also shows projections for total national aggregate retail drug expenditures, drug expenditures involved in the program, beneficiary savings from discount card activities (both upper bound and lower bound estimates), the impact of beneficiary savings from discount card activities as a percent of total national aggregate retail drug sales, and estimated total beneficiary savings resulting from the transitional assistance.

To estimate the impact of the program on national retail prescription drug sales, we use the Office of the Actuary's National Health Expenditures projections of retail prescription drug sales, which are part of the National Health Accounts. To prepare the estimates, OACT obtains data on prescription drug sales from a variety of sources, including the National Prescription Audit conducted by IMS Health. OACT has data on retail prescription drug spending through 2001, and prepares 10-year projections.

OACT adjusts the data from the National Prescription Audit to take into account a number of factors. The major factors involved in these adjustments include: benchmarking to the Economic Census, subtracting prescription drug sales to nursing homes (which are accounted for in nursing home spending), and adjusting the data to subtract an estimate of manufacturer rebates provided to health insurers related to insurance coverage for prescription drugs. Thus, in some respects, the National Health Accounts estimate of prescription drug spending reflects a sales level that is somewhat lower than the revenue actually received by pharmacies, drug stores, and other retail business outlets selling prescription drugs.

Consequently, when National Health Accounts figures are used as the denominator in calculating the percentage impact on revenues (as we do later in this impact analysis), the result is somewhat larger than is actually the case. Nevertheless, we believe that these projections for prescription drug spending are the most appropriate to use for analysis of the impact of this program on prescription drug revenues. These estimates are specific to the prescription drug market, and the National Health Accounts are recognized as a public source of data on health care spending.

TABLE 7.—ESTIMATED IMPACT

	2000 (Baseline)	2004 (Apr–Dec)	2005 (Jan–May)	2006 (Jan–Dec)
Increase in Medicare Enrollment		4.6%*	1.4%	1.3%
Increase in Per Capita Drug Expenditures		62.7%*	10.8%	10.2%
Total National Aggregate Retail Drug Expenditures (\$ billions)	\$121.5	\$153.5	\$228.6	\$95.3
Discount Card Enrollees Who Qualify for Transitional Assistance				
Projected Number of Enrollees (millions)		4.7	4.7	4.7
Projected Prescription Drug Spending Under the Drug Discount Card Programs (billions)	6.2	8.0	11.9	2.5
Lower & Upper Bound Beneficiary Savings from Discount Card Activities (billions)		0.9–1.2	1.3–1.8	0.3–0.4
Estimated Beneficiary Savings From Transitional Assistance (billions) ..		2.4	2.6	0.1
Discount Card Enrollees Who Do Not Qualify for Transitional Assistance				
Projected Number of Enrollees (millions)		2.6	2.7	2.7
Projected Prescription Drug Spending Under the Drug Discount Card Programs (billions)	3.2	4.1	6.1	1.3
Lower & Upper Bound Beneficiary Savings from Discount Card Activities (billions)**		0.5–0.6	0.7–0.9	0.1–0.2
Total—All Discount Card Enrollees				
Projected Number of Enrollees (millions)		7.3	7.4	7.4
Projected Prescription Drug Spending Under the Drug Discount Card Programs (billions)	9.4	12.0	18.0	3.7
Lower & Upper Bound Estimated Beneficiary Savings from Discount Card Activities (not including savings from \$600 transitional assistance) (billions)**		1.4–1.8	2.0–2.7	0.4–0.6