

TABLE 7.—ESTIMATED IMPACT—Continued

	2000 (Baseline)	2004 (Apr–Dec)	2005 (Jan–May)	2006 (Jan–Dec)
Lower & Upper Bound Impact of Beneficiary Savings from Discount Card Activities as a Percent of National Aggregate Retail Drug Expenditures		0.88%–1.18%	0.89%–1.18%	0.44%–0.59%

* For 2004, the increase in Medicare enrollment and per capita drug expenditures shown in the table reflect the percent change between 2000 and 2004.

** These savings estimates do not take into account the costs associated with beneficiary enrollment fees. Beneficiary savings may be up to \$0.08 billion lower in 2004 and 2005 due to the maximum annual enrollment fees of \$30 that card sponsors may charge enrollees in those years who do not qualify for transitional assistance.

Note: Numbers may not sum due to rounding.

4. Impact Estimates

We estimate that 7.3 million Medicare beneficiaries will be enrolled in endorsed discount card programs in the last nine months of 2004 and 7.4 million in 2005. In addition, depending on when beneficiaries choose to enroll in Medicare Part D, it is possible that up to 7.4 million beneficiaries may be enrolled in endorsed discount card programs during at least some portion of the first four and one-half months of 2006. For 2006, we assume that enrollees remain in the Medicare prescription drug discount card program on average for two and one-quarter months in 2006. Of the 7.3 million beneficiaries estimated to enroll in the Medicare prescription drug discount card program, an estimated 4.7 million would qualify for transitional assistance (as well as discount card savings) while an estimated 2.6 million would receive standard discount card services only.

As discussed previously, we assume that Medicare beneficiaries enrolled in an endorsed discount card program will save between 10 and 15 percent of their total drug costs as a result of savings from discount card activities (with 15 percent savings being assumed in the impact estimates). However, this will vary by the mix of drugs beneficiaries use, and as noted previously, may be even higher depending on the ultimate program design used by endorsed sponsors. It is also possible, as discussed previously in this document, that savings from discount card activities could be lower for some beneficiaries. For example, beneficiaries who currently may receive a sizeable discounts under manufacturer discount card programs may not experience additional discounts for those same drugs under the Medicare prescription drug discount card program.

As shown in Table 7, for the estimated 7.3 million beneficiaries who will be enrolled in an endorsed discount card program in the last nine months of 2004 and the 7.4 million who are estimated to be enrolled in 2005 and the first part of 2006, the base for total drug

expenditures involved in the Medicare prescription drug discount card program is projected to be \$12.0 billion in the last nine months of 2004, \$18.0 billion in 2005, and \$3.7 billion in the transition period in 2006 before the savings achieved through the program. Total estimated savings for these beneficiaries from discount card activities range from \$1.4 billion to \$1.8 billion in the last nine months of 2004, \$2.0 billion to \$2.7 billion in 2005, and \$0.4 billion to \$0.6 billion in the transition period in 2006. Furthermore, the subset of enrolled beneficiaries (an estimated 4.7 million) who qualify for transitional assistance are estimated to save an additional \$2.4 billion in 2004 (last nine months), \$2.6 billion in 2005, and \$0.1 billion in 2006 (first four and one-half months) from the annual \$600 transitional assistance. Savings from transitional assistance in 2006 are very small because they only reflect carryover spending for beneficiaries with low drug spending who do not exhaust the full transitional assistance during 2005.

Beneficiaries may be required to pay an annual enrollment fee of up to \$30 to join an endorsed discount card program. The Federal government pays the enrollment fee for beneficiaries who qualify for transitional assistance. If all of the non-transitional assistance eligible Medicare beneficiaries who are projected to enroll in the Medicare prescription drug discount card program (2.6 million beneficiaries in 2004 and 2.7 million in 2005) pay the maximum \$30 annual enrollment fee, the total beneficiary savings overall and specifically for this group of beneficiaries will be reduced by roughly \$78 million in 2004 and \$81 million in 2005.

Regardless of whether or not endorsed sponsors charge the full \$30 enrollment fee, this is a voluntary program. Beneficiaries have a choice of which program to enroll in, or not to join a program at all. Therefore, beneficiaries will only join a program if their expected gain is greater than the

enrollment fee. In addition, those who choose to enroll in an endorsed program will still be free to buy a drug at any price outside of the program, so they can only be helped by the estimated savings and educational efforts from the program.

F. Anticipated Effects on the Medicare Program

Beneficiary savings from transitional assistance are funded through the Federal budget, while beneficiary savings from discount activities do not affect the Federal budget. We estimate that Medicare program spending will increase by \$2.5 billion in calendar year (CY) 2004, \$2.7 billion in CY 2005, and \$0.1 billion in CY 2006, due to the transitional assistance. The vast majority of this spending is for the \$600 transitional assistance (\$2.4 billion in 2004, \$2.6 billion in 2005, and 0.1 billion in 2006), with the remaining spending, \$0.14 billion in 2004 and 2005, for payment of the enrollment fee for transitional assistance eligible beneficiaries. In addition, we estimate that CMS' administrative expenses to implement this program will be \$134 million.

We also expect that the Medicare prescription drug discount card program will have several positive effects on the Medicare program. While not quantifiable, a positive impact of the rebate and discount reporting requirements of the program will be to provide us with experience in understanding issues in the pharmaceutical industry before implementation of a Medicare drug benefit. We will increase our knowledge concerning pricing and payment issues, information technology requirements, and increasing the effectiveness of pharmacy quality improvement programs. The pharmaceutical industry will also gain more experience in working with the Medicare population before implementation of a drug benefit. We expect that this experience will make the transition to a Medicare