

from discount card activities occurring through sales in small pharmacies and drug stores ranges from: \$0.32 to \$0.42 billion in 2004 (last nine months), \$0.48 to \$0.64 billion in 2005, and from \$0.10 billion to \$0.13 billion in 2006 (first four and one-half months). These amounts, as a share of the national retail prescription drug sales occurring through small pharmacies and drug stores, represent a range of 0.88 percent to 1.18 percent in 2004, from 0.89 to 1.18 percent in 2005, and from 0.44 to 0.59 percent in 2006.

This is likely to be an overestimate of the economic impact on small pharmacies and drug stores, as this economic impact will not be borne entirely by pharmacies. Endorsed sponsors will be required to obtain manufacturer rebates or discounts that will defray the cost to pharmacies of providing discounts on retail drug prices. In addition, to the extent that the endorsed programs achieve larger savings from drug manufacturers than are reflected in our estimate, the additional beneficiary savings could come from drug manufacturers and not local pharmacies. In addition, because of the educational aspects of the program, some of the savings to beneficiaries will come as a result of increased use of generic drugs.

Other caveats to consider are the following: Our spending estimates assume no effects of the Medicare prescription drug discount card program on beneficiary drug use. It is likely that the transitional assistance will lead to somewhat greater use of prescription drugs, resulting in a smaller impact on pharmacy revenues. In addition, it is possible that lower drug prices may lead to greater use of prescription drugs, possibly further reducing the impact on pharmacy revenues. On the other hand, it is possible that pharmacy services associated with the card will lead to some drug substitution, simplification of drug regimens, or avoidance of complications that require further drug therapy, leading to a somewhat greater impact on pharmacy revenues.

4. Sensitivity Analysis

In order to assess the potential for differing distributional impacts among pharmacies, we conducted a sensitivity analysis. We estimate that the total prescription drug spending involved in the Medicare prescription drug discount card program will comprise, on average, less than 8 percent of revenues, with the economic impact of the discount card activities on total revenues related to prescription drugs estimated to be at most 1.18 percent. For purposes of a sensitivity analysis, we estimate that in

order to reach the HHS measure of significant economic impact of 3 to 5 percent of revenues, it will be necessary to have prescription drug revenues resulting from the program account for at least 20 percent of a business's revenues. In the sensitivity analysis, we developed a hypothetical geographic locality skewed to contain a large Medicare beneficiary population with a large share of the beneficiary population having characteristics making them likely to enroll in this program. Under this highly skewed assumption, we estimated a maximum share of 15.7 percent of a business's total prescription drug revenues would be associated with the Medicare prescription drug discount card program, with the program having an economic impact of 2.36 percent of prescription drug sales.

As noted previously, this economic impact will not be borne entirely by pharmacies, because endorsed sponsors will be required to obtain manufacturer rebates or discounts that will defray the cost of pharmacies providing discounts on retail drug prices. In addition, part of the savings to beneficiaries also comes from increased use of generic drugs. Nevertheless, the sensitivity analysis still yielded an impact level below the 3 to 5 percent of revenues used by HHS to measure significant economic impact. The following discussion describes the assumptions and supporting data used in the sensitivity analysis.

In order to prepare the sensitivity analysis, we identified key variables that could change the market share of revenues accounted for by enrollees in this program and the consequent impact resulting from the Medicare prescription drug discount card program. One key variable is the Medicare population as a portion of a pharmacy's geographic locality customer base. We assume that a pharmacy's customer base is derived in large part from the population in close geographic proximity to its business location. Therefore, we examined the variation in the geographic distribution of the Medicare population. On average nationally, Medicare beneficiaries were 13.8 percent of the total population as of July 2000. Using several States with the highest Medicare population rates, we examined, at the county level, the percent of the population over age 65 based on Census Bureau data. For counties with high elderly population compositions, we obtained the actual counts of Medicare enrollment (aged and disabled) and calculated Medicare enrollment as a percentage of the counties' populations. Based on this analysis at the county level, we estimate in a high-end scenario that Medicare

beneficiaries could potentially comprise up to approximately 36 percent of a geographic area's population.

A second key variable that we assume could alter the revenues being impacted is the percent of the Medicare population in an area that may enroll in Medicare prescription drug discount card programs. As discussed previously, we think that the beneficiaries most likely to enroll in the program will be those beneficiaries with income less than or equal to 135 percent of the official poverty line who are eligible for the \$600 transitional assistance, beneficiaries not eligible for transitional assistance who do not have insurance coverage for prescription drugs (including those with supplemental insurance coverage that does not include prescription drugs), and beneficiaries not eligible for transitional assistance who have Medigap drug coverage. To develop upper bound estimates for the percent of Medicare beneficiaries in an area who might fall into one of these three groups of potential enrollees, we use the prevalence rates of beneficiaries with these characteristics in non-metropolitan areas. Based on analysis of MCBS data for non-metropolitan areas, we assume that 21 percent of beneficiaries in the hypothetical geographic area were eligible for the \$600 transitional assistance (compared with 18 percent nationally). We also assume that among beneficiaries in the hypothetical area, 20 percent had no drug coverage and were ineligible for the transitional assistance (compared with 15 percent nationally), while another 8 percent had Medigap drug coverage and were ineligible for the transitional assistance (compared with 5 percent nationally).

Nationally, we estimate that more than 7 million Medicare beneficiaries will enroll in Medicare prescription drug discount card programs in 2004, accounting for an estimated 2.5 percent of the total U.S. population. Adjusting the data, using the population and drug coverage weighting factors for the sensitivity analysis and using the overall uptake assumptions (65 percent uptake among transitional assistance eligible beneficiaries, 35 percent uptake among beneficiaries not eligible for transitional assistance who do not have drug coverage, and 24 percent uptake among beneficiaries not eligible for transitional assistance who have Medigap drug coverage), results in the hypothetical area having approximately 8.15 percent of its total population participating in the Medicare prescription drug discount card program. Therefore, about 91.85 percent