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Medicare Rx Drug Benefit

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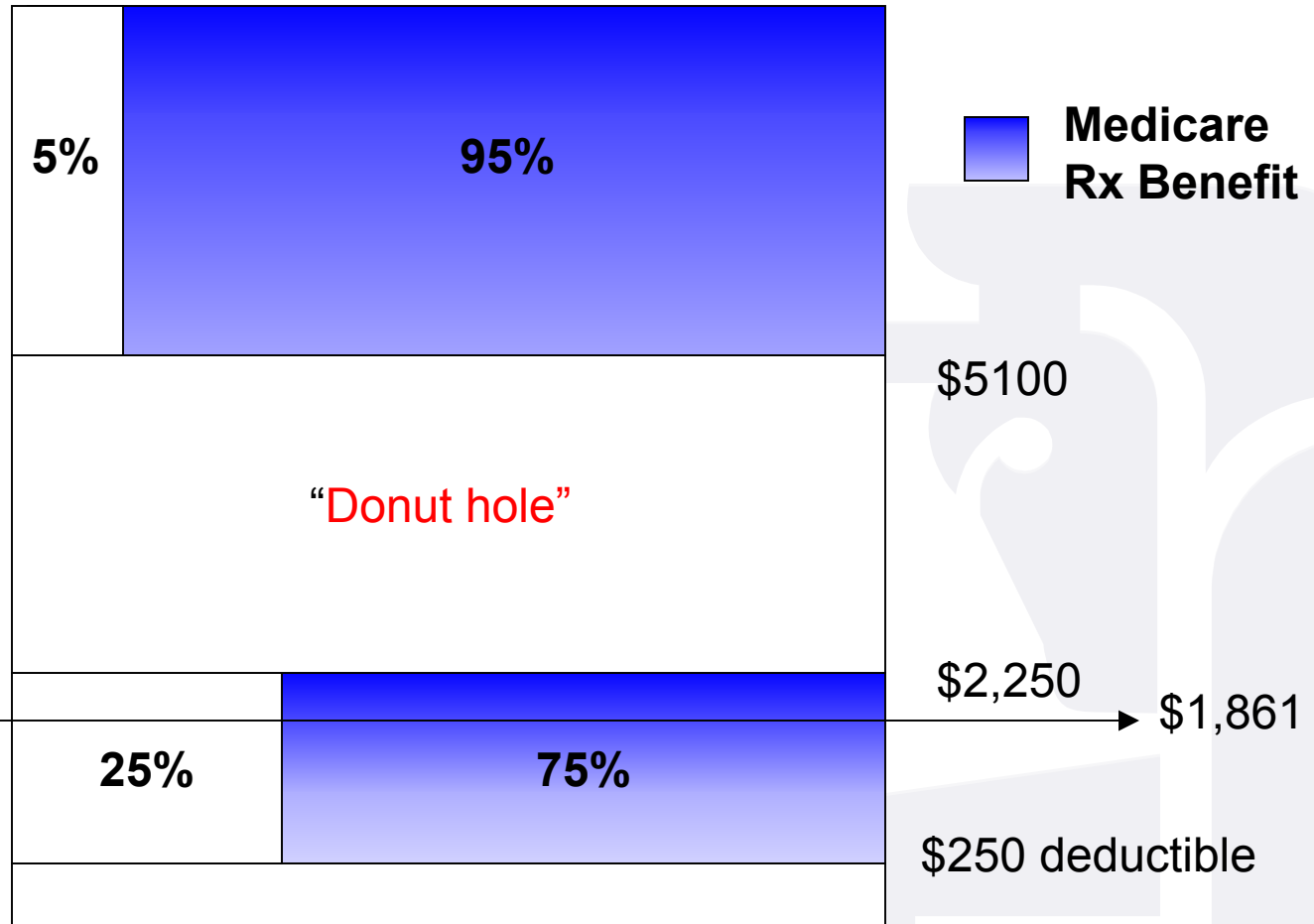


Overview of Rx Benefit proposal

Challenges

- Co-pays
- Deductibles
- Coverage gap
- Catastrophic coverage

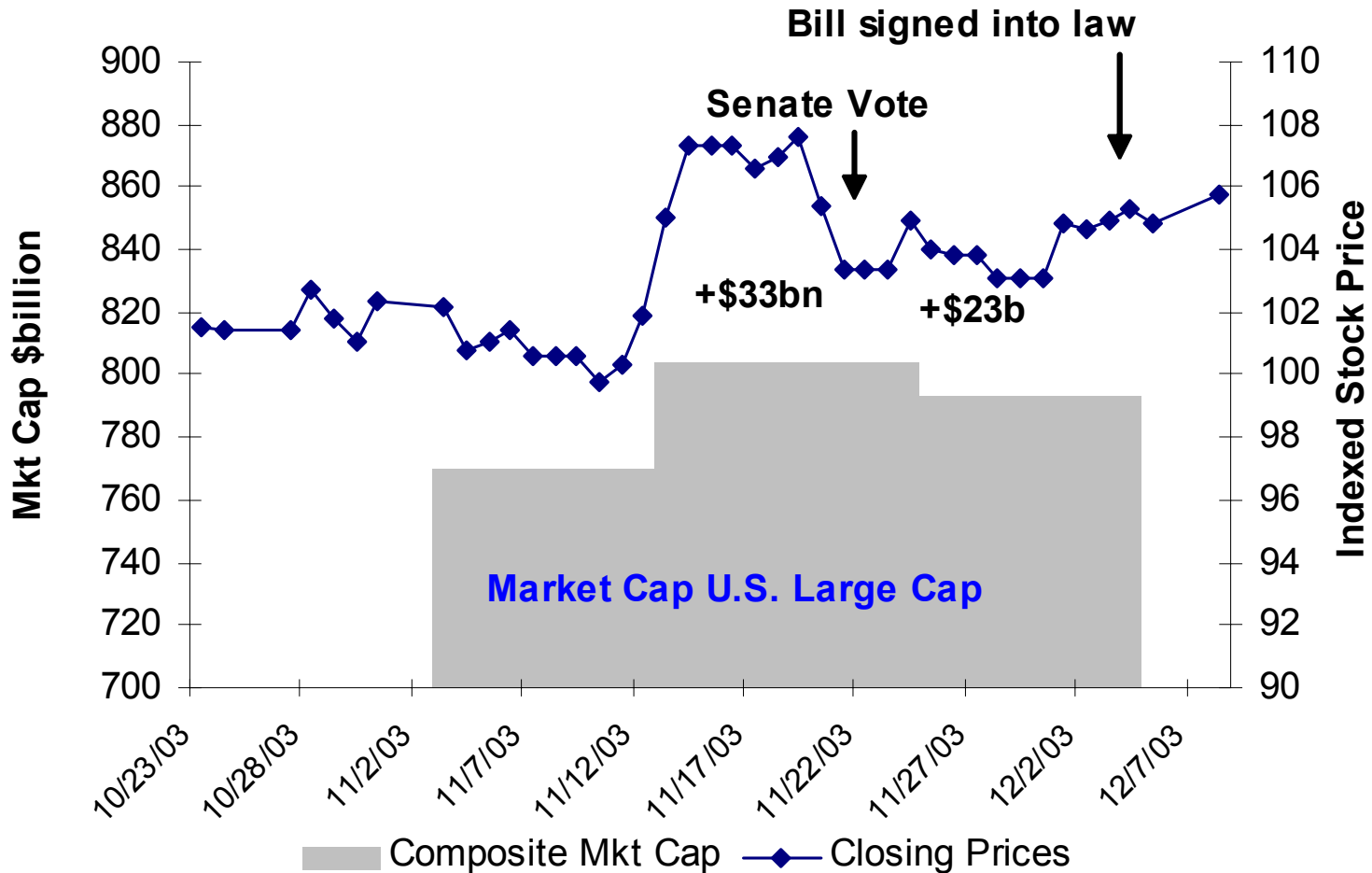
Estimated median drug cost per person 2006
\$1,861



Medicare Rx Benefit



Wall Street's reaction to passage of the Medicare Rx bill



Source: FactSet and FBR estimates

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Overview & Considerations of Medicare Rx Benefit

- \$400B benefit; potentially up to \$540B next 10 years

Gov't. funded insurance - Increases access, removes catastrophic burden
Increases utilization and the funds available for prescription drugs

- Implementation/Challenges

Drug Card, Senior Participation, Questionable Benefits – Premiums, Copays, Deductibles, Doughnut Hole, Employer Plans, Federal Budget, Political card

- Insurance Companies/PBMs

Taking on Risk, Formulary and Drug Price Control, Fallback Options

- Drug Companies

Market-Based System, Disease Mgt. Studies, Price Concessions, Re-importation

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Bottom Line For The Drug Industry

Volumes likely to increase



Pricing likely to decrease





Drug Card Issues

- Bush Administration estimates Seniors will save 10-15% on total drug costs.
- CMS estimates that in total, 7.3 million people will enroll in the Drug Card program and save \$1.4 to \$1.8 billion on costs.
- Underbudgeted? CMS estimates only 65% of 7.2 million people eligible for \$600 subsidy will enroll, and only half of those people will use the full amount.
- Surrogate for full benefit – discount card, not insurance.
- Insurance companies/PBMs – costs to administer the program could outweigh the increased in revenue, but participation could yield advantages in readying for the full benefit in 2006.



Our Volume/Demand Assumptions

- Utilization does not change for dual eligibles that switch to the Medicare Drug Benefit, as consumption under Medicaid is already at the high end of the range.
- We assume demand will increase in the portion of the Medicare population that has no coverage or limited coverage (we estimate this represents 25-30% of Medicare eligibles)
- We assume that utilization rises to an average of 33 Rxs per patient per year, in-line with patients covered under private plans; this representing a 31% increase over current levels, or a ~3.2% increase in total Rx volume.
- Patients covered under private sector plans will not increase utilization, according to our assumptions, should they switch to the Medicare Drug Benefit.



Our Pricing Assumptions

- Drug pricing could be more transparent under the Medicare legislation, encouraging more uniform discounts.
- Based on CBO data, we estimate that Medicare beneficiaries without coverage spend \$13+ billion on prescription drugs, or 25% of total outpatient Medicare drug expenditures.
- We assume a 15% discount on drug spending, in-line with average rebate levels to managed care.
- We apply this discount to out of pocket spending by non-covered beneficiaries. Net = 1% decline in price.



Conclusion – Slightly Positive For The Drug Industry

- There could be a 8% rise in prescription drug usage among the total Medicare population, based on our initial models.
- This would translates into roughly a 3.2% increase in total Rx volumes.
- We calculate pricing pressure of roughly 1% in aggregate.
- Therefore, we forecast a net 2.2% increase in total revenues, with an ageing population increasing the growth by an incremental 1% annually, according to our estimates.
- Baby boomers begin reaching 65 years of age in 2011.



Estimated Present Value of Drug Benefit

- PV calculation – We estimate that the present value of additional sales to the drug industry (out to 2013) is approximately \$26B, based on our estimates, or \$5.2B in present value net income.
- This equates to less than 1% of total market value.
- Individual firms; some likely to benefit more than others examples: PFE – Aricept, Exubera, Lipitor; WYE – Enbrel.
- Drug companies may have the ability to lower selling and marketing costs and leverage the additional revenues.



Top 20 Drugs Used By The Elderly (by Rx volume)

Drug	Company	Indication	Total 2003 U.S. sales (Wholesale)
Lipitor	Pfizer	cholesterol reduction	\$5,936,488,257.06
Norvasc	Pfizer	hypertension	\$1,963,578,953.66
Celebrex	Pfizer	rheumatoid arthritis	\$2,349,806,818.92
Xalatan	Pfizer	glaucoma	\$470,946,797.79
Zoloft	Pfizer	antidepressant	\$2,805,631,285.86
Fosamax	Merck	osteoporosis	\$1,548,443,864.71
Zocor	Merck	cholesterol reduction	\$4,971,709,125.03
Vioxx	Merck	rheumatoid arthritis	\$1,725,951,407.35
Prevacid	Abbott	anti-ulcer	\$4,360,115,742.60
Synthroid	Abbott	thyroid hormone	\$771,870,595.16
Prilosec	AstraZeneca	anti-ulcer	\$1,427,542,255.76
Toprol XL	AstraZeneca	hypertension	\$972,636,684.59
Plavix	Bristol	anti-coagulant	\$2,138,394,914.48
Protonix	Wyeth	anti-ulcer	\$2,075,895,541.15
Lanoxin	GSK	heart rhythm	\$68,885,968.70
Klor-Con	Upshire-Smith	potassium supplement	\$77,322,036.03
Digitek	Bertek	heart rhythm	\$16,167,255.69
metoprolol tartrate	generic	hypertension	\$153,122,236.96
isosorbide	generic	vasodilator	\$189,020,860.78
furosemide	generic	diuretic	\$103,474,395.93

Source: NDC Health, PRIME Institute, Pennsylvania Pharmaceutical Assistance Contract for the Elderly and FBR estimates.