Medicare Prescription Drug Legislation: A Perspective from the Battlefield

National Medicare Prescription Drug Congress

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Small Miracle—15 Years Overdue

- Politics are very ugly—but it is a VERY good bill for poor seniors—which was the GOAL since 1988
- Thanks to Sen. Baucus, Breaux---AARP and many others (Sens. Wyden, Lincoln) who know that long after the next election—this is RIGHT for seniors
- Final Bill very close to President's outline—organize and consolidate seniors' Rx power in >10 regions through PBMs
- It WILL work, it WILL save seniors money, and it is far better than the insane price fixing we do for hospitals/SNFs and docs

Medicare and Medicaid Drive US Policy

The total CMS budget is estimated to be $625 billion in FY 2005. CMS will be as important as FDA in RX.

Medicare (41 M seniors/disabled):

- Budget estimated to be $300 billion in FY 2005
- Benefits projected to grow from $280 billion in FY 2004 to $570 billion in FY 2013

Medicaid (40 M low income families seniors in SNFs):

- Budget estimated to be $300 billion + in FY 2005.

Rx spending has been central to Medicaid policy and will dominate Medicare policy starting in 2006

The 2004 Medicare Bill: Issues

- **Medicare Rx has simmered since ’80s. Biggest political issue with AARP-seniors groups.**

- **<u>2 BIG issues drove bill</u>**:

1. 11 M seniors had no Rx coverage; another 10 M had weak coverage. Seniors paid highest prices in US—few in efficient group purchasing. Poor seniors hurt the most. (Core DEM issue)
2. GOP hates ‘price fixing’. Seniors have 2 choices: HMO (11%) or FFS (89%). GOP wanted third option—PPOs (which 70% of non-seniors choose). (Core GOP issue)

Medicare Rx Reform

Biggest change is US healthcare in 38 years

- **Medicare Rx discount card 5/04-1/06**

  $600 for each low income senior (approx 7-8 million)

- **2006 Full Rx benefit is HUGE spending increase:**

  $4000 per person for lowest (below 135% of poverty)

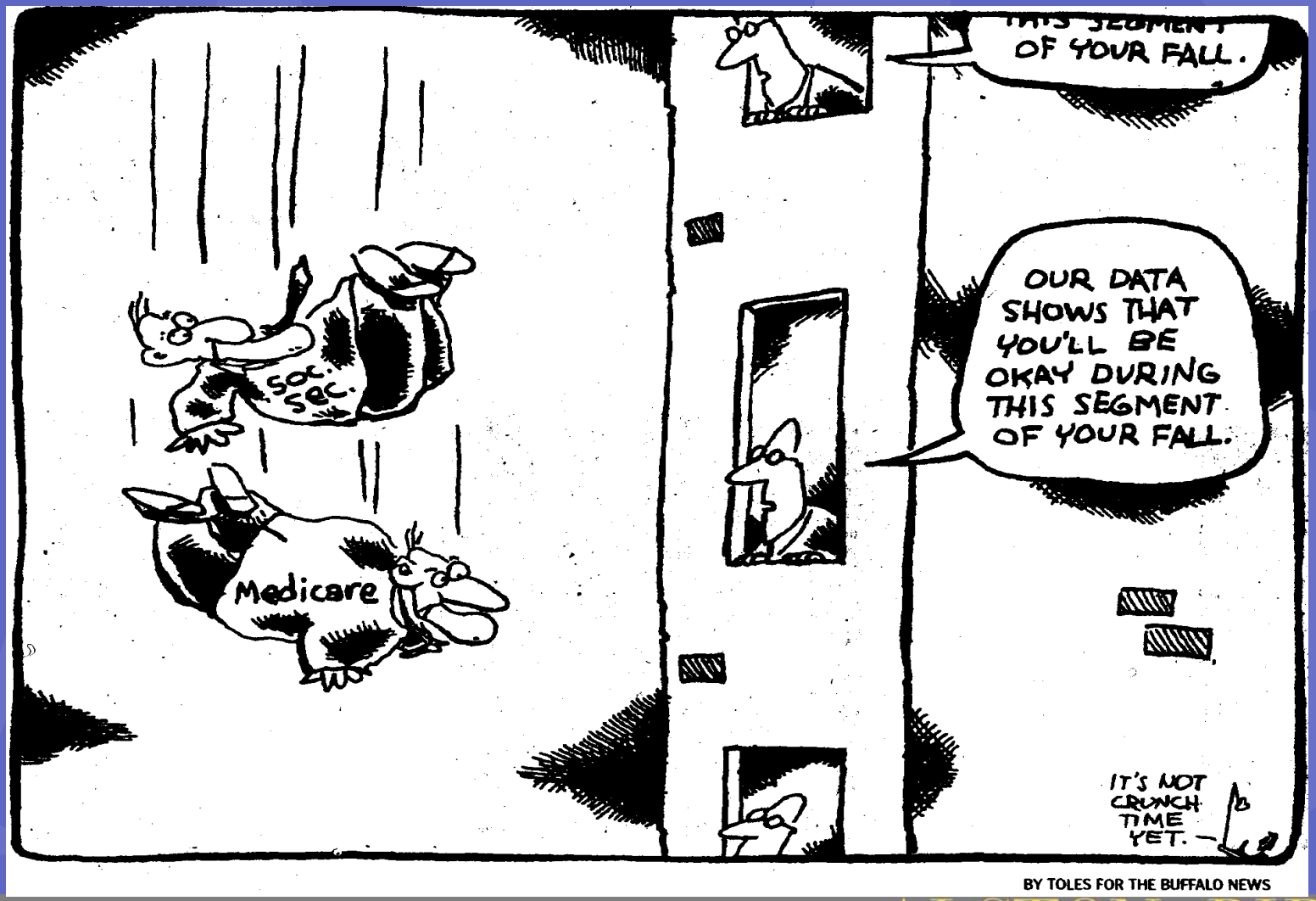
  -very small copays/no deductibles/no gaps

  $3100 per person from 135-150% of poverty. Modest sliding premium

  $1400 per person subsidy for ALL seniors—a 65% subsidized benefit

  (all actuarial equivalent values. Note that Medicare will spend an estimated $8,000 on average, per senior, w/o Rx in 2006)

SHOW ME THE MONEY ? A REPUBLICAN entitlement explosion??!!



The NEW Medicare

Starting in 2006, seniors will have 3 choices for their Medicare benefit:

Traditional Medicare

- No changes from current system
- All beneficiaries can get a new optional Rx benefit through a "prescription drug plan" or PDP
- $35/mo premium for higher income seniors.

Medicare Advantage PPO

- Integrated health care benefit through a PPO-style plan
- More comprehensive prescription drug coverage likely
- Free preventive services (e.g. screening mammograms)
- Protection from high out-of-pocket medical costs
- More rational cost sharing, including a combined deductible for Part A & B services

Medicare Advantage HMO

- Integrated benefit through a managed care plan
- More comprehensive drug coverage Likely
- Improved HMO funding supplemented my new Rx dollars

3 WAYS TO GET THE NEW Rx BENEFIT

1. **Traditional Medicare**. Seniors can buy an Rx only plan--- called a "Prescription Drug Plan" or PDP. This is an add-on to existing Medicare and Medigap coverage.

2. **Medicare HMOs.** They now offer Rx benefits as an unfinanced option. (11%--largely low income or CA/OR/AZ) They will get $1400 to $4000 a person in new payments to finance LARGE benefit expansions.

3. **Medicare ADVANTAGE PPOs. The new option the GOP is betting on.** Seniors will get open network plan option—again with $1400 to $4000 in new per capita drug payment.

Medicare Rx Plan Design

Modest for wealthy / HUGE $$ for the Poor

- All seniors and disabled will choose one of the three options in the fall of 2005
- Standard benefit (high income): $250 deductible; 25% copay from $250 to $2250; no coverage from $2250 to $5100 ($3600 in TROOP spending)
- Seniors can stay in employer plans and employers gets approx. 28% “buyout” of existing costs—and tax benefits—that may be $1,000 plus per capita
- LOW INCOME-- $1 generic/$ name brand copays (rises to $2/$5). NO GAPS; NO DEDUCTIBLES—BIG Coverage.
- Big cross subsidy to states with existing low income plans: NY, MA, NJ, PA. The poorest will get 100% federal coverage and states can redirect funds to other higher income seniors.

Medicare Rx Market Structure — BIG Impact

In 2006: Major Change In Market Structure

- Secretary must design >10 US "regions" for PPO bidding. (15 Likely)
- Secretary must also designate PDP regions—very likely to track PPO regions (though not mandated). Unlimited number of PDPs—but if no bids, Secretary must ensure "fallback"—federally guaranteed Rx plans for each region.

- 2006 $$ is large—so PBMs others looking to **Medicare Rx Discount Card** in 2005-06 as marketing in road for seniors

  --106 applicants for Rx Discount Card now—Caremark, Express, MEDCO making large investments.

Market/Financial Impact

Higher Volume –Big Pricing Pressure

- The PBMs, through larger Medicare HMOs, PPOs and as new PDPs, will have enormous new leverage in the market. They will add 41 M seniors and 40-50% of market in many drugs to their portfolios.
- Most seniors will have coverage and data shows consumption will RISE significantly.
- PDPs will be heavily regulated in Medicare and their pricing and rebates will be transparent to the government (not the public). All prices will be on a public website.
- 3 tiered formularies are assumed and will be standard for most PDPs.

Ancillary Issues

COVERAGE Policy

- Medicare now covers just $8 Billion a year in limited Outpatient Rx. That will rise to $70B+. Medicare coverage/payment will drive entire market. CMS will be as important to track as the FDA.
- PBMs will be very regulated but VERY powerful consolidators.
- PBMs and Medicare both have enhanced appeals process- but getting a NO on coverage will be no fun
- Complex new processes for Medicare PDP appeals and for PPO/HMO appeals in development.

Non-Medicare Issue—Health Savings Accounts

- BIG GOP leadership issue—likely to change individual and small group markets—FAST

- Allows minimum $1,000 individual/$2,000 family high deductible insurance. Must have $5,000/$10,000 stop loss. Individuals or employers can cover deductible in TAX FREE account—which can roll over year to year.

- Expect explosion of high deductible plans due to HSAs in coming years. Has potential to reduce demand for all health serviced—including Rx—in commercial market.

CONCLUSION

2004 is a Regulatory/Implementation Year. Little will happen in Congress.

Politics of Health in US will be VERY ugly.

BIG CHANGES for the long term. Totally changed US Rx market. Higher volume, tougher pricing pressure and oversight from government (Medicare) as payer.

Very Complex jockeying for market position between Pharma, PBMs, Health Plans and retail pharmacies—starting NOW.

Rx Reform – A Can of Worms