

The Role of the Private Sector in Part D

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The 2003 MMA: Issues

Medicare Rx has simmered since '80s..

2 BIG issues drove bill:

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).
RISK BASED PPOs WERE THE VEHICLE OF CHOICE FROM DAY 1.

The NEW Medicare

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

Traditional Medicare

Now 89%

- No changes from current system
- All beneficiaries can get a new optional Rx benefit through a “prescription drug plan” or PDP
- \$32/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

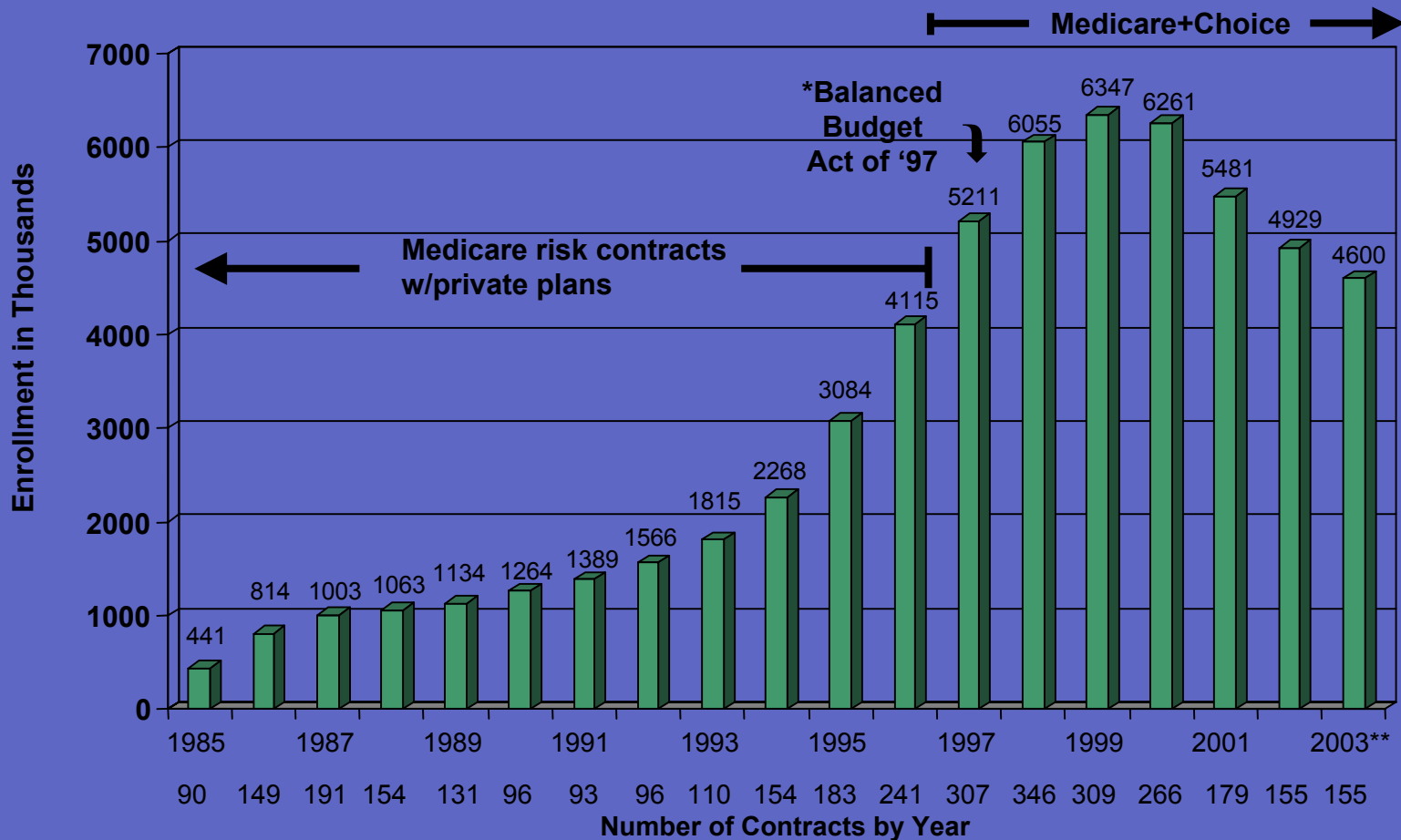
Medicare Advantage HMO

Now 11%

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

Medicare Risk/Medicare Advantage

“It’s not the Money-----It’s the Money!”



***BBA of '97**
De-linked payments to plans from FFS pmt growth

SOURCE: Mathematica Policy Research (MPR) analysis of HCFA’s Medicare Managed Care Contract Plans Monthly Summary Report

**SOURCE: Atlantic Information Services, Inc., Guide to Medicare Reform Law



Market Impact: Significant for Rx Companies— and Commercial Market

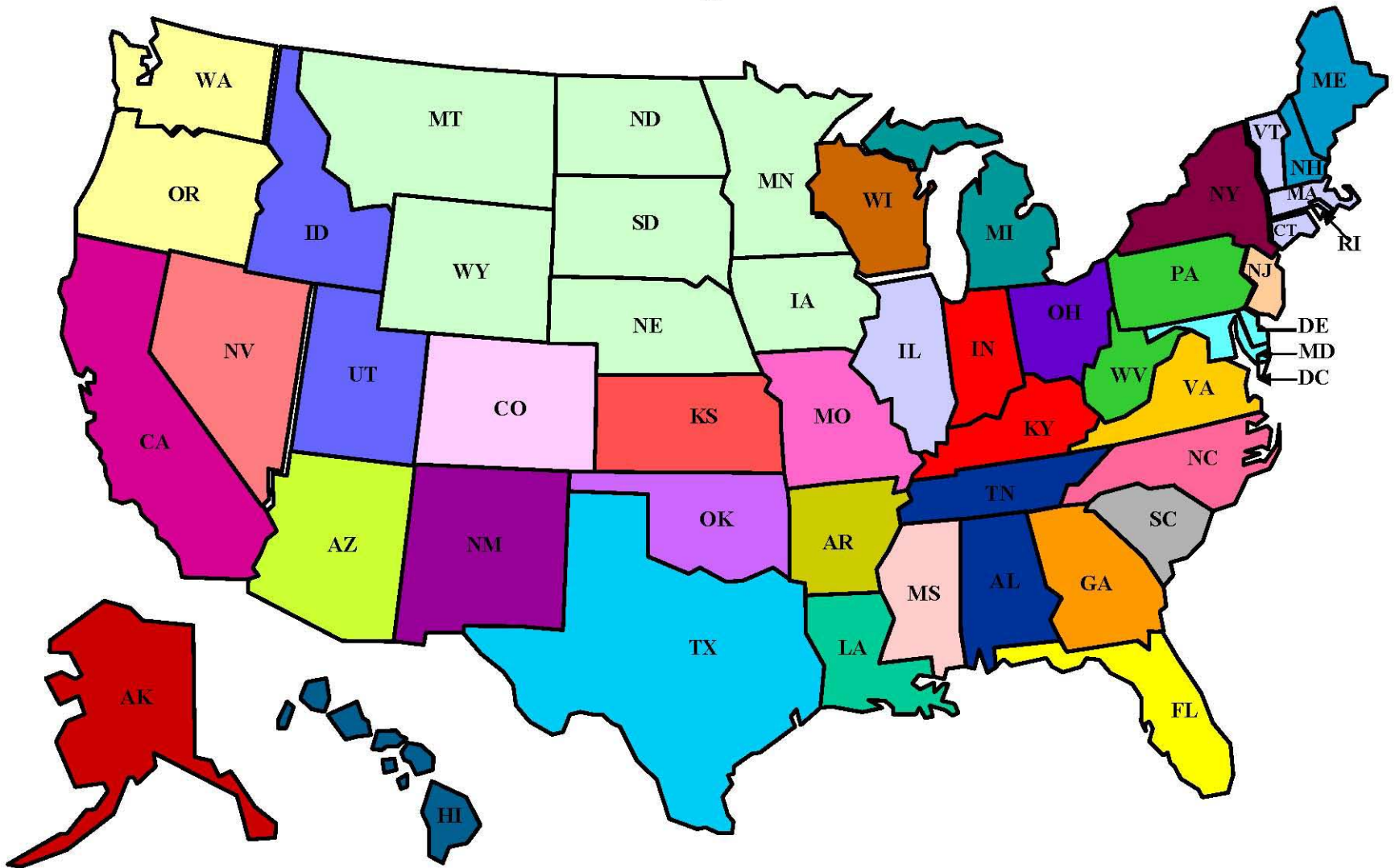
Medicare + Private Plan PBMs= 10,000 lb Gorilla

- 200 million+ now use PBMs, but Medicare is 50% of market consumption (only 18% of patients).
- 3-5 dominant PBMs today. There will be **MANY** more (36 total), **WITH SIGNIFICANT** market power. Only the uninsured won't be buying through some type of PBM.
- For truly innovative drugs—good result
- No fun for multi-brand (Nexium?)

Big Market Changes—Largely Undiscussed

- Likely lead (eventually) to **consolidation of PBMs, and insurers, and push more docs into group practices**
- **Reconstruct the market in health care around 26 PPO and 34 PDP regions**
- **Restructure the drug industry marketing and distribution**
- **Realign the incentives all through the commercial insurance systems**

PDP Regions



Note: Each territory is its own PDP region.

CONCLUSION

- **Medicare Reform**— painful, confusing and chaotic. But it will help seniors—and it **WILL** change the health system for the better.

COMPETITION WILL WORK

**CHANGE STARTS WITH ENDING PRICE
FIXING!**