



Medicare's Future

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Agenda

- Medicare Part D has Established Important New Coverage
 - Pre-MMA concerns did not come to fruition
 - Supply and demand for Part D coverage is stable
 - Future challenges can be navigated by policy makers
- Broader Policy Agenda Offers Opportunity for Improved Quality
 - Medicare program is “target-rich” for quality improvement
 - Health system reforms are even more important
- Health Improvement Merits Policy Focus

Pre-MMA Worries Were Fundamental

- Federal government's level of effort
 - What's the right amount to spend?
 - Who should administer the benefit?
 - Who should negotiate drug prices?
- Private sector roles and responsibilities
 - Will health plans and PBMs come to the table?
 - Will drug manufacturers give meaningful discounts?
 - What roles will pharmacies play?
- Beneficiary interest in product offerings
 - Will seniors buy these new products?

Implementation Has Established Supply and Demand

- “Supply-side”: Create a market from the ground up
 - Adequate plan participation
 - Competition
 - Good choices for low-income patients
- “Demand-side”: Sufficient enrollment to ensure stability
 - Low premiums
 - Attractive benefits for all income levels
 - Value / customer satisfaction

Perception vs. Reality

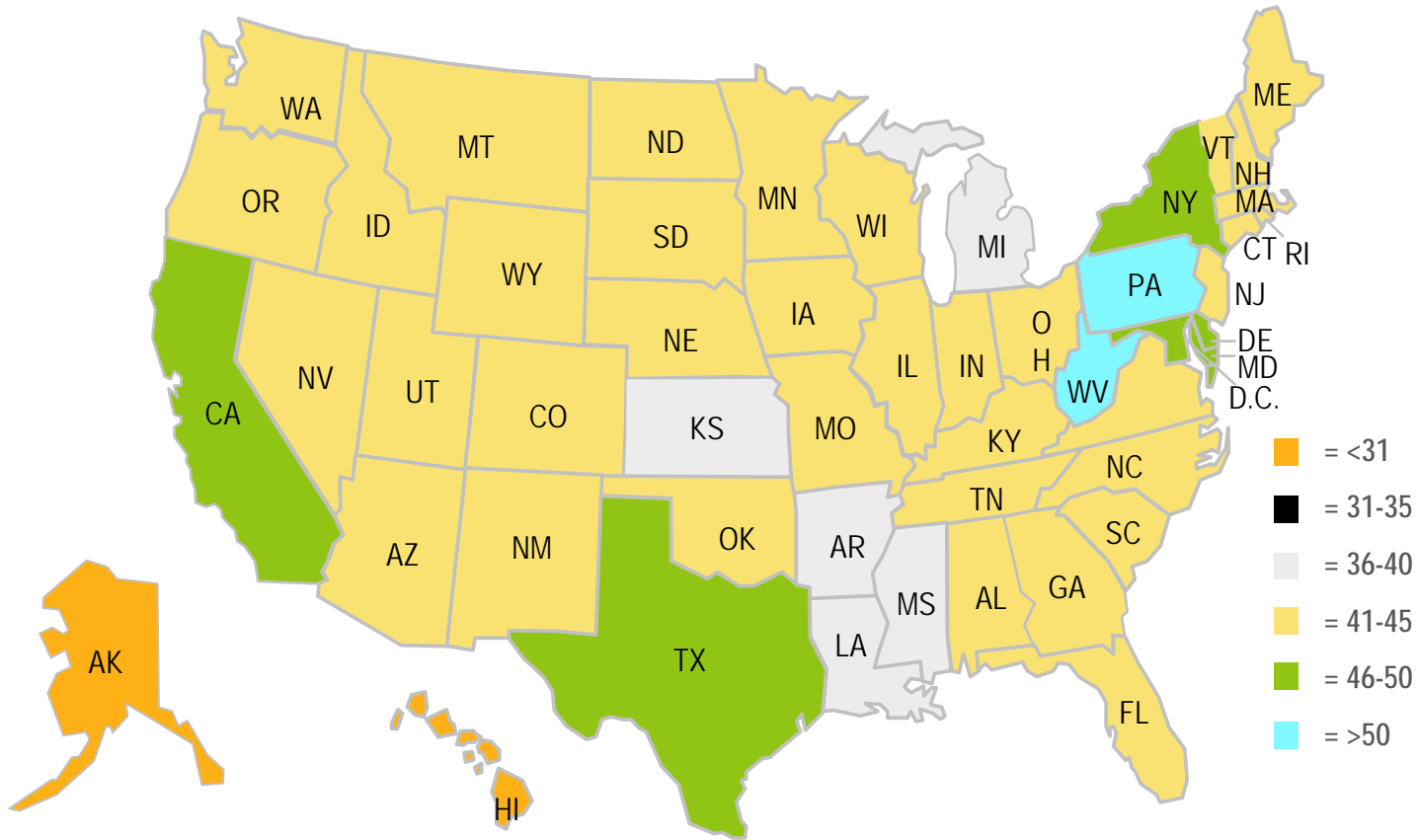
Pre-MMA Perceptions

- PBMs will not enter the market as risk-bearing PDPs
- Premiums will average \$37 per month, and will increase over time
- Drug benefit will cost \$400 billion / 10 years
- Beneficiaries will not enroll
- Beneficiaries will not be able to choose successfully from many plans

2006 Reality

- 10 PBMs are behind 94% of PDP enrollment
- Premium for the typical beneficiary is \$24 per month in 2006 – and 2007
- Part D spending is 15 – 20 percent lower for 2006 – 2015 period than was projected last year
- The share of Medicare beneficiaries with comprehensive drug coverage increased from 59% to 90%
- Beneficiaries are savvy shoppers - and disproportionately chose plans with lower premiums and broader formularies

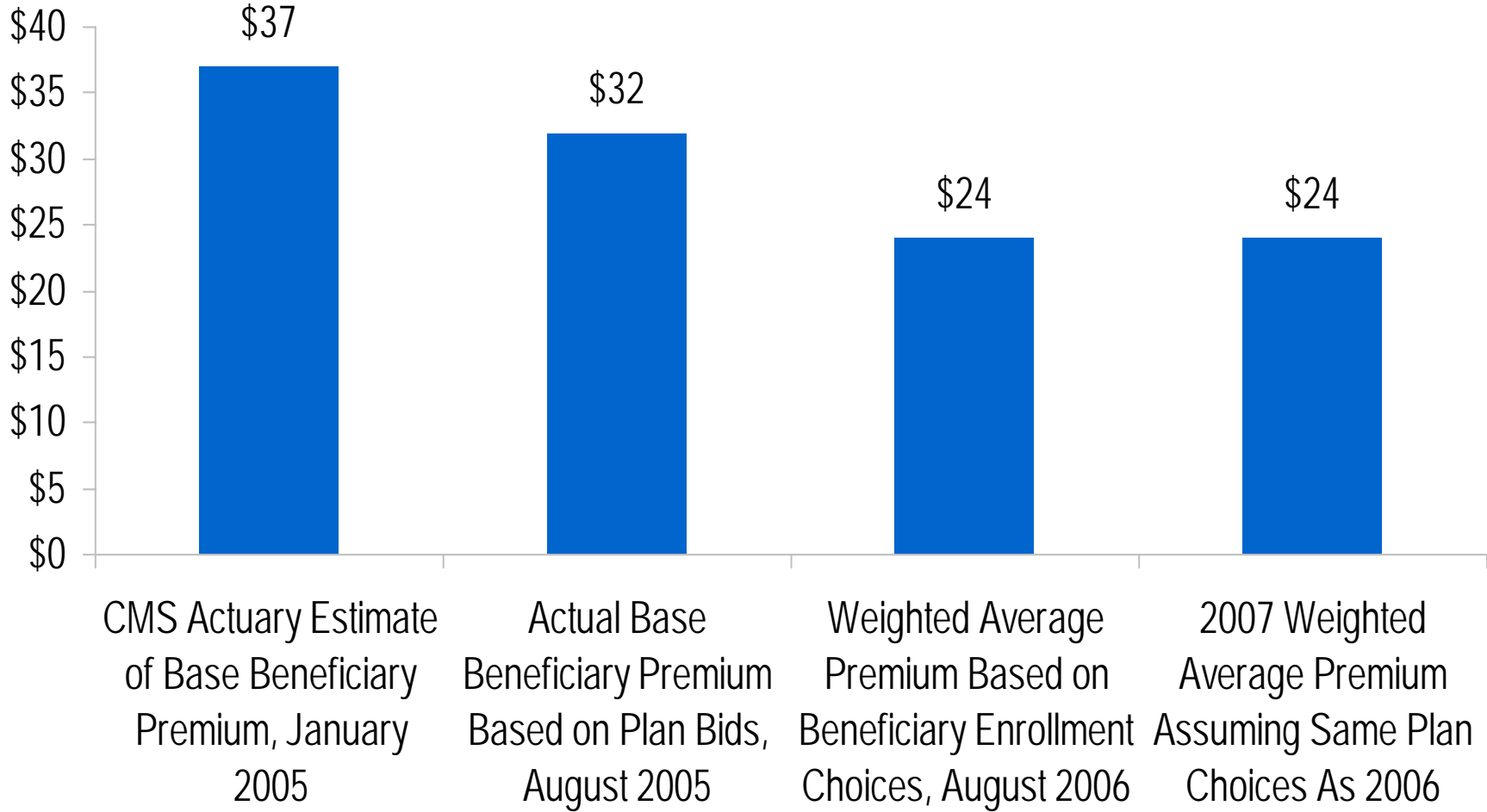
Competitive Market with Many Plan Choices



- **Average state has 42 PDPs**
- **Low: AK (27)**
- **High: PA, WV (52)**
- **MA-PDPs found in most markets**

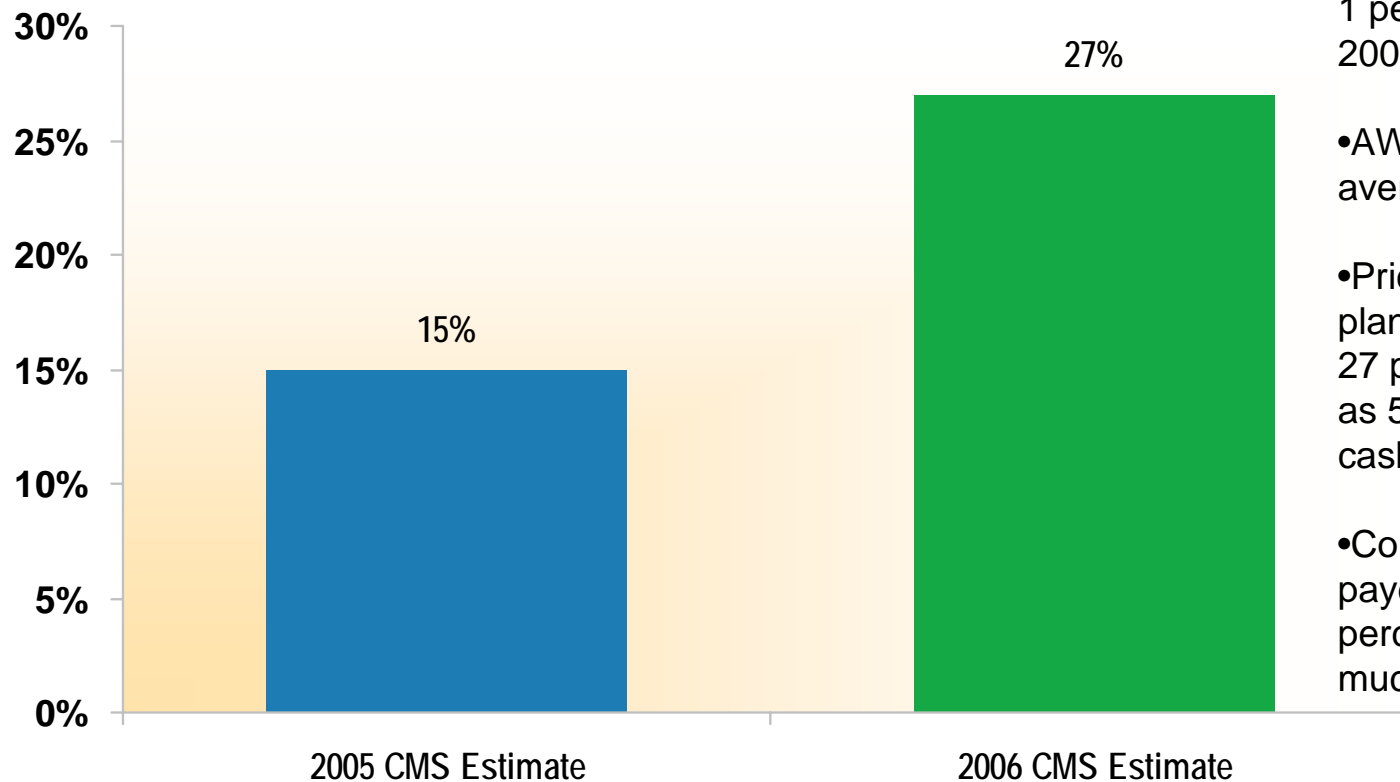
Source: Avalere Health analysis using DataFrame™, a proprietary database of Medicare Part D plan features. Data from July 27, 2006.

Premiums Are Lower Than Expected



Manufacturer Discounts Are Larger Than CMS Expected

2005 and 2006 CMS Projections for Discounts and Rebates



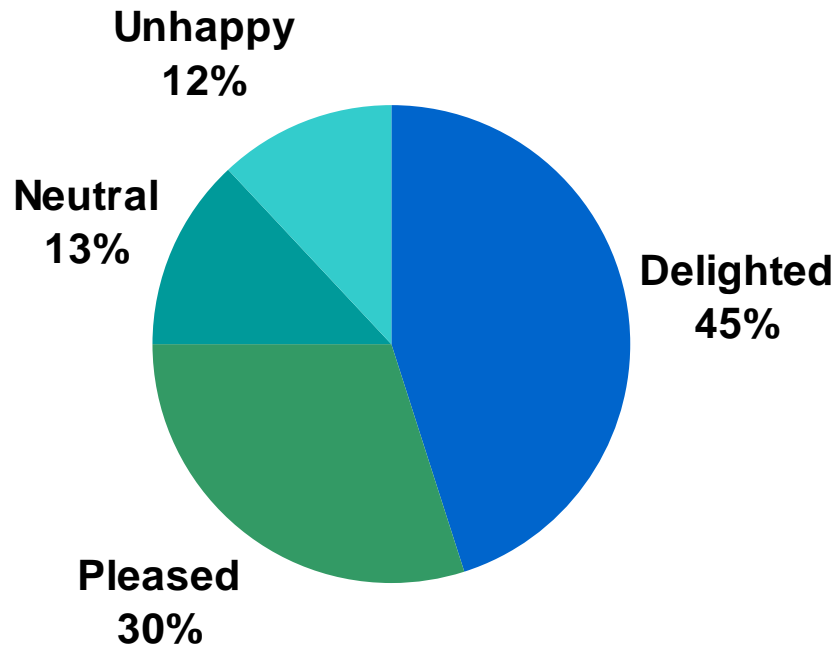
CMS reports that:

- Part D prices increased by an average of less than 1 percent since December 2005
- AWPs increased by an average of 2.9 percent.
- Prices in the lowest-cost plans are an average of 27 percent—and as much as 56 percent—lower than cash prices.
- Compared to “third party” payers, prices average 16 percent lower—and as much as 46 percent lower.

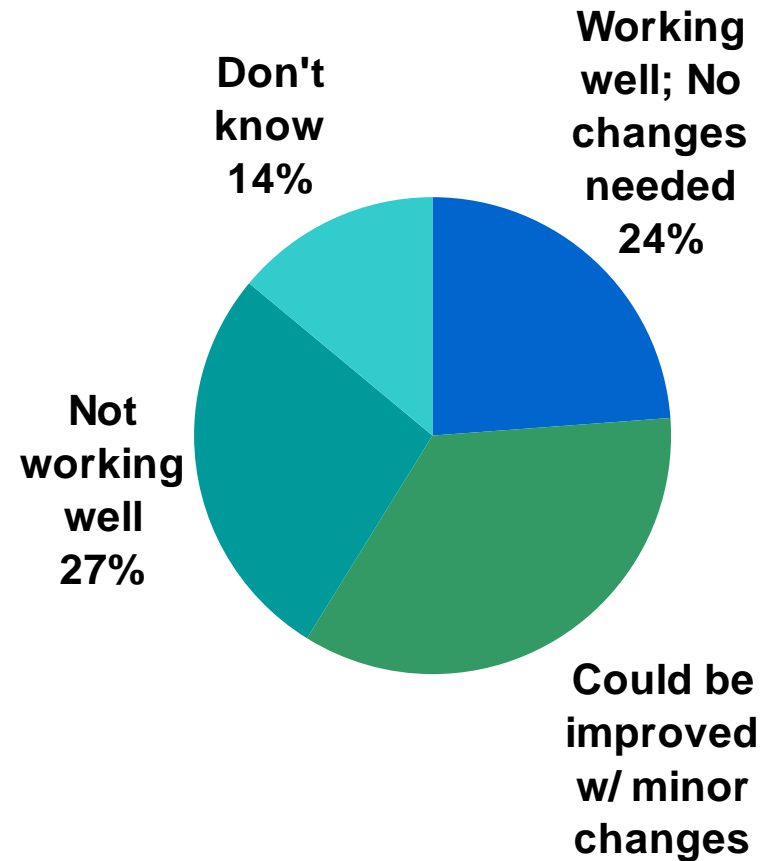
Sources: Letter from Rick Foster, Chief Actuary, Centers for Medicare and Medicaid Services, February 11, 2005, 2005 and C. Borger et al. “Health Spending Projections Through 2015: Changes on the Horizon.” *Health Affairs*, Web Exclusive 22 February 2006: W61-W73 and CMS, “National Health Care Expenditures Projections: 2000-2015,” February 2, 2006, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2005.pdf>

Beneficiaries Are Satisfied So Far... But Continued Effort Needed to Maintain Momentum

Beneficiary Satisfaction Levels



Beneficiaries' Views on Part D



Source: J.D. Power and Associates Survey 09/19/06 (Beneficiary Satisfaction Levels)

Source: Kaiser Family Foundation *Seniors' Early Experiences with Their Medicare Prescription Drug Plans* (06/8-19/06)
(Beneficiaries' Views on Part D)

Plans Cover Nearly All Drugs in Protected Classes

- Cancer¹
 - Cancer drugs are covered by 75% of Part D plans
 - Top twenty drugs most-often covered are on 99 – 100% of plan formularies
 - Copayments range from \$5 to \$40

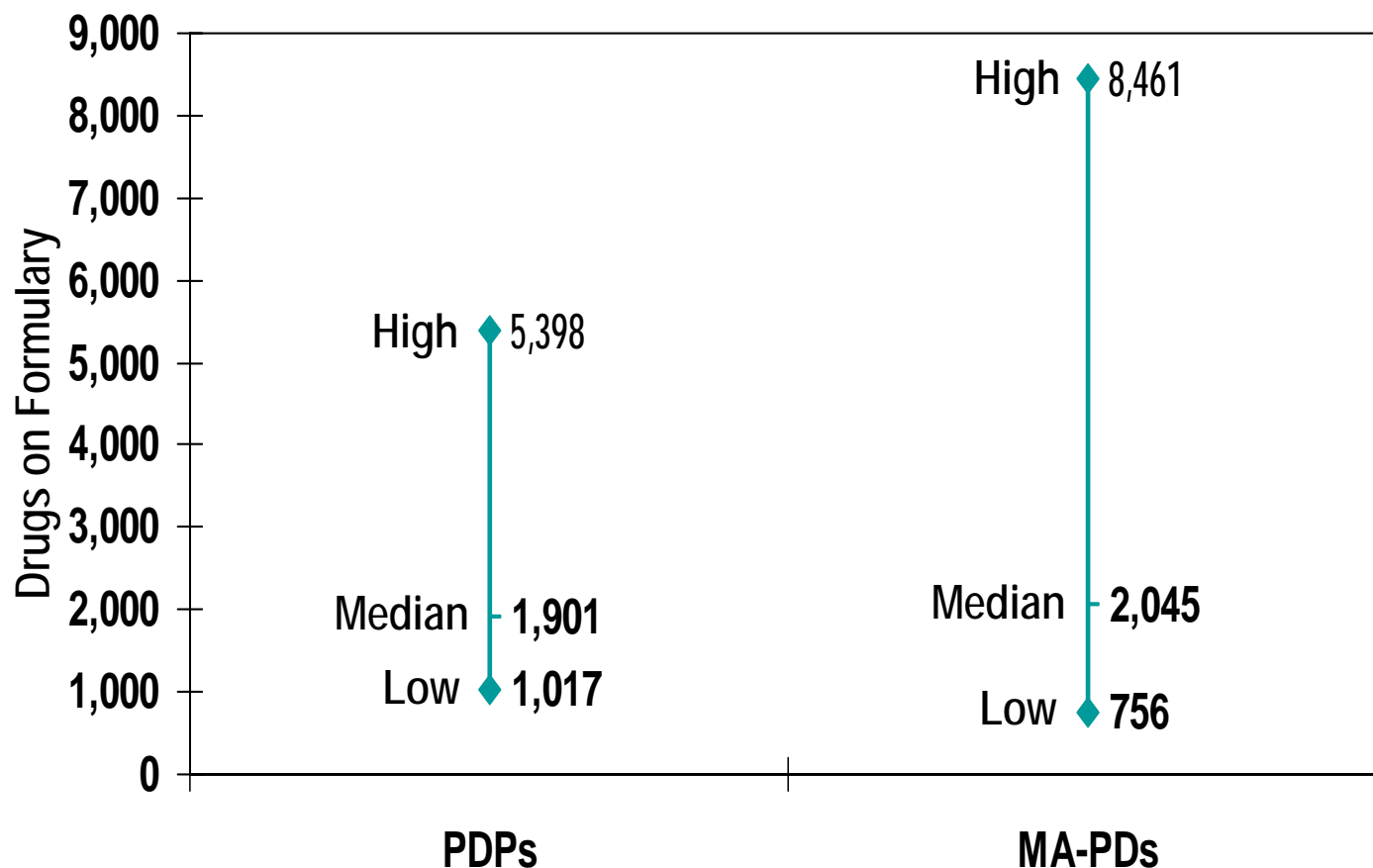
- HIV / AIDS²
 - HIV / AIDS drugs are covered universally by Part D plans in Maryland
 - Generic HIV / AIDS drugs generally on Tier 1; brands on Tier 2
 - Majority of PDPs in Maryland place some brand HIV / AIDS drugs on a specialty tier; coinsurance range 25 – 33%

Source: 1) *Health Affairs* 25 (5): 1240 – 1248, 2006. 2) Kaiser Family Foundation, 2006

Chris – I can't find an alternative design in Excel that is horizontal rather than vertical...

Broad Choice of Drugs on Many Plan Formularies

Number of Drugs on Part D Plans' Formularies, by Plan Type



Number of covered drugs varies widely across Part D plans

Most plans' formularies cover a broad array of drugs

Source: Avalere Health analysis using DataFrame™, a proprietary database of Medicare Part D plan features. Plan benefit and formulary design data from July 2006.

Future Success Requires Adherence to Core Themes

- Ensure a Sustainable Competitive Framework
 - Competition and choice among private plans
 - Assure beneficiary access to needed therapies
 - Low premiums, high satisfaction
 - Negotiations between suppliers & purchasers
- Target Assistance to Those who Need it Most
 - Continue efforts to reach and enroll low-income beneficiaries
 - Minimize disruption from year to year for dual eligibles
 - Provide patient assistance through currently-available channels

Program Enhancements Desirable on Regulatory Side

- Ensure patients with chronic illnesses are treated fairly
 - More patient OOP spending is not always the answer
 - Cost sharing for near-poor merits focus
- Explore options to improve coverage in the donut hole
- Continue to protect access to drugs used in cancer, HIV/AIDS, mental health and immune therapy
- Help beneficiaries make better-informed choices about plans & benefits

Other Enhancements May Require Legislation

- Increase income threshold for low-income assistance; remove asset test
- Expand state pharmaceutical assistance programs
- Allow more costs to count toward catastrophic threshold
- Make Part D spending by beneficiaries tax-deductible
- Smooth out “lumps” in monthly cost-sharing through interest-free loans

... But such changes should not be pursued if they violate the stability of a core competitive benefit.

Medicare Has Bigger Problems to Fix

- Medicare Priorities
 - Ensure long-term financial stability of the program
 - Enhance core payment systems with quality incentives
 - Bring appropriate care management to FFS populations
 - Rationalize the long-term care sector
 - Improve care for dually eligible beneficiaries
 - Stimulate the diffusion of health information technology
- Need to Address All Before Changing Part D

Broader Health Policy Agenda Offers Clear Targets

- Reverse the Growth in Uninsured Americans
 - Fewer employers offering health insurance
 - Deterioration of quality of insurance offered
- Broaden the Purview of the SCHIP Program
- Promote Prevention for Key Public Health Needs
- Ensure that Evidence is Used Responsibly in Medicine

Concluding Thoughts

- Medicare drug benefit is strong
 - Early concerns did not come to fruition
 - Only modest care and feeding is required
- Medicare has broader needs that require attention
 - Fiscal insolvency
 - Quality imperative
- Broader policy agenda merits more focus going forward