



Trends-in-Medicine

March 2004

*By Lynne Peterson and
Diana Woods*

SUMMARY

Most pharmaceutical companies have not applied to be direct sponsors of Medicare-Approved Prescription Drug Discount Cards, but they are offering discounts and even free drugs to some Medicare beneficiaries. Pharmas support for the discount cards are viewed by some experts as a political trade-off for Congress not imposing price controls. Pharmas also are trying to build brand loyalty, drive volume and capture market share as a prelude to the full Medicare drug benefit that begins in 2006. For pharmas, the discount card programs are loss-leaders – or just plain black holes. There is real concern among experts that the cards will be a flop, but that may not be obvious until after the presidential election in November 2004. Meanwhile, health plans and PBMs also want to be approved card sponsors, and some are making private labeling arrangements.

Trends-in-Medicine has no financial connections with any pharmaceutical or medical device company. The information and opinions expressed have been compiled or arrived at from sources believed to be reliable and in good faith, but no liability is assumed for information contained in this newsletter. Copyright © 2004. This document may not be reproduced without written permission of the publisher.

Trends-in-Medicine

Stephen Snyder, Publisher
1879 Avenida Dracaena
Jensen Beach, FL 34957
772-334-7409 Fax 772-334-0856
www.trends-in-medicine.com

MEDICARE PRESCRIPTION DRUG DISCOUNT CARDS

Twelve healthcare and Medicare experts were interviewed to get a better understanding of how pharmaceutical companies will be participating in – and affected by – the Medicare-Approved Prescription Drug Discount Card program. At this point, it is clear that only CMS and the card sponsors themselves know the details of the proposed programs. Within the sponsor organizations, the information is either very tightly held or not yet developed. Sources believe that the whole Medicare drug discount card program is likely to fail. It is too complicated, and the benefits are too small. The expectation is that seniors will be confused at first and then become angry. Thus, it is likely that the Part D benefit may be revised by Congress before it goes into effect.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 authorized the implementation of the *voluntary* Medicare-Approved Drug Discount Card program that will provide benefits to seniors until the new Medicare drug benefit goes into effect on January 1, 2006. The program is designed to help Medicare recipients save 10%-25% on the cost of prescription drugs.

The program also includes a subsidy of up to \$600 a year for Medicare recipients at or below 135% of the federal poverty level. That means that to qualify for the subsidy, income must be less than 135% of the federal poverty level, which means less than \$12,123 a year for an individual or less than \$16,362 for a couple – provided they don't have other prescription drug coverage. The cost of this subsidy will come from the fee seniors will pay to enroll in a discount card program. A Congressional source questioned how seniors would qualify for the \$600 low-income benefit. She wondered, "How are people going to know they qualify for that \$600 and get it? There is going to be an ad campaign...but the ads are more focused overall. They gloss over the drug card...People aren't going to know if they can get the \$600...And what's the benefit of switching for people who already have a card?"

Potential sponsors were required to submit their sponsorship request to CMS in January 2004. More than 106 entities sent CMS a letter asking to become a Medicare-approved discount drug provider. Sources expect that about 60 sponsors will eventually be approved. Pharmacy benefit managers (PBMs), insurers, and pharmas are all likely to be big providers/sponsors of Medicare Discount Cards. An expert said, "One-third are Medicare Advantage plans (*NOTE: Medicare Advantage is an optional managed care program for seniors that offers a choice of companies offering enhanced coverage over traditional fee-for-service Medicare*)...Several of the manufacturers probably will do one...And the others

will be supplemental insurers, chain drug stores, PBMs (who will be out in great numbers, no doubt), and a handful of membership organizations like AAA, AARP, and regional groups.”

In April 2004, CMS is supposed to notify entities that qualify, and sources expect about 60 entities to make the cut. Then, in May 2004, sponsors can begin enrolling seniors, with the cards going into effect in June 2004. Sponsors may offer their Medicare-approved drug discount card exclusively to their members (as some health plans may opt to do) or to the public at large. If a sponsor chooses to provide it only to its members, there are special rules and instructions involved.

THE ISSUES

Experts have a number of concerns about the cards, including:

Lack of real benefit. The president of the non-partisan Medicare Rights Center is dubious about the cards. He said, “The only good thing is the \$600 benefit. The rest won’t be worth too much to many people. I’m skeptical about the utility of the cards. That being said, it’s a structurally rigid system. It’s true that some cards will help some people get some drugs. So, sure, it’s better than nothing. More interesting are the Medicare-approved cards coming later this spring...On the surface, they look pretty good, but ask the third or fourth question, and you find out they don’t help very many people...Every week the sponsors of the cards can change the drugs...The bottom line is that the Medicare-approved card will probably be one option. Most people will be no better -- and probably worse -- with it than with the other cards, unless you get into that small sliver of humanity that is eligible.”

Lack of innovation. The discount cards do not appear to be developing the way Congress intended. At least that’s the opinion of the policy director of the Center for Policy Alternatives, who said, “I don’t think that Congress had in mind the idea that the cards would be run by the manufacturers. They thought that the insurance companies and prescription management companies (PBMs) would step in and do this, and they thought that somehow they’d be able to get lower prices based on bulk purchases. The problem is that nobody gives a discount based on bulk purchases – that’s not how it works.” Another expert said, “There’s nothing special about plans like this. Whole states have adopted programs like this. California and Florida have for years. In those states, if you have a Medicare card, you can buy drugs at your pharmacy for the Medicaid price, and the pharmacy has to give that price if they want to participate in Medicaid. The Medicaid price is a low-profit price, similar to muscling down 10%. Other states have set up a card, similar to what’s going to be offered in May (by Medicare Discount Card sponsors). AARP also does it.”

Negative impact on pharmacists. An expert contends there is only one place where Medicare can get discounts – out of the pharmacist. He said, “The pharmacists don’t have a tremendous markup on drugs, but you can knock down about 10%. The card makers might say, ‘If you don’t accept this card and give the 10% discount, the seniors won’t go to your pharmacy...The pharmacies could maybe knock 10% off prices. The drug companies could knock prices down 40%, but they’re not going to. There’s no reason to. They’re in business to make money, and they’re not going to give away money for no reason. The only way to make money in this business is to get some kind of membership fee out of the patients, then muscle the pharmacies, and give a 10% discount to people. Now, maybe that sounds good, but it’s crummy because you can already get a 10% discount by going to Wal-Mart or Costco...So, the only people you’re abusing are the pharmacies that don’t have the ability – current ability – to give big discounts, and they’re going to be muscled down, whether that’s good or not.”

Confusion. Sixty cards are too many, some experts believe. The American Association of Retired Persons (AARP) is concerned that the cards will be too confusing for consumers to navigate – and that the benefits will be minimal.

- An AARP official said, “There are plenty of cards out there today, and AARP probably has the biggest one. Some are sponsored by drugstores, some by drug companies, and some by consumer organizations. The point is that all these cards that exist are going to continue, and on top of them will be the Medicare-endorsed cards. You’ll be able to keep the other card and also get a Medicare card, but you can’t get more than one Medicare card. It’s going to be very confusing.”
- A pharma official said, “With 106 entities who have a desire to participate and believe they have a business model to participate, it potentially makes it somewhat confusing for senior citizens.”
- An official of the Medicare Rights Center agreed, “For a sliver of humanity, it will be a very useful thing if the people are able to learn about it, enroll in it, and exploit it, and those are very big ifs. The bottom line of the entire story is that if complication is bad, great complication is very bad, and this is hideously complex...Our job is to try to get as many people as possible enrolled. I’m anticipating that we’re going to get cooperation from the Bush administration. They’re not going to want this set up, and then, come September and October have virtually no one getting a benefit from the cards...Basically it looks like most of the big pharmaceutical companies are taking the position that they will maintain their existing programs...and the discount will be deeper than that offered with the Medicare-approved cards.”

AARP offered some questions seniors should ask when considering a card:

1. **Can you buy the drugs you need – or is the card limited in some way?** Many cards will have formularies and will favor certain drugs.
2. **Can you go to the neighborhood pharmacy?** If the retail network isn't broad, you may have trouble filling the prescription.
3. **What kinds of discounts are available through the card?** The most restrictive cards will have the greatest discounts, so you have to decide between access and price.
4. **What is the reputation of the entity that is offering the card?** Look for a stable sponsor and one that will stand behind the card.
5. **If you're already in a program, how does that relate to the CMS card?**

Politics. Sources are suspicious that politics are the real reason the pharmas are offering discount cards.

- The Medicare Rights Center official said, "If there's one big question on the Medicare bill, it's why Congress and the administration support a prohibition on the government bargaining on the best prices from the pharmaceutical industry. We have this crazy piece of legislation that ties the hands of the government from getting good prices. The liberals call it a give-away to the pharmaceutical industry. The right – now that we've found out the real price of the bill – is going bonkers. Shouldn't there be at least one or two people from the right saying, 'Shouldn't we negotiate for better prices'? That's the nightmare scenario for the pharmaceutical industry."
- The Center for Policy Alternatives official said, "If I were a drug company, I wouldn't (offer a discount card). The only reason to do it is for politics – not for money. There is no money to be had here. Companies will do it in order to go to Sen. Bill Frist (R-TN) and say, 'We're doing our share; we're helping to make you look less foolish.' Because the (presidential) election in November (2004) is going to take place months after this goes into effect, if these cards don't deliver, it's going to make the President and Congress look like fools. The only reason for pharmas to deliver and voluntarily cut prices is so that their allies will be re-elected in November, and I don't think they're organized that well to be able to do that. And that might be anti-trust in a way – to say, 'Let's collectively bleed a little bit so that our friends in D.C. don't

look foolish.' I don't believe that's likely. The cards will be penny ante, and there will be no particular difference between these cards and cards that are currently available."

Fraud. An official of the Pharmaceutical Research and Manufacturers of America (PhRMA) said that there have been warnings that unscrupulous people are selling unapproved, fraudulent cards now, before the program gets started, "AARP is warning people not to pay anyone yet – because the cards are not available yet...The official card is supposed to have a Medicare or CMS seal on it...The concern is that seniors will get confused and not know which cards are real and which aren't...In addition, seniors must enroll in the program, and many won't realize that a card won't automatically come, the way their Medicare card did."

Impact on states. Many of the Medicare seniors who will qualify for the drug cards also would qualify for Medicaid but they either (a) don't know they are eligible, or (b) know they are eligible but refuse it because of the stigma. A consultant said, "A lot of states are projecting Medicaid roles will grow substantially during this 18-month period because – as beneficiaries become aware of what they are entitled to because of their income – not only will they sign up for the discount and get the subsidy but they also will go the distance and apply for Medicaid."

Existing Pharma Medicare Discount Cards

Company	Program	Medicare beneficiary eligibility criteria	Benefit
Abbott, AstraZeneca, Aventis, Johnson & Johnson	TogetherRX	Individual income <\$28,000 Couple income <\$38,000 No other prescription coverage	Discount varies by company, range 20%-40%
Novartis	Care Card (standard)	Individual income <\$18,001-\$24,000 Couple income <\$24,001-\$38,000 No other prescription coverage	25%-40% discount
	Care Card (low income)	Individual income <\$18,000 Couple income <\$24,000 No other prescription coverage	\$12 annual fee and then drugs free
GlaxoSmithKline	Orange Card	Individual income <\$26,000 Couple income <\$35,000 No other prescription coverage	Average discount 30%
Pfizer	Share Card	Individual income <\$18,000 Couple income <\$24,000 No other prescription coverage	\$15.00 flat rate for each 30-day prescription (% varies depending on the cost of the drug)
Lilly	AnswerCard	Individual income <\$18,000 Couple income <\$24,000 No other prescription coverage	\$12 fee per prescription

THE PHARMA ROLE

Individual pharmaceutical companies are not believed to have asked to become sponsors of approved cards, but they are participating. Many pharmas already have discount programs for Medicare recipients.

A Congressional aide believes pharmas will have to partner with PBMs and insurance carriers on these cards. She said, "What CMS has said from the beginning is that these cards – like TogetherRX – wouldn't qualify on their own. It only covers the drugs they have patents for, and the Medicare card program is supposed to be more inclusive. We didn't think that drug companies would be able to do it at all...Okay, it's great that you're getting Prozac (Lilly, fluoxetine) for \$15 when you could be taking Wellbutrin (GlaxoSmithKline, bupropion) for \$5. You think you're getting a discount because they told you it would cost \$100...but you can get the generic for \$3, so you are still overpaying...It's great PR but not great for people...There are too many ifs and qualifiers...The catch is that Lipitor is one of a number of cholesterol-lowering drugs, and you might be able to get another statin cheaper, but people are going to believe the promotion...The whole thing is suspect...Pfizer would say the reason companies are doing this is that it gives them great lip...When people get the cards, they're going to get very mad."

The best Medicare-approved cards are likely to incorporate more than one pharmaceutical company's drugs. An expert said, "If Medco were to sponsor a Medicare-approved card, then we'd be looking to negotiate some level of deal with some – but not all – pharmaceutical companies. You'd think that any sponsor of an appealing card is going to have more than one pharmaceutical company participating...Most pharmaceutical companies will hang in. It's a very delicate time for the pharmaceutical industry...They probably recognize that the Medicare card is going to be a flop. They're going to want to continue to have the veneer of their own cards."

Experts believe pharmaceutical companies are participating in the discount cards to position themselves for the Medicare Part D benefit in 2006. An expert said, "Pharmas are positioning themselves for 2006. Everybody is doing the same thing for their own particular niche." Another expert said, "What many manufacturers are doing is making a play for market share and building brand loyalty...This is only an 18-month program and then in 2006, Lilly (and others) will start getting payment for these drugs from the PBMs and the plans who have those products on formularies...So, what the pharmas are trying to do during subsidization is build brand loyalty among seniors for their products and get to a place where in 2006, the seniors are telling the plans they enrolled in that they want their Lilly (or other) drug...A lot of the manufacturers are looking at the discount card as a loss leader until 2006...From a pharma standpoint, this is government subsidized, direct-to-consumer advertising, and the pharmas are trying to drive volume, market share, and brand loyalty for their products in the run-

up to the benefit starting in 2006. Then, when they start having formulary battles with payers, they can have beneficiaries weigh in...This isn't just a loss leader on product...but it is also a loss leader politically for them (the pharmas) because this was the backstop to price controls, and there has to be a great measure of goodwill from the manufacturers to show that when they went to Washington with the white hats, as the debate was raging, and said they would take care of low income seniors if it was a private benefit, then this is part of them delivering on that promise."

Some sources insisted there is no incentive for pharmas to offer real discounts to Medicare recipients, and they questioned the motives of those who do. The Center for Policy Alternatives official said, "You get a discount based on what pharmas call 'moving market share.' If you can have leverage to make people choose one medicine over another, that's important. But there is nothing in this card that gives anyone any ability to move market share. Therefore, there's no financial reason for a manufacturer to cooperate. There is no reason for the manufacturer to say, 'I'll give you a discount because the patient is going to buy whatever medicine.' There's nothing an entity coming into negotiations has to offer the drug company. There's no leverage." An AARP official said, "Drug companies can't offer a (real) Medicare card, but what they can do is offer discounts to other sponsors of this kind of card."

Have some of the pharmas priced their drugs too low for these cards? A source said, "Only time will tell...The important thing to bear in mind is that this is only for 18 months...The final program will most certainly be very different."

CARD DETAILS

Little is known yet about most of these cards, but some details are starting to emerge. A source said, "No one has announced its entire plan. It is still premature to do so."

LILLY'S AnswerCard

The Lilly AnswerCard was introduced before the Medicare Prescription Drug Discount Card program was passed. Lilly did not submit a new sponsor proposal. Rather, Lilly is simply offering the Lilly Answer discount to anyone who gets any approved Medicare Drug Discount Card when the cards are issued. A Lilly official said, "What we did was announce that we would participate with all government-approved cards and provide the same Lilly Answer benefits through any other government card. Seniors can use the Medco card and get the Lilly benefit. They don't need to apply for our card; it will be automatic...We didn't set up a new program; we are simply offering the benefits of our program to qualifying Medicare recipients."

The Lilly program applies to more than Medicare patients. An official explained, "For non-Medicare patients...If you have insurance in the U.S. then the co-pay for the drug won't be that expensive...Those without insurance and who are in same threshold as Medicare, can apply through the Lilly Cares program and get three months free, and if there is still no insurance, the person can re-apply and can get another three months free."

Lilly charges \$12 per prescription with AnswerCard, but Lilly doesn't get any of this money. A Lilly official said, "It is not a money making venture...The \$12 (cost) is for administering the program...We are actually losing money on that...We don't get anything from the \$12...Last year, the program cost us \$250 million...This year, I can only assume the program will expand and that the government will actively promote it. We have prepared to assist with that...PBMs will be the card-holders...and they and the pharmacies will get the dispensing fee that we collect."

Lilly does not even expect to get name recognition from this program. An official said, "The allegation was that the cards would generate goodwill for pharmas because consumers would see a benefit...But that is not true because you won't necessarily have the Lilly card in hand. You will have a card from a PBM and get a full Lilly benefit. There will be very little recognition from the customer that Lilly is providing the benefit and not Merck/Medco, etc."

The Lilly program is part charity, part politics. An official said, "We think it is very important to support the government's new Medicare program...We openly encouraged the government to enact a prescription drug benefit, and we think this is putting money where our mouth is in providing that support."

Lilly officials could not estimate how many people they expect to take advantage of this program or the percentage of Lilly drug sales likely to flow through this program. An official said, "We heard from CMS that approximately 7.5 million seniors will be applying for the card program...By our estimates, we would reach 70% of that through our Lilly Answer program."

In terms of therapeutic areas, Lilly has made this a company-wide program. It applies to all Lilly drugs, except perhaps Forteo (parathyroid hormone) which has a more generous benefit (which extends the discount to Medicare recipients up to 400% of the federal poverty level). An official said, "A lot of companies have specific programs around different drugs...but not necessarily the entire portfolio...We work first, diligently, to find the person insurance...We help them identify shortcomings...If insurance still doesn't cover the medication, then we provide it free to patients above the federal poverty level."

MERCK

Merck announced that it will provide its medications free to low-income Medicare beneficiaries who exceed the \$600 limit on discount cards. Merck will do this by reimbursing card sponsors for Merck medicines, and the card sponsors will then be responsible for reimbursing the pharmacies. While Merck medicines will be free, the pharmacies may charge a "modest" dispensing fee.

Merck also will continue its indigent patient program which provides medication free to Americans of all ages who lack pharmaceutical coverage and cannot afford their medicines. Despite these announcements, sources said that Merck considers itself "behind schedule" on its Medicare discount card program.

TogetherRx II Card

This card is the work of a consortium of pharmaceutical companies, including AstraZeneca, Abbott, Johnson & Johnson, and Novartis – with McKesson as a partner. Reportedly, GlaxoSmithKline withdrew from participation, citing anti-trust concerns; and Bristol-Myers Squibb dropped out, citing "financial considerations." TogetherRX was introduced in June 2002, TogetherRX II is an expansion of this into what the consortium hopes will be a Medicare-approved discount card.

PFIZER'S Share Card

A Pfizer official said his company also did not submit a proposal for a Medicare-approved discount card. He explained, "We have 500,000 enrollees now. Medicare beneficiaries who qualify get any Pfizer drug for \$15...and we don't get any of that \$15." Pfizer plans to "participate broadly" in the approved plans by offering the same Share Card benefits to Medicare beneficiaries who use any approved card.

HEALTH PLANS

Many insurance carriers are aggressively pursuing discount drug cards in an effort to prevent wholesale defections by members. An official of the American Association of Health Plans said, "For low income people who will be helped the most by the drug discount cards, health plans can continue to offer a more robust drug benefit...For us, it is not a question of partnering...but to be (a) able to incorporate the whole drug card concept into our current level of benefits and (b) improving the current level of benefits provided...Most of our members currently providing benefits to seniors are doing so through a PPO or HMO in Medicare Advantage, and we think a lot of those companies will go for their own cards – at least for the people they serve through their Medicare plans...Health plans can continue to stretch dollars farther."

Not every health plan will offer a card. A source said, “There are probably a fair number of plans that won’t offer a card – to prune the high-drug-utilizing beneficiaries. As a matter of course, they will work with all the pharmas. I’m not aware of any plans doing exclusive deals with a pharma...If anything, the plans will partner with PBMs. The question for plans is whether to offer the card itself or work with a PBM, and I’m seeing both approaches.”

Health plans are taking two different approaches to the cards:

1. **Exclusive cards** that Medicare Advantage plans can do. Under these, plans only have to offer the card to their members in their service area.
2. **General cards**, which can be offered by anyone in good business standing with experience in offering a discount card...but they have to be offered to all beneficiaries on at least a state-wide basis. A source said, “In general, this is a way of advancing brand recognition and loyalty.”

Health plans appear to be working mostly with PBMs. A source said, “If I’m a plan and administer a Medicare card, I’m probably running it through a PBM, either in-house or through Medco or one of those outside PBMs.”

Among the insurance-sponsored cards are those by:

- **AETNA.** He said, “Aetna is one of the 106 entities that submitted sponsor letters to CMS.”
- **INDEPENDENT HEALTH.** This Buffalo NY health plan’s card was described as: “A smaller plan, probably targeted to the wider Buffalo region...It will offer a program to people they cover in their Medicare plan.”

How many seniors will be served by all these plans? An American Association of Health Plans official said, “We are hopeful that in our smaller universe of 4.6 million seniors, there is 83% with some type of drug coverage...and this should make it far better in the short term...then, in 2006 a larger benefit kicks in...But it is difficult to get a read on how this will work in the retiree marketplace or in wraparound employer plans.”

PRIVATE LABELING

Only one source raised the idea of private labeling of drugs in arrangements between health plans and PBMs. He said, “I don’t think there will be a lot of combination cards...but I think we will see a lot of private labeling going on...When you consider that there are around 200 health plans contracting with Medicare and only one-third of the applications will be comprised of those plans, I think a lot of health plans will opt to private label through the PBMs they do business with...The law says that if you are a Medicare Advantage plan and you have enrollees who want a discount card and you offer one, then they have to join yours. If you don’t offer one, then they have to dis-enroll in your plan to join another plan...So this

became a retention tool for the plan. If you are Aetna, Kaiser, etc., and in a competitive market like South Florida or Southern California, this was almost a cost of doing business and retaining membership – or you would see a large number of enrollees defecting to plans that did offer a drug discount card.”

PHARMACY BENEFIT MANAGERS (PBMs)

John Gorman, president of Gorman Health Group, a large healthcare consulting organization and a former assistant to the Director of HCFA’s Office of Managed Care, suggested PBMs are trying to use the discount cards to “move up the food chain and get in the game.” ♦