Private Medicare Drug Plans: High Expenses and Low Rebates Increase the Costs of Medicare Drug Coverage

This document is designed to provide a summary of the above-named Committee report, released October 15, 2007, covering the Committee Majority's five key findings.[1] It does not provide a critique/assessment of the analysis in the report. This document employs the terminology used by the Committee. The Minority also released a point-by-point refutation of the findings in this report, though a summary of that report is not included herein.[2]

Overview

In February 2007, Rep. Henry Waxman (D-CA-30) and the House Committee on Oversight and Government Reform ("the Committee") requested detailed financial and actuarial information from the 12 leading insurers in Medicare Part D.[3] The purpose of the request was to allow the Committee to examine proprietary data about the insurers' administrative expenses, sales costs, profits, and drug discounts/rebates in order to assess the performance of the private Part D program as compared to traditional Medicare.

Based on its analysis of the data it received, the Committee made the following conclusions:

- The Part D insurers have high administrative expenses.
- The Part D insurers have not negotiated significant drug manufacturer rebates.
- The Part D insurers receive rebates on drug purchases made by beneficiaries in the coverage gaps.
- The Part D insurers have established drug pricing formulas that leave beneficiaries and taxpayers vulnerable to price increases.
- The Part D insurers have a mixed record in promoting the use of generic drugs.

Information Requested by the Committee

- Medicare drug plan profits.
- Medicare drug plan administrative expenses; negotiated price discounts, rebates, and other price concessions obtained from drug manufacturers and pharmacies by Medicare drug plans.
- The extent to which, and the methods by which, these rebates and other price concessions obtained are passed on to beneficiaries.

Information Received from Part D Insurers

- 2006 and 2007 bids.

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[1] The report is available at http://oversight.house.gov/story.asp?ID=1536.

[2] The report is available at http://republicans.oversight.house.gov/News/PRArticle.aspx?NewsID=237.

[3] The insurers were Aetna, Caremark, Coventry, Highmark, Humana, Kaiser, Medco, Memerhealth, United, Universal American, Wellcare, and Wellpoint. These insurers provide Part D benefits to over 18 million Part D beneficiaries or 75 percent of total Part D beneficiaries.

- Insurer drug rebate and discount reports submitted to Center for Medicare-Medicaid Services (CMS) for 1Q and 2Q 2006.
- Responses from insurer representatives provided during interviews with the Committee.

Other Information

- Part D drug utilization obtained from the Pharmaceutical Assistance Contract for the Elderly (PACE) program (Pennsylvania State Pharmacy Assistance Project).
- Information from independent experts Part D and on the Pharmacy Benefit Manager (PBM) industry, including experts from Government Accountability Office (GAO) and Congressional Research Service (CRS).

FINDINGS

Administrative Expenses, Sales Costs, and Profits in 2007

▪ **Average administrative expenses, sales costs, and profits (as reported to CMS on bid forms under "non-pharmacy expenses") of Part D insurers**	$180 per beneficiary
▪ **Total administrative costs, sales expenses, and profits of Part D insurers:**	$4.3 billion
▪ **Average profits**	$43 per beneficiary $1 billion in the aggregate
▪ **Average sales costs**	$30 per beneficiary $720 million in the aggregate
▪ **Average other administrative expenses**	$107 per beneficiary $2.6 billion in the aggregate
▪ **Lowest reported administrative expenses, sales costs, and profits**	$71 per beneficiary
▪ **Highest reported administrative expenses, sales costs, and profits**	$325 per beneficiary
▪ **Percentage of plans reporting administrative expenses, sales costs, and profits over $200 per beneficiary**	25 percent
▪ **Percentage of plans reporting administrative expenses, sales costs, and profits over $300 per beneficiary**	8 percent

- In addition to these expenses, CMS spends $300 million to administer Part D, raising the total administrative costs of the Part D program to $4.6 billion, representing 9.8 percent of the total cost of the program.

- The administrative expenses, sales costs, and profits of the Part D program are higher than those of other government programs and of private-sector PBMs' commercial books of business by the following ratios:
    - Traditional Medicare: 6 times
    - Pennsylvania PACE: 3 times
    - PBMs: 2 times
- Administrative expenses, sales costs, and profits of the Part D insurers increased by 15 percent from $156 per beneficiary to $180 per beneficiary from 2006 to 2007.
- The rebates negotiated by insurers in the Part D program are less than those available under Medicaid. If the Part D program obtained Medicaid-level rebates, drug spending would be reduced by 26 percent ($15.6 billion), saving taxpayers and beneficiaries an additional $10.7 billion.
- The U.S. Department of Veterans Affairs, Department of Defense and 340B clinics receive higher rebates from manufacturers, although they are not directly comparable to the rebates received by Part D insurers because they are calculated from a different baseline.
    - 340B: 49 percent off average wholesale price (AWP)
    - VA: 58 percent off AWP
    - DoD: 59 percent off AWP

Rebates from Drug Manufacturers in 2007

Average drug manufacturer rebate	$201 per beneficiary
Percentage of average beneficiary expenditures reduced by manufacturer rebates	8.1 percent
Highest reported rebates	12.3 percent
Lowest reported rebates	< 4 percent
Number of drugs for which insurers received rebates	637 (27 percent of the 2,300 total drugs used by beneficiaries) in the aggregate[4]
Average number of drugs for which insurers received rebates	210
Highest reported number of drugs for which insurers received rebates	248
Lowest reported number of drugs for which insurers received rebates	129
Number of drugs among the top 100 drugs with sales to Medicaid for which insurers DID NOT received rebates	18 (15 generic; 3 brand)

[4] As estimated based on data from the PACE program.

- In general, the Part D insurers did not obtain rebates for generic drugs.

- Drug manufacturers reported "windfalls" as a result of lower rebate payments on dual-eligibles (from an average of 26 percent under Medicaid to 8.1 percent under Medicare). Manufacturers would have paid a total of $4.0 billion in rebates on dual-eligible utilization under Medicaid but will pay only $1.2 billion on that same utilization in Medicare.

Drug Rebates in Coverage Gaps

- Eleven of the 12 Part D insurers will not pass their drug rebates through to beneficiaries in the form of lower prices. Two of the 12 insurers indicated that they did pass through some or all rebates to beneficiaries in 2006, however, one of them discontinued the practice in 2007.

- Insurers will receive $1.0 billion in rebates on coverage gap purchases by beneficiaries in 2007.

- The claim that Part D insurers use rebates to reduce drug-plan premiums providing an actuarially equivalent benefit to beneficiaries is inaccurate. On average, 75 percent of the costs of plan premiums are paid by the government, not the beneficiary. This means that beneficiaries would at most realize only a 25-cent reduction in premiums for each dollar of rebates retained by the insurers. Several insurers acknowledge that they retain a portion of manufacturer rebates as profits.

Increases in Drug Manufacturer List Prices

- Insurer use of AWP leaves beneficiaries and taxpayers vulnerable to manufacturer price increases. Since January 2006, the average list price for the 25 most popular brand-name drugs used by Part D beneficiaries has increased by 8.9 percent. The list prices for 13 of the top 25 drugs increased by 10 percent or more, with the list price of one of the drugs increasing by 25 percent.

- Part D's AWP-based pharmacy prices do not represent significant savings off of prices available to individuals who do not have prescription drug coverage via discount providers like Costco, Drugstore.com or Wal-Mart.

Use of Generic Drugs

- Part D insurers' record in promoting the use of generic drugs is described as "mixed," noting that in 2007, 59 percent of all Part D prescriptions will be filled with generics. This level of generic drug use is higher than that of Medicaid (54 percent) but lower than that of the VA (68 percent).