

Another Hole in the Medicare Drug Benefit

There's been a lot of talk about the "doughnut hole"—the gap in coverage in the Medicare drug benefit, when seniors and others in Medicare have to pay for all of their drug expenses themselves. But that's not the only hole in the benefit. There are two provisions in particular that put giant holes in any efforts to contain rising drug costs:

- The law prohibits the federal government from negotiating for lower drug prices; and,
- The law does not allow reimportation of drugs from other countries.

What do these omissions mean for me, as someone who relies on Medicare?

First, your drug bill will keep growing. Because the law prohibits the federal government from using the purchasing power of Medicare to negotiate lower prices for drugs—like it currently does for the Department of Veterans Affairs—the prices of prescription drugs will keep going up like they have in the past. For example, in 2003, drug prices increased 3.4 times the rate of inflation.

Second, you won't be able to get the lower prices that other countries pay because the law prohibits the reimportation of prescription drugs, even from Canada, until certified perfectly safe by the Department of Health and Human Services (HHS). The Secretary of HHS has already said that he will not approve reimportation. The federal government is even stepping up actions to stop internet sites that sell Canadian drugs and U.S. pharmacies that import drugs from Canada.

But if I have drug coverage through Medicare, does it matter to me if prices go up?

Yes. It matters a lot, because if you get the standard Medicare benefit, you'll have to pay for all of your drug costs during the annual "deductible period." Then, even after Medicare starts paying, you'll have to pay 25 percent of drug costs up to \$2,250 in 2006. At that point, Medicare stops paying and you'll have to pay for all your drug expenses up to \$5,100, when Medicare starts to help again. So, you'll still have to pay for a lot of your drug costs yourself. And as drug prices go up, your money will buy less and less.

But that's not all. *Every year*, your Medicare drug benefit will change based on what Medicare is paying for prescription drugs. As drug prices go up, so will Medicare's costs. And your benefits will change—you'll be paying more—to make up for Medicare's increased costs. The Congressional Budget Office estimates that the annual deductible (what you pay before you get any coverage) will increase from \$250 in 2006 to \$445 by 2013. During the same time period, the amount that you will have pay out-of-pocket for prescription drugs before you qualify for catastrophic coverage is projected to increase from \$3,600 to \$9,066.

Would government price negotiations help lower drug prices?

Yes. The table below compares the prices of drugs frequently used by seniors in the U. S.; in the Department of Veterans Affairs (where the government does negotiate prices); and in Canada, Australia, and the United Kingdom—countries where the governments negotiate prices with the drug manufacturers.

Drug	Select Drugs Frequently Prescribed to Seniors Cost Per Year, in US Dollars				
	United States, price on Drugstore.com	Veterans Affairs, Federal Supply Schedule	Canada	Australia	United Kingdom
Lipitor, 10 mg	\$763	\$493	\$438	\$404	\$425
Fosamax, 70 mg	\$797	\$466	\$323	\$521	\$509
Zocor, 20 mg	\$1,420	\$843	\$602	\$547	\$701
Celebrex, 200 mg	\$913	\$762	\$342	\$303	\$475

How did this happen—why such large omission in the ability to contain drug prices?

Prohibiting government price negotiations and prohibiting reimportation keep real price pressure off the drug industry—an industry that has 675 lobbyists in Washington and spent an estimated \$150 million on lobbying in 2002. Industry lobbying pressure paid off. Those in Medicare will have to pay the price.

Sources: U.S. prices quoted on Drugstore.com January, 2004. Department of Veterans Affairs prices are federal supply schedule prices posted on www.vapbm.org on January, 2004. Canadian prices are from the *Ontario Drug Benefit Formulary* no. 38, January 2003, with updates and additions. Prices for the United Kingdom are the price quotes from the *British National Formulary*, Number 46, September 2003. Prices for Australia are from the *Australian Government Schedule of Pharmaceutical Benefits for Approved Pharmacists and Medical Practitioners*, November 1, 2003. Foreign currencies were converted to US dollars using the rates posted on CNN Money, www.money.cnn.com, January 29, 2004.