

***Chronic Health Conditions & the New Medicare Part D Benefit:
Savings on Frequently Used Medications***

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Executive Summary

This report summarizes the savings available to Medicare beneficiaries through the new Medicare drug plans that became available on January 1st of this year. In each region of the country, beneficiaries may choose from among at least 27 Prescription Drug Plans (PDPs). An individual beneficiary's savings will depend on the specific medications used, as well as the benefit design, cost-sharing requirements and formulary of the plan chosen.

In most regions of the country, beneficiaries can also choose to receive drug coverage through Medicare Advantage plans, which frequently offer savings even higher than those available from PDPs. In this report, however, we do not attempt to compare savings for Medicare Advantage plans and PDPs, as such a comparison must necessarily take into account differences in coverage and savings for the other types of medical care covered by Medicare Advantage plans.

Eighty-four percent of Medicare beneficiaries report having at least one of the following chronic conditions: arthritis, diabetes, hypertension, osteoporosis, and respiratory illness. To assess the potential savings for these beneficiaries, The Lewin Group (Lewin) calculated the change in total out-of-pocket costs for 60 representative drug treatment regimens associated with these common conditions (see Appendix A).

Our analysis shows that, in most cases, Medicare beneficiaries who lack drug coverage can achieve substantial savings by choosing from among the five PDPs with the lowest total annual costs. Lewin's analyses of costs under Medicare plans, and the associated figures, include annual premium and beneficiary cost-sharing amounts.

Specifically, we find that:

- Previously uninsured Medicare beneficiaries with one or more of the five chronic conditions can typically save 58 percent in at least one plan in their state and can choose from among five plans that would result in savings of at least 43 percent or more.
- On average, nationwide:
 - > A typical Medicare beneficiary with **arthritis** can save up to 58 percent in at least one plan, and 44 percent in five or more plans, compared to prices at a retail pharmacy for a beneficiary without drug coverage.
 - > A typical Medicare beneficiary with **diabetes** can save up to 58 percent in at least one plan, and 43 percent in five or more plans, compared to prices at a retail pharmacy for a beneficiary without drug coverage.
 - > A typical Medicare beneficiary with **hypertension** can save up to 58 percent in at least one plan, and 43 percent in five or more plans, compared to prices at a retail pharmacy for a beneficiary without drug coverage.
 - > A typical Medicare beneficiary with **osteoporosis** can save up to 58 percent in at least one plan, and 44 percent in five or more plans, compared to prices at a retail pharmacy for a beneficiary without drug coverage.
 - > A typical Medicare beneficiary with respiratory illness can save up to 58 percent in at least one plan, and 48 percent in five or more plans, compared to prices at a retail pharmacy for a beneficiary without drug coverage.
- Beneficiaries who use the mail-order pharmacy option can typically save 55 to 56 percent in the plan with the highest savings, compared to prices at a mail-order pharmacy for a beneficiary without drug coverage.
- Beneficiaries without prior drug coverage whose expected retail costs are between \$2,250 and \$4,999 per year can typically save 59 percent in at least one plan and 50 percent or more in five plans.

I. Background

Eighty-four percent of Medicare beneficiaries report having at least one of the following chronic conditions: arthritis, diabetes, hypertension, osteoporosis, and respiratory illness.¹ These beneficiaries frequently experience high drug costs and stand to gain financially from the introduction of Medicare prescription drug coverage if they do not have prior insurance. The purpose of this report is to quantify the savings available to these beneficiaries through the Medicare drug plans that were launched on January 1st of this year.

In every state, Medicare beneficiaries may choose among at least 27 Prescription Drug Plans (PDPs), with an average premium of \$37.43². An individual beneficiary's savings will depend on the specific medications used, as well as the benefit design, cost-sharing requirements and formulary of the plan chosen.

In most regions of the country, beneficiaries can also choose to receive drug coverage through Medicare Advantage plans, which frequently offer savings even higher than those available from PDPs. In this report, however, we do not attempt to compare savings for Medicare Advantage plans and PDPs, as such a comparison must necessarily take into account differences in coverage and savings for the other types of medical care covered by Medicare Advantage plans.

To assess the potential savings for Medicare beneficiaries without prior drug coverage, The Lewin Group (Lewin) calculated the change in total out-of-pocket costs for 60 representative drug treatment regimens associated with these common conditions. A detailed list of these drug regimens, benchmark retail costs, and savings is available in Appendix A. The methodology for designing the treatment regimens and calculating savings is described in the methods section of this report.

To simplify the analysis, and in recognition of news accounts that indicate enrollment in the Medicare drug benefit is heavily concentrated in a small number of plans, we focus here on the five plans with highest savings for each of the treatment regimens we evaluated. Furthermore, since the Plan Compare tool available on medicare.gov - the source of all PDP data in this study - displays results for the 5 PDPs with the lowest costs in the first screenshot, Medicare beneficiaries are likely to choose among the top 5 plans.

II. National Average Savings

A. Average Savings for Common Chronic Conditions

Nationally, Medicare beneficiaries without prior drug coverage who are diagnosed with at least one of the most common chronic conditions can save an average of 58 percent under a PDP, compared to prices at a retail pharmacy for a beneficiary without drug coverage.

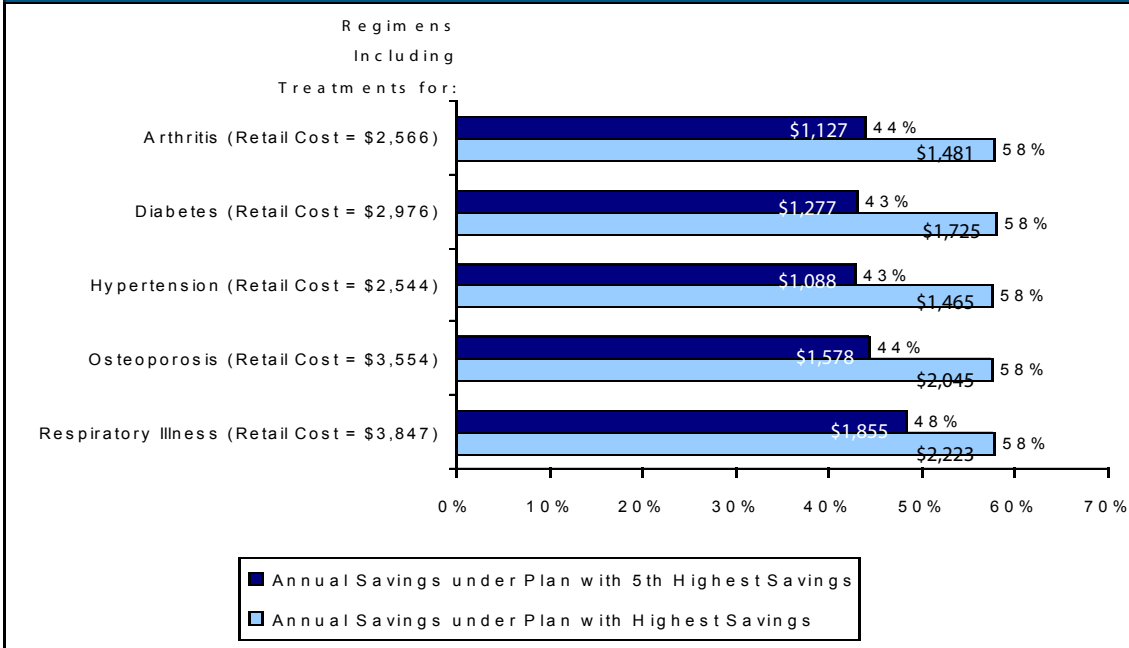
Figure 1, page 5, illustrates total average out-of-pocket savings, including the cost of the plan premium, for all regimens we evaluated that include medications used to treat each of the five common chronic conditions. It shows, for example, that for 11 treatment regimens including a medication for respiratory illness, the plan with highest savings results in a 58 percent reduction in total out of pocket costs compared to retail costs for an uninsured beneficiary. Similarly, it shows that on average, nationwide, the plan with the fifth highest savings results in 48 percent savings.

Beneficiaries may be able to save even more by purchasing their prescriptions through the mail-order option offered by many PDPs. As shown in **Figure 2**, page 5, we find that beneficiaries without prior drug coverage who use the mail-order pharmacy option of the PDP with the highest savings can typically save as much as 55 to 56 percent for a given chronic condition, compared to the prices of a mail order pharmacy.

¹ Lewin analysis of Medicare Current Beneficiary Survey (MCBS) Cost & Use data, 2002.

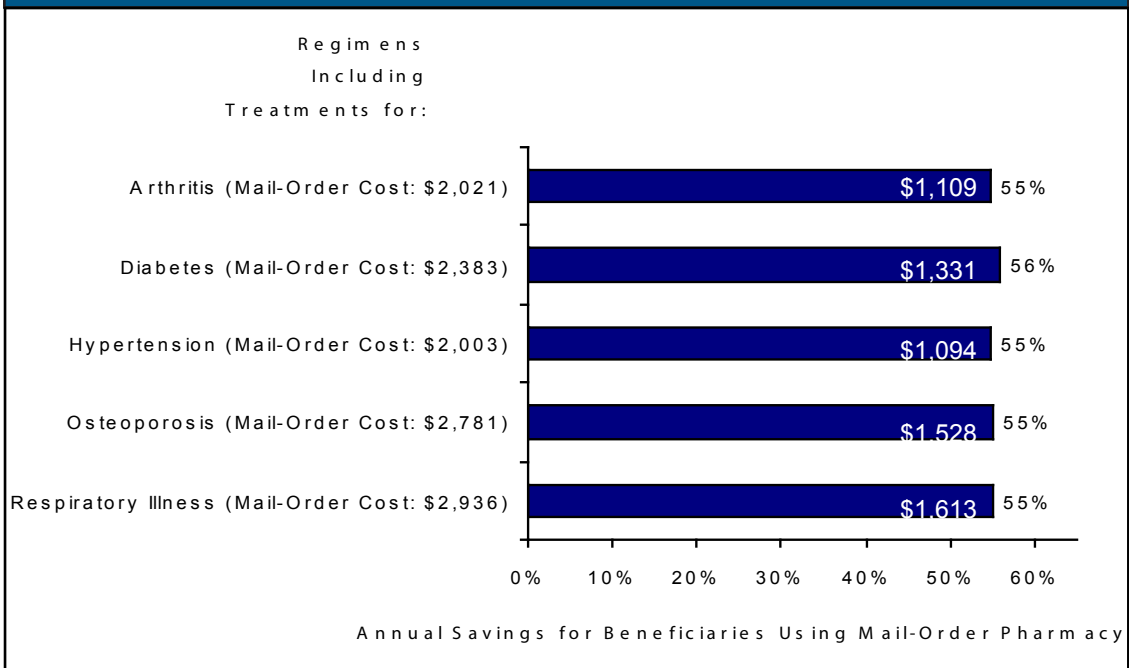
² The national average PDP premium is \$37.43; the national average Part D premium for PDPs and MA-PDs is \$32.20.

Typical Savings Nationwide for Medicare Beneficiaries, Compared to Retail Prices without Insurance



Source: The Lewin Group analysis of data from Medicare.gov. Represents the national average savings for 60 regimens including medications to treat the listed condition as well as the most commonly occurring co-morbidities. Savings are based on the difference between total out-of-pocket costs – including annual premium – under the Medicare plan and costs of purchasing drugs at a retail pharmacy without drug coverage.

Figure 2. Typical Savings Nationwide for Medicare Beneficiaries Using Mail-Order Option of Lowest Cost PDP, Compared to Mail-Order Prices without Insurance



Source: The Lewin Group analysis of data from Medicare.gov. Represents the national average savings for 60 regimens including medications to treat the specific condition as well as the most common co-morbidities. Savings are based on the difference between total out-of-pocket costs – including annual premium – under the Medicare plan and costs of purchasing drugs at a mail-order pharmacy without drug coverage.

B. Savings for Beneficiaries with Varying Levels of Annual Drug Spending

This analysis indicates that total out-of-pocket savings are relatively high whether a beneficiary spends \$1,000 or \$5,000 per year on prescription drugs. **Figure 3**, page 7, compares national average savings to retail costs for regimens in our sample. While previous studies (including our own) have predicted that savings would be substantially larger for beneficiaries with very high drug spending, this analysis shows that beneficiaries with more typical spending levels can also reach high savings. Of particular interest is that the annual savings for regimens with retail costs for uninsured beneficiaries between \$2,250 and \$5,100 (the coverage gap of the standard benefit) are as much as 59 percent in the plan with the highest savings, and as much as 50 percent in the plan with the fifth highest savings.

C. Savings for Beneficiaries with Low Costs

Given the design of the standard Medicare drug benefit, which includes a \$250 deductible and 25 percent coinsurance for initial spending, one would not expect beneficiaries with costs below \$765 to save by enrolling in a Medicare plan, assuming their spending levels do not change. Nevertheless, we find that some beneficiaries with very low annual drug costs are able to achieve savings by enrolling in the benefit, as shown in **Figure 4**, page 7.

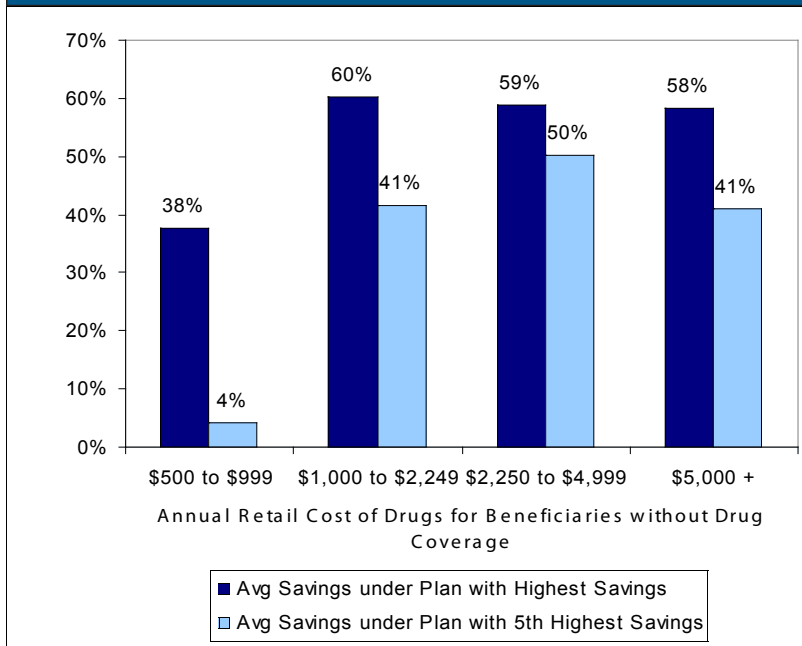
Six regimens included in our sample had a retail cost of less than \$765 dollars annually.³ We found that in four of these low-cost regimens, beneficiaries in most states save by enrolling in a PDP. For example, in Ohio, for one arthritis regimen, beneficiaries can save \$299 (40 percent) in at least five plans.

For two very low-cost regimens in our sample (both treating arthritis) we find that patients would spend more by enrolling in a PDP if their medication needs do not change. However, our analysis shows that although these patients would spend more, the total cost of the additional insurance offered by a PDP is very low. For example, the first scenario costs \$132 annually without insurance and \$218 under the plan with the highest savings; though a beneficiary would spend more by enrolling in the PDP, doing so would cost only \$86 more per year, or \$7 extra per month. Similarly, the second scenario costs \$218 annually without insurance and \$240 under the plan with the highest savings; in this instance, enrolling in a plan would cost only \$22 more per year, or less than \$2 per month. In both cases, the increment is substantially less than the average monthly premium of PDPs nationally (\$37.43). The low cost of enrollment is likely to be particularly attractive to beneficiaries given the likelihood that their drug spending will increase over time.⁴

³ Given a plan with the average premium of \$32.30, beneficiaries would “break-even” and recoup his or her annual premium of \$386.40 when he or she reaches total spending of \$765 per year.

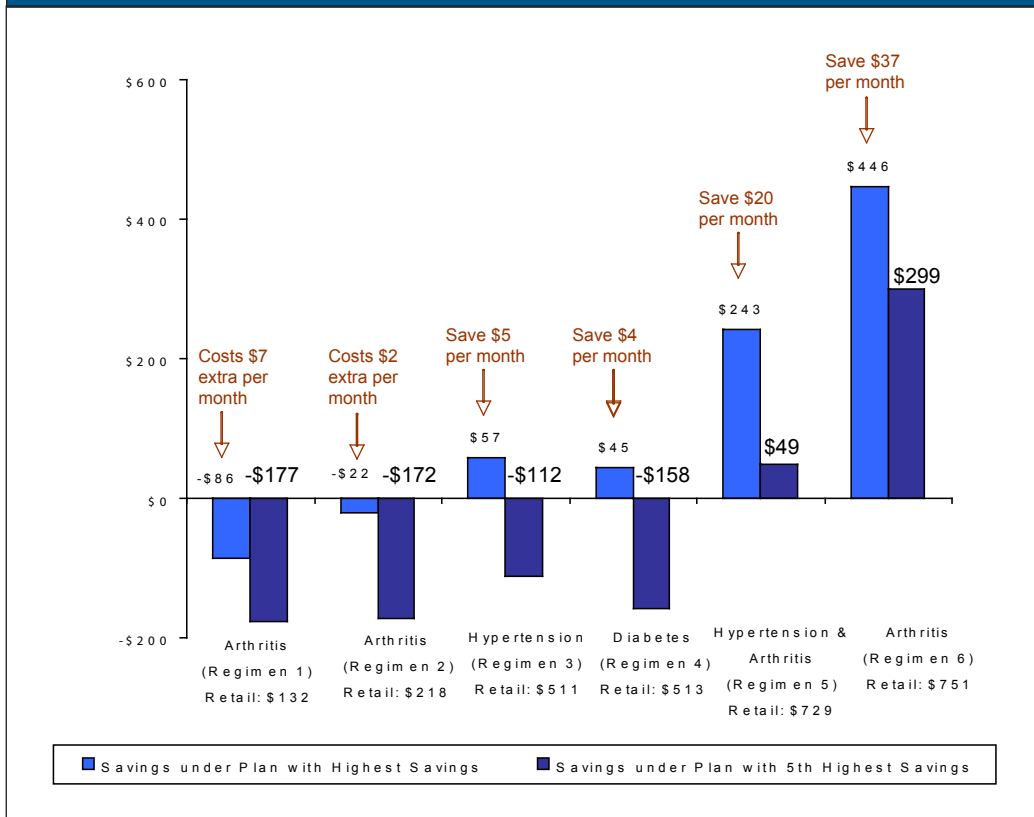
⁴ For a discussion of drug spending for Medicare beneficiaries with chronic conditions, see *The Lewin Group, Savings from the Medicare Drug Benefit for Beneficiaries with Chronic Conditions*, report prepared for the National Health Council, January 2006.

Figure 3. Typical Savings Nationwide for Medicare Beneficiaries with Varying Levels of Annual Drug Spending



Source: The Lewin Group analysis of data from Medicare.gov represents the average savings for all regimens in our sample. Savings are based on the difference between total out-of-pocket costs – including annual premium – under the Medicare plan and costs of purchasing drugs at a retail pharmacy without drug coverage.

Figure 4. Annual Out-of-Pocket Savings/Costs Including Premiums for Six Low Cost Regimens, Compared to Retail Prices without Insurance



Source: The Lewin Group analysis of data from Medicare.gov represents actual spending for a beneficiary without drug coverage at a retail pharmacy, compared to total out-of-pocket costs – including annual premium – under the Medicare plans with the highest and fifth highest savings. Lewin's analysis of sixty regimens includes six regimens that cost less than \$765 annually at a retail pharmacy for beneficiaries without insurance.

D. Methods

The regimens used in this analysis were designed by The Lewin Group in consultation with a physician using the drugs most commonly used by Medicare beneficiaries with these conditions. Many of these regimens include drugs used to treat multiple conditions, because most beneficiaries with chronic illness have more than one condition. Regimens were chosen to generally reflect the relative frequency of each chronic condition, the likelihood of co-morbidities, and a variety of drugs for similar conditions.

To identify the most common combinations of chronic conditions and their relative incidence, Lewin analyzed 2002 data from the Medicare Current Beneficiary Survey (MCBS) Cost & Use file. This information was used to assure that mix of conditions included in the regimens in the sample was roughly representative of the Medicare population. Specific drugs included in the treatment regimens were drawn from a list of the 200 most commonly prescribed drugs for people over age 65. This list was derived from data for 2003 from Verispan, a major supplier of pharmaceutical data.

Lewin included both brand and generic drugs in the regimens; the use of specific drugs across the 60 treatment regimens roughly reflects relative utilization by the aged Medicare population. (For example, Lipitor, the most frequently utilized drug for high cholesterol, is represented in more treatment regimens than drugs for which fewer prescriptions are sold.)

To establish benchmark drug prices for a beneficiary without drug coverage, Lewin collected retail and mail-order price data for comparison from a national pharmacy chain and an on-line mail-order pharmacy, respectively . For total out-of-pocket costs under the Medicare plans, Lewin used the total annual retail cost amount shown on the medicare.gov website for each regimen under every plan in all 34 PDP regions. Though prices were collected for every plan in the region, Lewin analyzed the prices from the plans with the highest and fifth highest savings; Lewin chose the prices from the 5 lowest-cost plans because this information is immediately available to beneficiaries using the medicare.gov price comparison tool. Additionally, Lewin staff collected the mail-order cost for each regimen under the least expensive plan in each region.

⁵ Lewin collected benchmark retail pharmacy prices from CVS.com and benchmark mail-order pharmacy prices from drugstore.com.