



BRIEF ANALYSIS

No. 576

For immediate release:

Wednesday, January 10, 2007

Seniors' Drug Costs: Government versus the Internet

by **Devon M. Herrick**

Leaders of the new Democrat-controlled Congress have expressed concern about the out-of-pocket costs to seniors under many of the new Medicare drug plans. Some are calling for expanded coverage, which would lead to higher premiums, higher taxes or both. Others want the federal government to negotiate prices directly with drug companies (as the VA Health system does). But this approach threatens to limit seniors' access to many drugs. Fortunately, there is a better way: The Internet. By taking advantage of this new tool, seniors can greatly reduce their out-of-pocket costs by choosing less expensive drug therapies and by choosing a plan that best meets their needs.

The Doughnut Hole. After a deductible of \$265, Medicare drug plans typically pay 75 percent of costs up to \$2,400. Above this level, seniors are responsible for 100 percent of the costs of their drug

spending between \$2,400 and \$5,451. This is the so-called "doughnut hole." Beyond that point, all the drug plans cover at least 95 percent of costs. The Kaiser Family Foundation projected that nearly 4 million seniors would spend enough to reach the doughnut hole in 2006.

Finding the Lowest-Cost Drugs. Rxaminer.com, a Web site owned by DestinationRx, has a search tool that allows a patient to determine if there are lower-cost substitutes for drugs they are currently taking. Take four common chronic conditions among seniors: arthritis, high blood pressure, high cholesterol and a serious form of heartburn. The patented medications for these conditions are among the most common drugs seniors use, and it

is not uncommon for a senior to have all these chronic ailments and to take all these drugs. These seniors are far more likely to land in the doughnut hole than seniors taking only one or two drugs.

For each of these drugs there are substitutes that might work as well. [See Figure I.] Thus, a senior could switch from Celebrex to Naproxen for arthritis pain; from Nexium to Omeprazole for serious heartburn; from Lipitor to Simvastatin for high cholesterol; and from Toprol to Metoprolol for hypertension (continuing with Hydrochlorothiazide, a diuretic).

These drug substitutions could potentially save a senior a lot in out-of-pocket costs. How much? It depends on the choice of drug plan.

Choosing the Right Drug Plan. During the annual open enrollment period, seniors can choose from a number of government-approved plans offered by insurance companies, but some levels of benefits may differ. For example, some offer a network with a limited number of pharmacies and others have a

FIGURE I

Drugs Seniors Commonly Use

Top Name-Brand Drugs

- Celebrex
- Nexium
- Lipitor
- Hydrochlorothiazide
- Toprol XL

Low-Cost Substitutes

- Naproxen
- Omeprazole
- Simvastatin
- Hydrochlorothiazide
- Metoprolol

Source: "Rxaminer Part D Optimizer: Helping Seniors Save Money and Avoid the Donut Hole," DestinationRx, fall 2006.

larger drug formulary. It is important to remember that seniors should not shop for the drug plan with the lowest prices on the drugs they take (or the cheapest pharmacy); rather, they should shop for the drug plan with the lowest annual out-of-pocket costs — including premiums and copayments — for the drugs they currently take.

Armed with information about therapeutic substitutes, a senior can use the comparison tool on the Medicare.gov Web site to find the plan with the lowest out-of-pocket costs. Medicare.gov also assists with monthly cash flow management by breaking down each senior's monthly cost for drugs, copays and premiums. This makes it easy to determine when (and if) a senior can expect to reach

the doughnut hole before the year ends. It also allows a senior to easily budget monthly drug spending. (Seniors who have already chosen a drug plan can use another DestinationRx tool, called the Part D Optimizer, to find out if there are therapeutic substitutes on their plan’s formulary that have lower out-of-pocket costs.)

For instance, DestinationRx, which provides the technology behind the Medicare.gov plan comparison tool, found that out-of-pocket costs for a hypothetical senior in Denver with four chronic conditions, taking a five-drug regimen (discussed above), varied widely among popular Medicare Part D plans in the area. As shown in Figure II:

- Using the name-brand drugs, annual out-of-pocket costs ranged from \$2,692 to \$3,752.
- However, using lower-cost therapeutic substitutes, annual costs ranged from \$622 to \$1,777.
- Thus, a senior could potentially save \$3,130 in out-of-pocket costs by using therapeutic substitutes and choosing a low-cost plan.

A senior might save even more by using other smart-buying techniques, such as buying in bulk through a drug plan’s mail-order option and by pill splitting (buying medications in double-strength and splitting them in half).

Unwise Policy Alternatives. Several proposals have been made to reduce drug costs for seniors. Unfortunately, they are likely to increase taxpayer costs, raise premiums for seniors and reduce seniors’ access to effective medications.

Filling the so-called doughnut hole by requiring all drug plans to provide 75 percent coverage through the gap would roughly double the annual cost of the program from \$30 billion to \$60 billion, based on Congressional Budget Office estimates.

Another proposal is to allow the federal government to negotiate the price of Medicare drugs directly with drug makers. It is not clear that the federal government could negotiate lower drug prices than the drug plans already do [see NCPA Brief Analysis No. 575]. The only

real negotiating leverage a drug plan has to drive down prices is its ability to refuse to include a given drug in its formulary. The VA Health system saves money on drugs by limiting the access of veterans to drugs. For example, Medicare Part D plans can choose from over 4,300 drugs for their formularies. By contrast, the VA Health system formulary covers less than 1,300 drugs — many of which are relatively old.

Conclusion. Seniors can choose from a wide range of

drug plans. Demonstrating the power of competition, the new drug entitlement has cost about 30 percent less than projected, and about 80 percent of seniors claim to be satisfied with their plan. They also have numerous tools available to help them lower their annual drugs costs and avoid the doughnut hole. Rather than expand Medicare or deny seniors access to the latest drugs, Congress should allow seniors to keep shopping, benefiting themselves and taxpayers. Through their behavior, seniors can do more to keep drug prices down than anything Congress is likely to do.

Devon M. Herrick, Ph.D., is a senior fellow with the National Center for Policy Analysis.

FIGURE II
Seniors’ Drug Costs in Denver

	Out-of-Pocket Costs for Name-Brand Medications	Out-of-Pocket Costs for Low- Cost Substitutes	Savings
Plan A	\$3,553	\$622	82%
Plan B	\$3,752	\$746	80%
Plan C	\$3,171	\$780	75%
Plan D	\$2,692	\$850	68%
Plan E	\$3,601	\$1,777	51%

Source: “Rxaminer Part D Optimizer: Helping Seniors Save Money and Avoid the Donut Hole,” DestinationRx, fall 2006.

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