



Medicare Part D Drug Prices Are Climbing Quickly

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A key claim made by those who wanted a privatized Medicare Part D drug program—especially one that prohibits Medicare from bargaining for cheaper prices—is that competition among private plans would slow the increase in drug prices. Plans would supposedly use their market power to negotiate lower drug prices and pass those savings on to beneficiaries and taxpayers in the form of lower drug prices and premiums.

More than a year after the Part D benefit began, however, the evidence shows that private plans have done little to slow the inexorable rise in drug prices. Rather, over the past year, Part D drug prices have increased several times faster than the rate of inflation. Families USA analyzed the prices for 15 of the drugs most frequently prescribed to seniors.¹ We examined prices for each of the plans offered by the largest Part D insurers, which together cover about two-thirds of all Part D beneficiaries.² We then compared the lowest available Part D price for each drug in April 2006 with the lowest available price for the same drug in April 2007.

The lowest price for every one of the top 15 drugs prescribed to seniors increased, and the median increase was 9.2 percent (see table on page 2).

Part D Drug Costs Outpace Overall Inflation

These increases in Part D drug prices are especially significant when compared with increases in overall prices. The consumer price index (CPI), the most widely used measure of inflation, increased by 2.4 percent from February 2006 to February 2007 (the most recent period for which data are available). Part D prices for these drugs therefore increased nearly four times faster than overall consumer prices.

What is most relevant to seniors in Medicare is whether they can afford these rises in drug prices. Seniors' Social Security payments are increased in January of each year by a cost of living adjustment (COLA). The COLA in January 2007 was 3.3 percent, which is just over one-third of the increase in Part D drug prices. For many seniors, especially those with limited incomes who depend on Social Security, Part D drugs are becoming less affordable.

Price Changes by Part D Plans Offered by the Top Five Insurers, April 2006 to April 2007

Drug Name	Strength	Dose Form	Lowest Price Per Year		Percent Difference
			2006	2007	
Actonel	35 mg	tab	\$ 727.92	\$ 810.84	11.4%
Aricept	10 mg	tab	\$ 1,561.44	\$ 1,681.80	7.7%
Celebrex	200 mg	cap	\$ 946.44	\$ 1,033.32	9.2%
Fosamax	70 mg	tab	\$ 727.92	\$ 806.16	10.7%
furosemide	40 mg	tab	\$ 13.44	\$ 16.44	22.3%
Lexapro	10 mg	tab	\$ 706.20	\$ 812.16	15.0%
Lipitor	10mg	tab	\$ 785.40	\$ 857.40	9.2%
Nexium	40 mg	cap	\$ 1,433.16	\$ 1,542.24	7.6%
Norvasc	5 mg	tab	\$ 486.48	\$ 526.44	8.2%
Plavix	75 mg	tab	\$ 1,323.24	\$ 1,332.12	0.7%
Prevacid	30 mg DR	cap	\$ 1,395.48	\$ 1,547.40	10.9%
Protonix	40 mg	tab	\$ 1,110.96	\$ 1,197.00	7.7%
Toprol XL	50 mg	tab	\$ 263.16	\$ 274.20	4.2%
Xalatan	0.005%	sol	\$ 582.96	\$ 636.60	9.2%
Zefia	10 mg	tab	\$ 816.84	\$ 867.60	6.2%
Median Difference					9.2%

Source: Part D plan prices are from the Medicare Prescription Drug Plan Finder, located online at www.medicare.gov, accessed the weeks of April 17, 2006 and April 9, 2007.

Prices shown are the lowest prices reported by the largest Part D insurers in Region 5 (DC/DE/MD), where we used zip code 20906 for the Washington/Baltimore metro area, and for Region 14 (OH), where we used zip code 45206 for Cincinnati. Prices presented here reflect mail order prices.

The drugs are the 15 unique drugs most frequently prescribed to seniors in the Pennsylvania PACE program in 2006. Different dosages of the same drug are not included.

Why Part D Drug Prices Matter

■ Why Prices Matter for Beneficiaries

Drug prices matter to Part D beneficiaries because they determine when beneficiaries meet their deductible and initial coverage limit. Moreover, when beneficiaries are in the coverage gap or “doughnut hole,” they must pay the full price charged by their plan. As drug prices increase, beneficiaries will reach the doughnut hole faster. In addition, drug prices are a major contributor to the cost of a drug plan’s premium. As drug prices increase, so will beneficiaries’ premiums.

■ Why Prices Matter for Taxpayers

Part D prices matter to the public because taxpayers pay for more than three-quarters of the cost of the Part D drug program. First, they pay for the bulk of Part D premiums: Every beneficiary who enrolls in the program pays 25.5 percent of the premium, and Medicare (funded by taxpayer dollars) pays the remaining 74.5 percent. Continued increases in drug prices will translate into future premium increases, raising the total cost of the program over time.

Taxpayers also pay for most of the cost of drugs for those beneficiaries who have very high prescription costs. Those whose high drug expenses take them through the doughnut hole receive catastrophic coverage in which approximately 80 percent of the costs are paid by the government. Finally, “dual eligibles” (very low-income beneficiaries who are eligible for both Medicare and Medicaid) and other low-income beneficiaries receive special subsidies. The government covers most or all of the Part D drug costs for these beneficiaries. Therefore, increases in Part D drug prices have a very direct effect on what the government, and ultimately the taxpayer, pays.

Conclusion

Increases in Medicare Part D prices are outpacing consumer inflation and seniors’ incomes, creating a growing burden for both beneficiaries and taxpayers. This result is not surprising. The Medicare Modernization Act, which created Part D, prohibited Medicare from using its clout to bargain on behalf of its 43 million beneficiaries to obtain lower prices. In contrast, no Part D plan—even those with the largest numbers of enrollees—has been able to gain enough market share to bring down prices. Indeed, prices are going up rapidly. The time has come to make Medicare Part D more cost-effective by eliminating the prohibition that prevents Medicare from bargaining for better prices.

¹ This analysis looks at the top 15 unique drugs prescribed to seniors. Multiple dosages of the same drug are not included. Different dosages of the same drug typically exhibit very similar changes in price.

² The insurers are UnitedHealthcare, Humana, Wellpoint, Member Health, and WellCare.



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