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October 6, 2004

The Honorable Olympia J. Snowe
Chair
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Ron Wyden
Ranking Minority Member
Subcommittee on Consumer Affairs and Product Safety
Committee on Commerce, Science, and Transportation
United States Senate


Subject: *Prescription Drugs: Trends in Usual and Customary Prices for Drugs
Frequently Used by Medicare and Non-Medicare Enrollees*

This report responds to your request for information on trends in prices for prescription drugs frequently used by Medicare beneficiaries and other individuals with health insurance. We obtained data from two state pharmaceutical assistance programs for the elderly—Pennsylvania’s Pharmaceutical Assistance Contract for the Elderly (PACE) and New York’s Elderly Pharmaceutical Insurance Coverage (EPIC)—on the usual and customary prices reported by retail pharmacies for selected drugs.¹ The usual and customary price is the undiscounted price individuals without drug coverage would pay. We tracked monthly price trends from January 2000 through June 2004 for a total of 99 drugs, which include 77 drugs frequently used by Medicare enrollees in Blue Cross and Blue Shield Association’s (BCBS) Federal Employee Program (FEP) and 79 drugs frequently used by non-Medicare enrollees in BCBS FEP. We also compared the price trends during this period separately for the 52 brand drugs and 47 generic drugs. Our analyses are limited to the usual and customary prices reported by retail pharmacies in Pennsylvania to the PACE program and by retail pharmacies in New York to the EPIC program for the 99 drugs. We performed our work from April 2004 through October 2004 in accordance with generally accepted government auditing standards. (See enc. I for a description of our scope and methodology.)

¹We used data from PACE and EPIC because they were two of the largest state pharmaceutical assistance programs, collected data from pharmacies on usual and customary prices for drugs, and had historical price data available since 2000.

Overall, we found that the average usual and customary prices for 77 prescription drugs frequently used by Medicare enrollees increased 21.8 percent from January 2000 through June 2004, a 4.6 percent average annual rate of increase. During the same period, the average usual and customary prices for 79 drugs frequently used by non-Medicare enrollees increased at a similar rate—22.8 percent, a 4.8 percent average annual rate of increase. (See enc. II for the annual percentage change in average usual and customary prices for drugs frequently used by Medicare enrollees, and enc. III for the monthly trend in these prices for drugs frequently used by Medicare enrollees and those frequently used by non-Medicare enrollees.) We also found that average usual and customary prices for 52 frequently used brand drugs increased about three times faster than for 47 frequently used generic drugs. Specifically, from January 2000 through June 2004, the average usual and customary prices for the brand drugs increased 26.4 percent, a 5.5 percent average annual rate of increase, whereas prices for generic drugs increased 8.3 percent, a 1.8 percent average annual rate of increase. (See enc. IV for the annual change in average usual and customary prices for brand and generic drugs.)

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after its date. At that time, we will send copies of this report to relevant congressional committees and other interested members. The report is also available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff have any questions regarding this report, please call me at (202) 512-7119 or John E. Dicken at (202) 512-7043. Rashmi Agarwal, Andrea Kastin, Matthew L. Puglisi, and Daniel Ries were major contributors to this report.



Laura A. Dummit
Director, Health Care—Medicare Payment Issues

Enclosures - 4

Scope and Methodology

We used data from BCBS to determine the 100 prescription drugs most frequently dispensed through retail pharmacies in 2003 for Medicare enrollees and the 100 most frequently dispensed for non-Medicare enrollees in the BCBS FEP.¹ Combined, these represented 133 different drugs.²

We obtained average monthly usual and customary prices reported by retail pharmacies to Pennsylvania's PACE from January 2000 through June 2004 and New York's EPIC from August 2000 through June 2004.^{3,4} We collected prices based on a common number of units (such as pills), typically for a 30-day supply. Based on combined PACE and EPIC data, 99 of the 133 drugs we selected had prices reported during the entire period from January 2000 through June 2004. We analyzed price trends from January 2000 through June 2004 for these 99 drugs.

Of the 99 drugs, 77 were among those most frequently used by BCBS FEP Medicare enrollees, and 79 were among those most frequently used by BCBS FEP non-Medicare enrollees. We first determined the total number of prescriptions in 2003 for these drugs provided to Medicare enrollees and provided to non-Medicare enrollees in BCBS FEP. Separately for drugs frequently used by Medicare and by non-Medicare enrollees, we calculated the share of the total number of prescriptions attributed to each drug. The price of each drug was then weighted by its relative share of total Medicare or total non-Medicare prescriptions in 2003 to calculate the average price for Medicare drugs and for non-Medicare drugs. We standardized these averages to create a Medicare and a non-Medicare price index, with a value of 100 as of January 2003.

We also analyzed trends in usual and customary prices for brand and generic drugs separately. Of the 99 drugs, 52 were brand drugs and 47 were generic drugs. Similar to our calculation of Medicare and non-Medicare price indexes, we calculated indexes for brand drugs and generic drugs based on each drug's share of the total number of brand or generic prescriptions dispensed to BCBS FEP enrollees in 2003.

¹BCBS FEP covered nearly 55 million prescriptions dispensed to enrolled federal employees, retirees, and their dependents at retail pharmacies in 2003, including 21 million prescriptions for FEP enrollees who were also Medicare beneficiaries. The 99 drugs that we included in our analyses represented about 33 percent of total prescriptions dispensed to BCBS FEP enrollees in 2003.

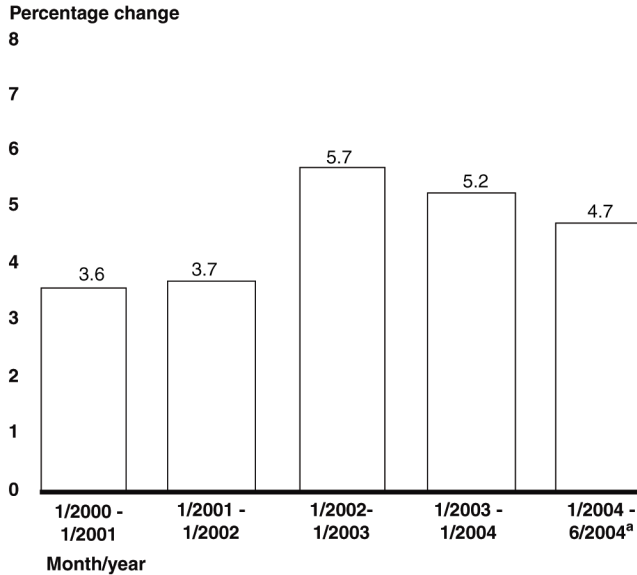
²Drugs with the same name but different dosages and forms (such as tablets or capsules) were counted as unique drugs.

³PACE covered more than 9 million prescriptions and EPIC covered nearly 10 million prescriptions dispensed to mostly low-income seniors in 2003.

⁴We merged price data from PACE and EPIC for August 2000 through June 2004, but report price data from PACE alone for January 2000 through July 2000. Because the average of the usual and customary prices reported by PACE and by EPIC were nearly identical, we do not believe that including the EPIC data in August 2000 notably affected the price trend.

Our analyses are limited to the usual and customary prices reported by retail pharmacies in Pennsylvania to the PACE program and by retail pharmacies in New York to the EPIC program for the 99 drugs. We reviewed the reliability of data from PACE, EPIC, and BCBS, including ensuring that the price trends and frequently used drugs were consistent with other data sources, and determined that the data were sufficiently reliable for our purposes. We performed our work from April 2004 through October 2004 in accordance with generally accepted government auditing standards.

Annual Percentage Change in Average Usual and Customary Prices for Drugs Frequently Used by Medicare Enrollees, January 2000 through June 2004

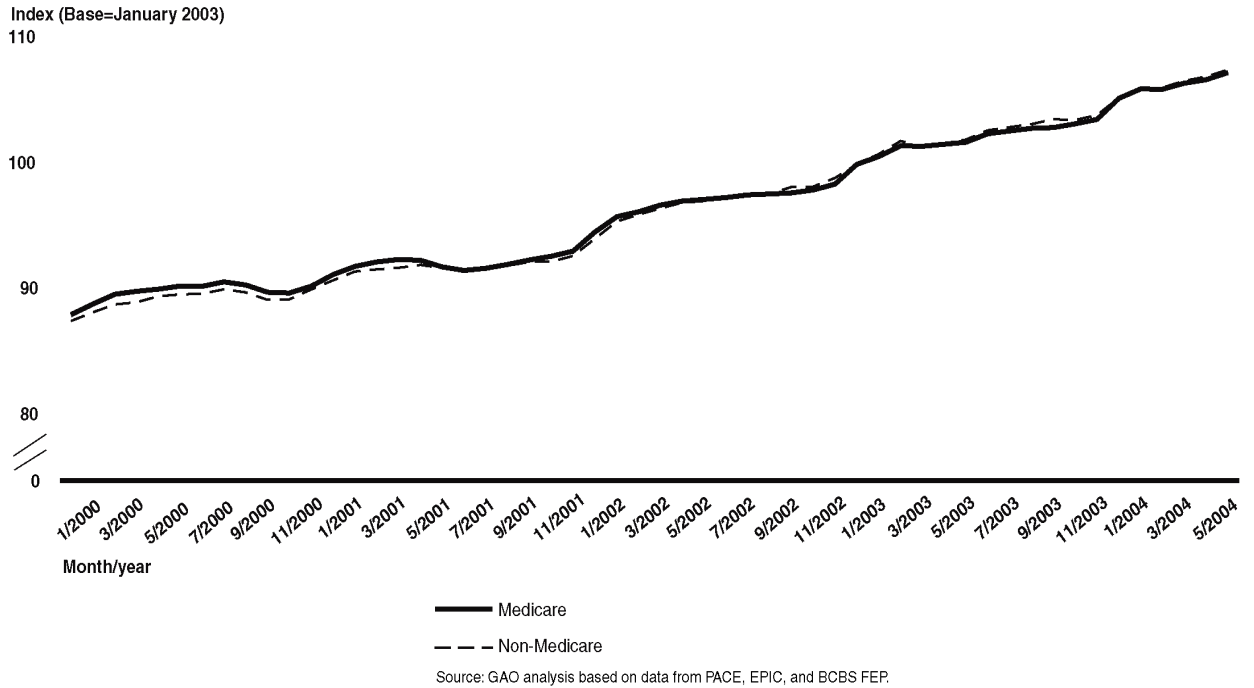


Source: GAO analysis based on data from PACE, EPIC, and BCBS FEP.

Notes: Prices from PACE and EPIC are for 77 prescription drugs frequently used by Medicare enrollees in BCBS FEP in 2003. Drugs with the same name but different dosages and forms (such as tablets or capsules) were counted as unique drugs.

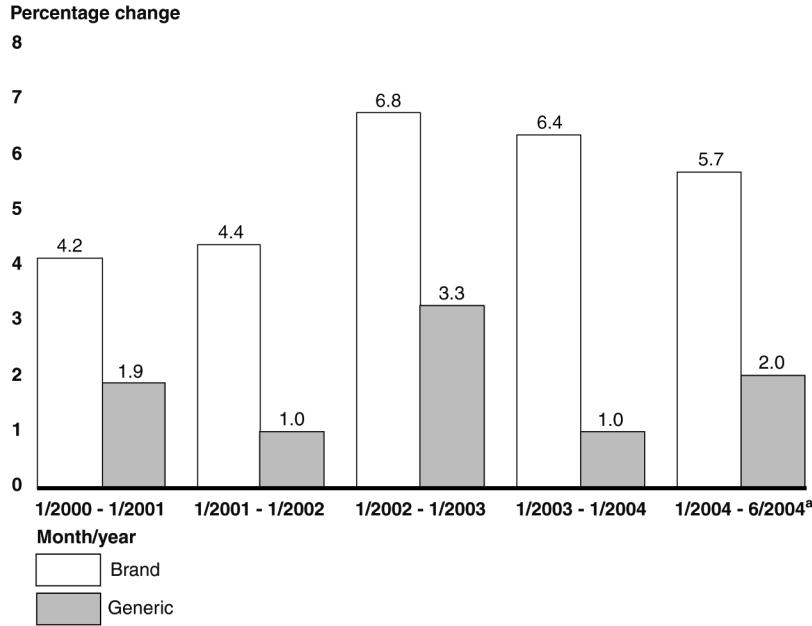
^aThe change in average usual and customary prices from January 2004 through June 2004 is extrapolated as an annual percentage change.

Index of Average Usual and Customary Prices for Drugs Frequently Used by Medicare and Non-Medicare Enrollees in BCBS FEP, by Month, January 2000 through June 2004



Note: Index includes prices from PACE and EPIC for 77 prescription drugs frequently used by Medicare enrollees and 79 prescription drugs frequently used by non-Medicare enrollees in BCBS FEP in 2003. Drugs with the same name but different dosages and forms (such as tablets or capsules) were counted as unique drugs.

Annual Change in Average Usual and Customary Prices for Brand and Generic Drugs Frequently Used by Enrollees in BCBS FEP, January 2000 through June 2004



Source: GAO analysis based on data from PACE, EPIC, and BCBS FEP.

Notes: Prices from PACE and EPIC are for 52 brand prescription drugs and 47 generic prescription drugs frequently used by BCBS FEP enrollees in 2003. Drugs with the same name but different dosages and forms (such as tablets or capsules) were counted as unique drugs.

^aThe change in average usual and customary prices from January 2004 through June 2004 is extrapolated as an annual percentage change.

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