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Washington, DC 20548

September 7, 2007

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

The Honorable Ron Wyden
United States Senate

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

Prescription drug spending as a share of national health expenditures increased from 8.9 percent in 2000 to 10.1 percent in 2005—among the fastest growing segments of health care expenditures¹—and prescription drug prices outpaced inflation during the same period. Rising prescription drug prices can affect consumers, employers, and federal and state governments. Federal policymakers are particularly concerned about rising drug prices as the federal government has assumed greater financial responsibility for prescription drug expenditures with the introduction of a prescription drug benefit to Medicare enrollees in January 2006, known as Medicare Part D. Medicare enrollees are also responsible for a share of drug costs under the Medicare Part D program.

As an update to our 2005 report,² this report responds to your request for information on trends in retail prices—known as usual and customary prices³—for prescription drugs frequently used by Medicare enrollees and non-Medicare health insurance enrollees. This report focuses on (1) usual and customary price trends from January 2004 through January 2007, and (2) usual and customary price trends from January 2000 through January 2007 for the subset of drugs that were included in both our 2005 report and the current report.

To report usual and customary price trends from January 2004 through January 2007, we obtained prices as reported by retail pharmacies to state pharmaceutical assistance programs for the elderly in New York and Pennsylvania. We used data from New York's Elderly Pharmaceutical Insurance Coverage (EPIC) and Pennsylvania's Pharmaceutical Assistance Contract for the Elderly (PACE) programs because we did not identify a reliable national

¹Percentages are based on national health expenditure data prepared by the Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

²See GAO, *Prescription Drugs: Price Trends for Frequently Used Brand and Generic Drugs from 2000 through 2004*, [GAO-05-779](#) (Washington, D.C.: Aug. 15, 2005).

³The usual and customary price is the price an individual without prescription drug coverage would pay at a retail pharmacy.

source of usual and customary price data.⁴ In order to track usual and customary price trends, we created price indexes that measure the average change in prices over time for a basket of drugs. We created indexes to track price changes for the following five baskets of drugs:

- 122 of the drugs most frequently used by Medicare or non-Medicare enrollees in the Blue Cross Blue Shield (BCBS) Federal Employee Program (FEP),
- 96 of the drugs most frequently used by BCBS FEP Medicare enrollees,
- 91 of the drugs most frequently used by BCBS FEP non-Medicare enrollees,
- 65 of the brand drugs most frequently used by BCBS FEP Medicare and non-Medicare enrollees, and
- 57 of the generic drugs most frequently used by BCBS FEP Medicare and non-Medicare enrollees.

To report usual and customary price trends from January 2000 through January 2007, we tracked average monthly prices for the 44 brand and 43 generic drugs frequently used by BCBS FEP Medicare and BCBS FEP non-Medicare health insurance enrollees that were included in both the 2005 report and current report. We created an index for the brand and an index for the generic drugs.

Our analyses are limited to the usual and customary prices reported by retail pharmacies in New York to the EPIC program and in Pennsylvania to the PACE program by retail pharmacies for drugs frequently used by BCBS FEP Medicare enrollees or non-Medicare enrollees. Our findings cannot be generalized to all usual and customary prices nationally for all drugs. We reviewed all data for reasonableness and consistency and determined that the data were sufficiently reliable for our purposes. We performed our work from November 2006 through August 2007 in accordance with generally accepted government auditing standards. (See enc. I for a description of our scope and methodology.)

In summary, we found that the average monthly usual and customary prices reported by the two state pharmacy assistance programs increased 13.6 percent from January 2004 through January 2007 for a typical 30-day supply of the 122 prescription drugs frequently used by BCBS FEP Medicare or non-Medicare enrollees. This represents a 4.3 percent average annual rate of increase. (See encs. II and III.) Prices increased at similar rates for the 96 drugs frequently used by BCBS FEP Medicare enrollees and the 91 drugs frequently used by BCBS FEP non-Medicare enrollees. (See enc. IV.) We also found that the average monthly usual and customary prices decreased for the 57 generic drugs and increased for the 65 brand drugs from January 2004 through January 2007. Specifically, the generic drug prices decreased 12.8 percent, a 4.5 percent average annual rate of decrease,⁵ while the brand drug prices

⁴The EPIC and PACE programs are among the largest and longest-running state pharmaceutical assistance programs and they collected data from thousands of retail pharmacies on usual and customary prices for drugs in these two states.

⁵Two drugs alone accounted for about 8.6 percentage points of the 12.8 percentage point decline in the prices for generic drugs. The antibiotic Ciprofloxacin HCl 500 mg dropped 54.0 percent in price, and the antidepressant Fluoxetine 20 mg dropped 25.7 percent in price.

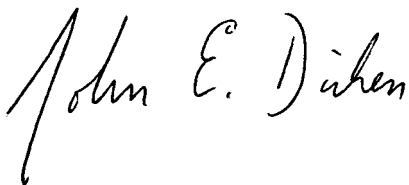
increased 21.2 percent, a 6.6 percent average annual rate of increase. (See enc. V.) During the same period, based on nationwide data from the Bureau of Labor Statistics, prices for all consumer items for all urban consumers—the Consumer Price Index (CPI)—increased 9.3 percent, a 3.0 percent average annual rate of increase.

We also found that from January 2000 through January 2007, average monthly usual and customary prices increased at a faster rate for the 44 brand drugs than for the 43 generic drugs. Specifically, prices for the brand drugs increased 48.6 percent, a 5.8 percent average annual rate of increase, while prices for the generic drugs increased 7.1 percent, a 1.0 percent average annual rate of increase. (See encs. VI and VII.) During this same period the CPI increased 19.9 percent, a 2.6 percent average annual rate of increase.

We did not obtain external comments on a draft of this report because we did not evaluate the programs of the organizations that provided us data they had collected.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies of this report to relevant congressional committees and other interested members. The report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-7114 or dickenj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Randy Dirosa, Assistant Director; Rashmi Agarwal; Martha R. W. Kelly; Daniel Ries; and Stephen Ulrich were major contributors to this report.



John E. Dicken
Director, Health Care Issues

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Scope and Methodology

To examine the change in average monthly usual and customary prices for prescription drugs frequently used by Medicare enrollees and other non-Medicare health insurance enrollees from January 2004 through January 2007, we used data from several sources. To identify 122 of the most frequently used drugs for which we examined usual and customary price trends, we first identified the 100 prescription drugs most frequently dispensed through retail pharmacies in 2004 to Blue Cross Blue Shield (BCBS) Federal Employee Program (FEP) Medicare enrollees and the 100 drugs most frequently dispensed to BCBS FEP non-Medicare enrollees.⁶ Combined, these two lists included 133 unique drugs.⁷ We obtained usual and customary prices for drugs as reported by retail pharmacies to New York's Elderly Pharmaceutical Insurance Coverage (EPIC) program and Pennsylvania's Pharmaceutical Assistance Contract for the Elderly (PACE) program from January 2004 through January 2007.⁸ We collected prices based on National Drug Codes (NDC)⁹ and a common number of units (such as tablets), typically for a 30-day supply. Based on combined EPIC and PACE program data, we analyzed data for 122 of the 133 drugs that had prices reported for every month from January 2004 through January 2007.

We created price indexes to measure the average change in prices for these 122 drugs from January 2004 through January 2007.¹⁰ To determine the average price of a basket of all or a subset of these 122 drugs for each month, we weighted the average monthly price of each drug in the basket based on the number of prescriptions dispensed in 2004 to BCBS FEP Medicare and non-Medicare enrollees.^{11,12} We standardized the average monthly price for each

⁶BCBS FEP covered more than 70 million prescriptions dispensed to enrolled federal employees, retirees, and their dependents in 2004. Retail prescriptions for the 122 drugs that we included in our analyses represented about 32 percent of total prescriptions dispensed to BCBS FEP enrollees in 2004.

⁷Drugs with the same name but with different strengths or dosage forms (such as capsules or tablets) were counted separately as unique drugs.

⁸The EPIC program covered more than 10 million prescriptions dispensed mostly to low-income seniors in 2004, and the PACE program covered more than 9 million such prescriptions.

⁹NDCs are three-segment numbers that are the universal product identifiers for drugs for human use. The Food and Drug Administration assigns the first segment of the NDC, which identifies the firm that manufactures, repackages, or distributes a drug. The second segment identifies a specific strength, dosage form, and formulation for a particular firm. The third segment identifies the package size and type. A drug can have multiple NDCs associated with it. For example, a drug made by one manufacturer, in one strength or dosage form, but in three package sizes would have three NDCs.

¹⁰To improve data reliability, we removed as outliers any claims for which the reported usual and customary price was more than two standard deviations from the mean price for each drug in each month.

¹¹The 2004 BCBS FEP retail prescription drug utilization weights applied to the EPIC and PACE program retail prices were held constant throughout the period of analysis to isolate the effects of changes in prices from the effect of changes in utilization, such as the substitution of lower priced generic drugs for higher priced brand drugs.

¹²BCBS FEP retail prescriptions represent various days supply (such as 34- or 90-day supplies), while EPIC and PACE program price data are limited only to retail prescriptions for a 30-day supply.

Enclosure I

basket with a value of 100 as of January 2004. We created indexes to track price changes for the following five baskets of drugs:

- 122 of the drugs most frequently used by BCBS FEP Medicare or non-Medicare enrollees,
- 96 of the drugs most frequently used by BCBS FEP Medicare enrollees,
- 91 of the drugs most frequently used by BCBS FEP non-Medicare enrollees,¹³
- 65 of the brand drugs most frequently used by BCBS FEP Medicare and non-Medicare enrollees, and
- 57 of the generic drugs most frequently used by BCBS FEP Medicare and non-Medicare enrollees.

To examine the change in usual and customary drug prices from January 2000 through January 2007, we analyzed average monthly usual and customary price trends for the 44 brand and 43 generic drugs that were included in both this report and our 2005 report.¹⁴ We calculated indexes from January 2000 through January 2007 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 Medicare and non-Medicare enrollees in 2004. We similarly assigned each index a value of 100 as of January 2000.

For all price trend indexes we report, we identified the drugs with exceptionally large changes in price from the beginning to the end of the period, which we defined as two or more standard deviations from the average price change for all drugs in the index. We then determined how these drugs affected the reported price change in the index. In most cases, these drugs did not affect the overall index change by more than 3 percentage points. However, in one instance such drugs accounted for about two-thirds of the index change, and in this instance we reported the drugs by name and noted their influence on the index.

Our analyses are limited to drugs frequently used by Medicare enrollees and by non-Medicare enrollees in the 2004 BCBS FEP. In addition, our analyses are limited to prices reported by retail pharmacies in New York to the EPIC program and by retail pharmacies in Pennsylvania to the PACE program. Our findings cannot be generalized to all usual and customary prices nationally for all drugs. We reviewed all data from the BCBS FEP and the EPIC and PACE programs for reasonableness and consistency, including screening for outlier prices and

¹³Sixty-five of the 122 drugs were frequently used by both the Medicare and non-Medicare enrollees. While these 65 drugs were used in calculating both the Medicare and non-Medicare usual and customary price indexes, the drugs had different weights in each index depending on the frequency of prescriptions dispensed to Medicare enrollees or non-Medicare enrollees.

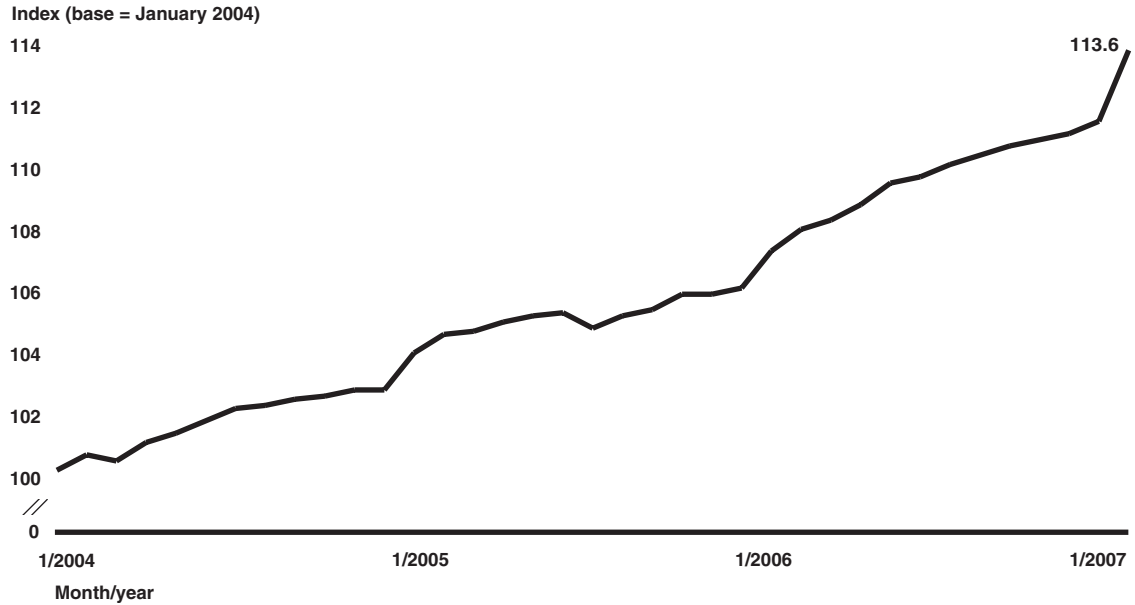
¹⁴See GAO, *Prescription Drugs: Price Trends for Frequently Used Brand and Generic Drugs from 2000 through 2004*, GAO-05-779 (Washington, D.C.: Aug. 15, 2005). For the 2005 report, EPIC and PACE program officials removed outlier prices by removing any claims where the usual and customary price exceeded 15 times the state's reimbursed price before providing us with the data. For the current report, we received all prices and removed the claims for which the price was more than two standard deviations from the mean for each drug for each month. To ensure a valid comparison of prices across the periods of both studies, we removed outliers from the data collected for the current report following the approach used by EPIC and PACE program officials for the 2005 report.

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ensuring that the price trends and frequently used drugs were generally consistent with other data sources. We determined that these data were sufficiently reliable for our purposes. We performed our work from November 2006 through August 2007 in accordance with generally accepted government auditing standards.

Enclosure II

Index of Average Usual and Customary Prices for 122 Drugs Frequently Used by BCBS FEP Medicare and Non-Medicare Enrollees, by Month, January 2004 through January 2007

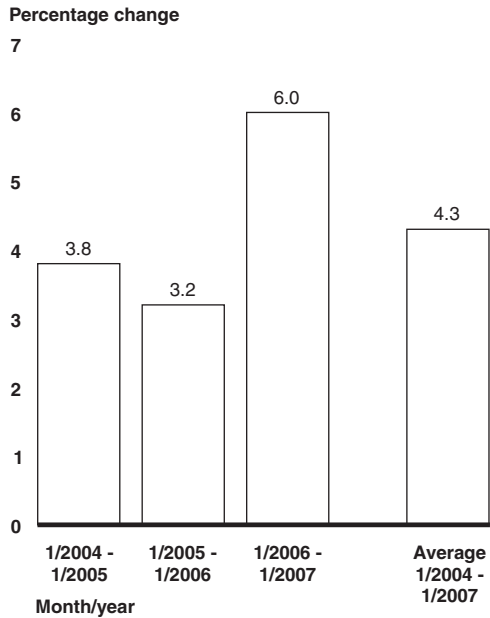


Source: GAO analysis of data from BCBS FEP and the EPIC and PACE programs.

Note: The index value of 113.6 indicates a 13.6 percent increase in average usual and customary prices during the period.

Enclosure III

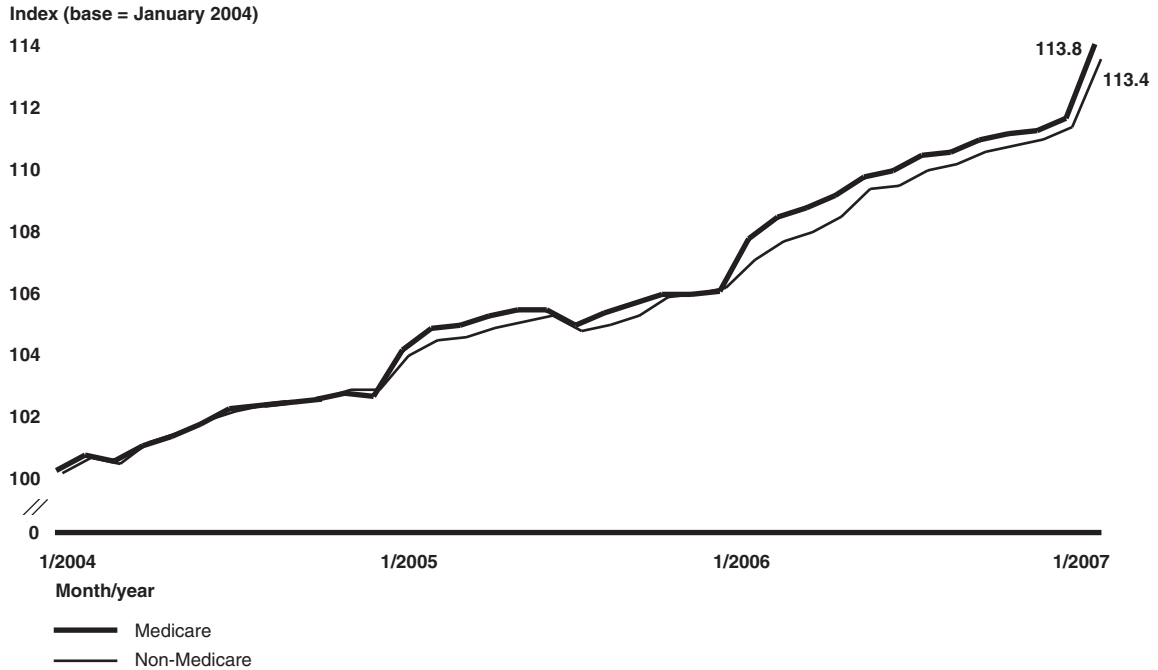
Annual Change in Usual and Customary Prices for 122 Drugs Frequently Used by BCBS FEP Medicare and Non-Medicare Enrollees, January 2004 through January 2007



Source: GAO analysis of data from BCBS FEP and the EPIC and PACE programs.

Enclosure IV

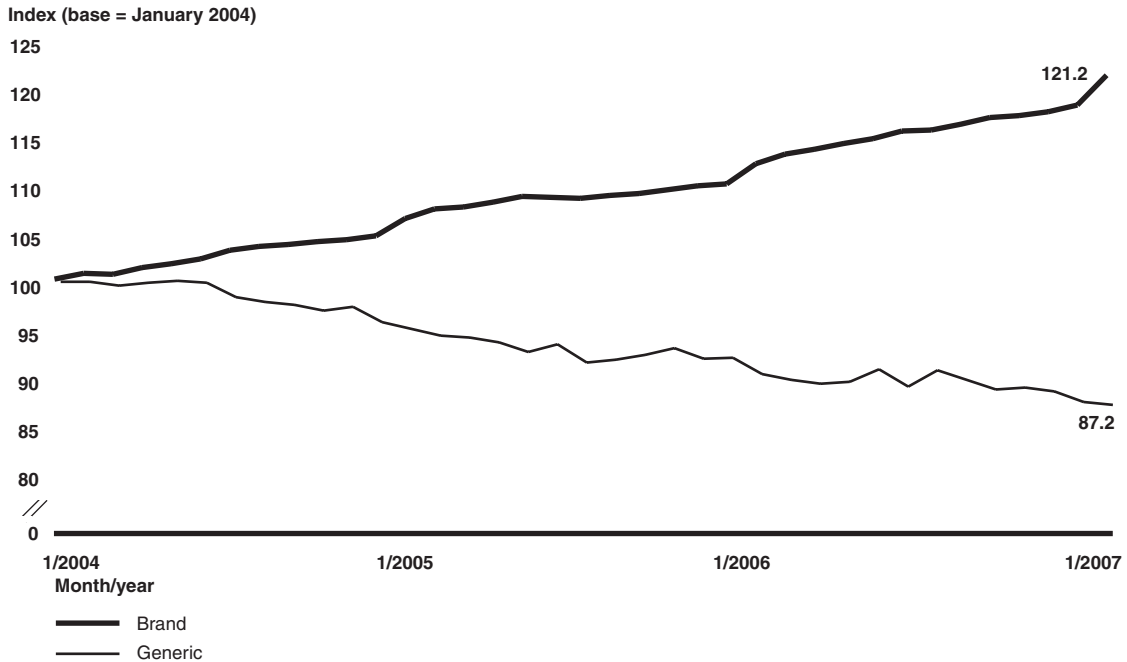
Indexes of Average Usual and Customary Prices for 96 Drugs Frequently Used by Medicare Enrollees and 91 Drugs Frequently Used by Non-Medicare Enrollees in the BCBS FEP, by Month, January 2004 through January 2007



Source: GAO analysis of data from BCBS FEP and the EPIC and PACE programs.

Note: The index values of 113.8 and 113.4 indicate an increase in average usual and customary prices of 13.8 and 13.4 percent for Medicare and non-Medicare enrollees, respectively, during the period.

Indexes of Average Usual and Customary Prices for 65 Brand and 57 Generic Drugs Frequently Used by BCBS FEP Medicare and Non-Medicare Enrollees, by Month, January 2004 through January 2007



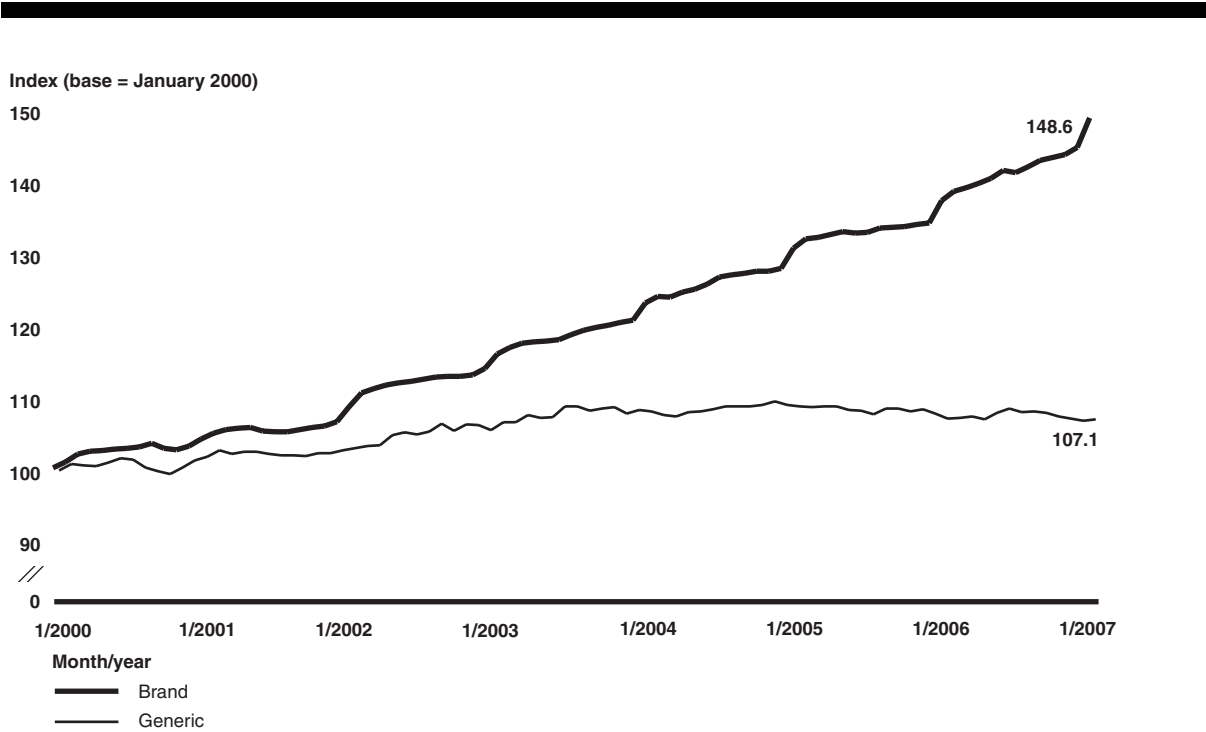
Source: GAO analysis of data from BCBS FEP and the EPIC and PACE programs.

Notes: The index value of 121.2 indicates a 21.2 percent increase in average usual and customary prices for brand drugs during the specified period. The index value of 87.2 indicates a 12.8 percent decrease in average usual and customary prices for generic drugs during the period.

Two drugs alone accounted for about 8.6 percentage points of the 12.8 percent decrease in the prices for generic drugs. The antibiotic Ciprofloxacin HCl 500 mg dropped 54.0 percent in price and the antidepressant Fluoxetine 20 mg dropped 25.7 percent in price.

Enclosure VI

Indexes of Average Usual and Customary Prices for 44 Brand and 43 Generic Drugs Frequently Used by BCBS FEP Medicare and Non-Medicare Enrollees, by Month, January 2000 through January 2007

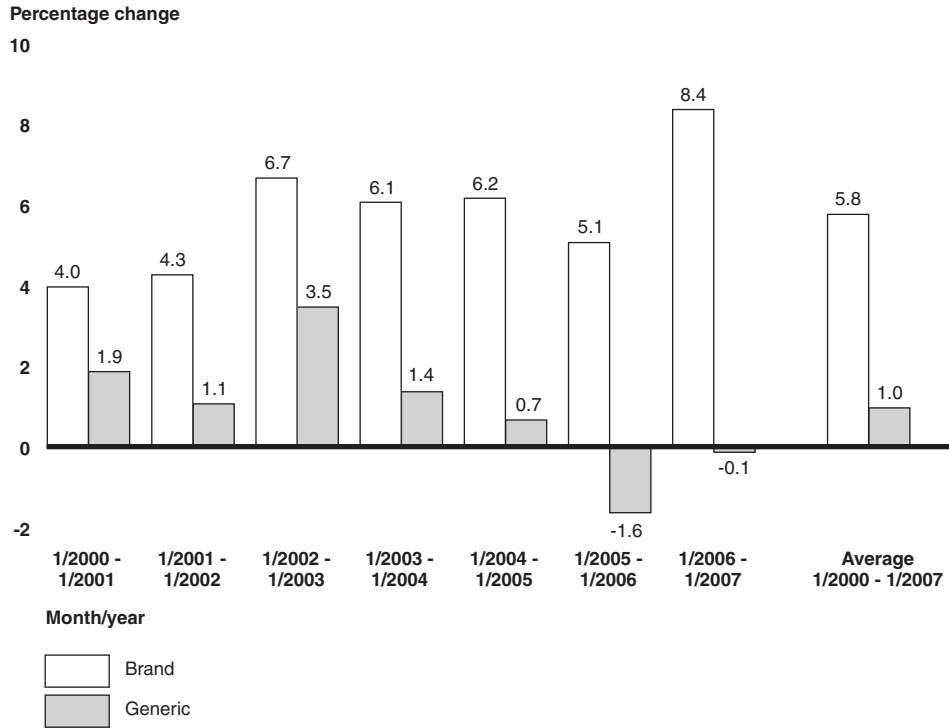


Source: GAO analysis of data from BCBS FEP and the EPIC and PACE programs.

Note: The index values of 148.6 and 107.1 indicate increases in the average usual and customary prices of 48.6 and 7.1 percent for brand and generic drugs, respectively, during the period.

Enclosure VII

Annual Change in Usual and Customary Prices for 44 Brand and 43 Generic Drugs Frequently Used by BCBS FEP Medicare and Non-Medicare Enrollees, January 2000 through January 2007



Source: GAO analysis of data from BCBS FEP and the EPIC and PACE programs.

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