

**TESTIMONY OF
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ON
MEDICARE PRESCRIPTION DRUG DISCOUNT CARD AND TRANSITIONAL
ASSISTANCE PROGRAM
BEFORE THE
SENATE SPECIAL COMMITTEE ON AGING**

MARCH 9, 2004

Chairman Craig, Senator Breaux, distinguished Committee members, thank you for inviting me to discuss the Medicare Prescription Drug Discount Card and the Transitional Assistance Program, which were enacted into law on December 8, 2003, as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). In the Spring of 2004, as an important first step towards comprehensive Medicare prescription drug coverage, Medicare beneficiaries will be able to enroll in a Medicare-approved drug card program that will offer discounts on their prescription drugs. This voluntary drug card program will give immediate relief to seniors and disabled people covered under Medicare to reduce their costs for prescription drugs. In addition to the expected savings from the drug discount card, certain low-income beneficiaries will qualify for additional assistance in the form of a \$600 subsidy on the discount card. CMS is very proud to have a significant role in this important first step towards a comprehensive Medicare prescription drug benefit, which is slated to begin on January 1, 2006. CMS is working diligently to meet the aggressive deadline to implement the drug card and transitional assistance program. We are confident drug card sponsors will begin marketing and enrollment efforts on May 3, 2004, with enrollments taking effect on June 1, as scheduled.

BACKGROUND

Currently, Medicare beneficiaries who lack outpatient drug coverage pay among the highest prices for prescription drugs, as much as 20 percent higher than people with drug coverage according to a study of drug pricing prepared by the Department's Office of the Assistant Secretary for Planning and Evaluation. Under the Medicare Prescription Drug Discount Card Program, we expect beneficiaries to save an estimated 10 to 15 percent on their total drug spending, with discounts of up to 25 percent or more on individual prescription drugs. The drug card will pass savings onto beneficiaries in the form of price concessions. While not a drug benefit, the voluntary drug card program is an important first step in providing Medicare beneficiaries with the tools they need to better afford the cost of prescription drugs.

BENEFICIARY ELIGIBILITY

To qualify for the drug discount card, Medicare beneficiaries must be entitled to or enrolled under Part A and/ or enrolled under Part B, but may not be receiving outpatient drug benefits through Medicaid, including 1115 waivers. In addition to receiving discounts through the drug card, beneficiaries with incomes that do not exceed 135% of the federal poverty level (\$12,569 for individuals, \$16,862 for couples for 2004) will get a Federal subsidy of up to \$600 per year to purchase their prescription drugs. The Federal government will also pay the full annual enrollment fee, which is not to exceed \$30, for these cardholders.

To enroll, beneficiaries will submit basic information to the selected approved discount card program of their choosing about their Medicare and Medicaid status. Those beneficiaries requesting the \$600 credit also must submit income and other information about retirement and other health benefits, and attest to truthfulness of the information. CMS will verify this information and notify the approved discount card program of the beneficiary's eligibility and enrollment outcome. Beneficiaries who are eligible may then enroll with a sponsor and may start obtaining discounts and, if receiving the \$600 credit, using these funds to purchase prescription drugs, upon receiving their cards. Individuals found to be ineligible for either the discount card or the \$600 credit may request reconsideration if they still believe they qualify.

An eligible beneficiary can enroll in an approved discount card program at any time. After the initial election in 2004, the beneficiary will have the option, for 2005, of choosing a different card program during the second election period. In addition, a beneficiary may change cards under certain circumstances, if the beneficiary, for example, has a change in residential status to a long-term care facility, has moved outside of the area served by the beneficiary's approved program, or enrolls in or drops a Medicare managed care plan that is also providing an exclusive drug discount card program in which the beneficiary was enrolled.

TRANSITIONAL ASSISTANCE PROGRAM

In addition to providing a discount off the price of prescription drugs, MMA creates the Transitional Assistance program, which provides up to \$600 in an annual subsidy for Medicare beneficiaries whose incomes do not exceed 135 percent of the federal poverty level (\$12,569 for individuals, \$16,862 for couples for 2004). When applying the \$600 toward prescription drug purchases, beneficiaries at or below 100 percent of poverty will pay 5 percent coinsurance, and beneficiaries between 100 and 135 percent of poverty will pay a 10 percent coinsurance. The subsidy, in conjunction with the discount card, will give these most vulnerable beneficiaries immediate assistance in purchasing prescription drugs they otherwise may not be able to afford. For example, Medicare beneficiaries without prescription drug insurance on average would pay about \$1,400 for prescription drugs in 2004. The average discounts of approximately 10 to 15 percent would save between \$140 and \$210. This savings added to the \$600 subsidy will be of substantial help to those who need it most.

COVERAGE

The discount card and \$600 in transitional assistance can be used to purchase nearly all prescription drugs available at retail pharmacies. Syringes and medical supplies associated with the injection of insulin, such as needles, alcohol, and gauze, are also included. It is anticipated that many approved programs will use formularies to obtain deeper discounts on prescription drugs. If an approved discount card program uses a formulary, at a minimum, each program must offer a discount on at least one drug in each of the 209 categories of

prescription drugs. However, even if a prescription drug is not on the sponsor's formulary, the \$600 must still be applied to all the covered prescription drugs available at the pharmacy if the beneficiary uses the discount card toward the purchase. Drug card sponsors also may choose to offer discounts on over-the-counter (OTC) drugs, but the \$600 cannot be used toward the purchase of OTC drugs.

Medicare-approved discount card programs must obtain rebates from drug manufacturers and other discounts to help lower the costs of prescription drugs purchased by their enrollees. Because approved programs will be competing for Medicare beneficiaries, the programs will have an incentive to pass these savings along to the beneficiaries in the form of the lowest possible drug prices. While approved discount card programs may update their prices and lists of offered drugs on a weekly basis, CMS will monitor drug price changes to ensure that prices do not deviate from expected market changes, such as those in average wholesale price.

EDUCATION

To help explain the drug discount card to beneficiaries, CMS has a number of education and outreach efforts underway. Print, radio, and television advertisements will highlight the upcoming changes to the Medicare program, including the addition of the drug discount card. The advertising campaign also includes Internet-banner ads and a 10-minute pre-recorded informational radio interview to educate beneficiaries about the upcoming drug discount cards.

These advertisements will direct beneficiaries to 1-800-Medicare and Medicare's website, www.medicare.gov, for more information. CMS is working to ensure that customer service representatives at 1-800-Medicare have up-to-date information on the drug card, as well as other CMS programs. Based on our analysis, we estimate 1-800-MEDICARE will receive 12.8 million calls in FY2004. This compares to an FY2003 call volume of approximately 5.6 million calls. The 12.8 million calls include an estimated increase of 5.5 million calls as a result of the new Medicare law and 7.3 million calls for routine 1-800-MEDICARE call topics. During FY 2003, we had approximately 386 Call Service Representatives (CSR) available to answer calls during our steady-state period. For the mass media and mass

mailing activities during the fall of 2003, we increased the number of Call Service Representatives to 819. We plan to increase our CSR level at 1-800-MEDICARE and will have approximately 1,330 individuals available in May 2004 to handle the expected increase in call volume. Beneficiaries also can learn more about the new benefits from a fact sheet on the new Medicare law, frequently asked questions and answers, and more specifics about the improvements being made to Medicare, which are all available on the website, www.medicare.gov.

An additional feature of the website is a new price comparison tool, Medicare Price Comparison. Under the drug card program, card sponsors will negotiate drug discounts with both pharmacies and drug manufacturers. The new comparison tool will have the capacity for beneficiaries, or their representatives, to be able to find this sponsor-negotiated price for each drug or all their drugs at the pharmacies in their area. Pricing information will be available for brand name, generic, and mail-order prescriptions offered through each card sponsor's program. Drug card sponsors will be able to update the drug pricing information on a weekly basis. This information will also be available at 1-800-MEDICARE and by contacting the drug card sponsors directly.

CMS also has a number of publications planned for 2004 that will be designed for beneficiaries and will explain changes in the Medicare program. For example, CMS will publish a small pamphlet with an overview of the drug card program and an introduction to the discount cards and the \$600 low-income assistance, as well as a larger booklet with more detailed information about eligibility and enrollment. This larger booklet also will include a sample enrollment form and a step-by-step guide to comparing and choosing a discount card. In addition, a brief document that introduces beneficiaries to the discount cards and the Medicare-approved seal will be mailed directly to beneficiary households. This mailing, which will correspond with the television information campaign, is scheduled for late April 2004. Also, as required by MMA, CMS will work with its partners at the Social Security Administration to facilitate a mailing targeted toward low-income Medicare beneficiaries detailing the drug card and transitional assistance program.

To educate providers and pharmacists, as well as the States and other stakeholders, CMS will sponsor conferences and conduct a number of teleconferences to make the information available nationwide. For example, in-person training will take place at the National SHIP Conference, which is scheduled for April 4-7. CMS staff will be available to provide technical assistance and support as the program begins.

SPONSOR SOLICITATION

CMS has already begun the implementation of the drug card program by soliciting bids from private companies to become Medicare-approved card sponsors. Applications were due January 30, 2004. Any non-governmental organization that meets all of the qualifications can receive a Medicare endorsement. Organizations were required to complete a detailed application concerning their qualifications and the design of their proposed drug discount card program to be considered for the program. Card sponsors may be Pharmacy Benefit Managers (PBMs), wholesalers, retail pharmacies, insurers, Medicare Advantage plans, or any other non-governmental legal entity that meets the requirements. States may choose to pay the enrollment fees for beneficiaries not eligible for the \$600 credit and coinsurance for low-income who are eligible.

To ensure that beneficiaries have convenient access to their neighborhood pharmacies, card sponsors will not be permitted to limit their services to mail-order programs. Instead, all endorsed cards must include an extensive national or regional network of retail pharmacies, which must meet minimum requirements to be approved. For example, in urban areas, at least 90% of Medicare beneficiaries must live within two miles of a participating pharmacy. In suburban areas, 90% of Medicare beneficiaries must live within five miles, and in rural areas, 70% of beneficiaries must live within 15 miles of a participating pharmacy.

Drug card sponsors will be required to provide information to beneficiaries on the program's enrollment fee, which cannot exceed \$30 per year, and to publish discount prices for prescription drugs. In addition, Medicare will ensure that beneficiaries have at least two

choices of approved cards in each state, with the state being the smallest service area permitted under this program. If a card sponsor's service area includes additional states, the entire additional state must be included. Medicare will also provide reliable, easy-to-compare information that will show beneficiaries what programs are in their area, and allow beneficiaries to choose the discount card program that best meets their needs.

To facilitate meeting the May 3 target, we have already begun reviewing bids from potential drug card sponsors. CMS received 106 applications, of which one was a duplicate, one was withdrawn, and another chose to join with another sponsor. Of the 103 applications that we ultimately received, about half were for cards that would be available to all Medicare beneficiaries in the specified service areas, while the other applicants were for cards that Medicare managed care plans will make available only to their members. Among the general cards for all beneficiaries, about half of the applications were for national cards that would serve Medicare beneficiaries generally, and the other half is for specified regional service areas. We also received applications for all of the special endorsement categories, i.e., long-term care, the territories and for Indian Health Services, federally recognized Indian Tribes and Tribal Organizations, and Urban Indian Organizations. CMS plans to announce the endorsements at the end of this month, and expects that beneficiaries can begin to enroll in May and begin using their drug cards in June 2004.

CONCLUSION

Thank you again for the opportunity to testify today about this new important transition toward a prescription drug benefit for Medicare beneficiaries. This voluntary drug discount card program will provide immediate assistance in lowering prescription drug costs for Medicare beneficiaries until the new Medicare drug benefit takes effect on January 1, 2006. We recognize the importance of the discount cards and the low-income subsidy to Medicare beneficiaries, who, for too long, have gone without outpatient prescription drug coverage. We at CMS are dedicated to meeting the deadlines set out in the historic Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and are working expeditiously to identify card sponsors by the end of this month in order to satisfy the May 3 and June 1, 2004,

effective dates for enrollment and implementation, respectively. Thank you again for this opportunity, and I look forward to answering any questions you might have.