Senator Bill Nelson
Opening Statement
United States Senate Special Committee on Aging
"Seniors Feeling the Squeeze: Rising Drug Prices and the Part D Program"
March 17, 2009

Late last year, the AARP released a report that showed that while the nation was in a recession and the overall inflation rate was negative, brand name drugs were seeing some of their highest price increases in years. According to their report, the price of the brand name drugs most commonly used by Medicare beneficiaries increased by 9.3 percent in the 2009 – a much higher increase than any of the previous seven years. [Chart #1]

For some drugs, their price increase was markedly higher. Aricept, a drug that treats dementia, saw a 17 percent increase. Ambien, a sleep aid, saw a 19 percent increase. The price of Flomax, a drug used in men with enlarged prostates, increased by 20 percent.

Just yesterday, the Kaiser Family Foundation released a report confirming these trends. According to their report, 9 of the top 10 drugs in Medicare Part D drug plans saw a price increase between 2009 and 2010; for half of these drugs, the increase was 5 percent or more. Kaiser also highlights some particularly egregious cases. Between 2006 and 2010, for Medicare Part D beneficiaries in the so-called doughnut hole paid 20 percent to 25 percent more for Lipitor, Plavix, Nexium, and Lexapro, paid 39 percent more for Actonel, and paid 41 percent more for Aricept.

In comparison, the consumer price index – meaning the price of general consumer goods – increased by just 9 percent between 2006 and 2010. Even the price of most medical care, which we all know is increasing rapidly, grew by just 16 percent. These reports show us that a time when peoples' pocketbooks are getting squeezed, seniors are being asked to pay more than ever for their prescription drugs.

In this hearing, I hope our witnesses can help us look at these drug price increases, try to understand why they are happening, consider how they affect seniors in their Part D plans, and discuss policy options for addressing these high and increasing costs.

In order to understand how increasing drug prices affect seniors, it's important to understand how the standard Part D prescription drug plan works. [Chart #2] A standard Part D plan in 2010 starts with a $310 deductible, where a senior pays the full cost of any drugs. This is followed by a period of coverage up to $2,830 in total spending, where the senior pays on average 25 percent of drug costs. After this point, the senior reaches the coverage gap, known as the 'doughnut hole.' Here seniors experience the full brunt of high and rising prescription drug prices, as they are paying 100 percent of their prescription drug costs. Let's be clear – while seniors are paying monthly premiums to their Part D plans, they are on the hook for paying $3,610 out-of-pocket on their medications. No wonder 15 percent of seniors who have reached the doughnut hole end up stopping their medications. Once seniors have spent the full $3,610 in the doughnut hole, they reach catastrophic coverage, where the plan pays 15 percent of total costs, Medicare pays 80 percent, and the beneficiary pays 5 percent.

Altogether, beneficiaries are responsible for paying $4,550 in drug costs out-of-pocket before they reach catastrophic coverage. As you can imagine, a senior will spend $4,550 a lot quicker with drug prices increasing as fast as they are. That will push more seniors into catastrophic coverage, putting taxpayers on the hook for the increasing drug prices as well.

Congressman Pete Stark requested a report from the Government Accountability Office on prescription drug price increases in the Part D program, which we will discuss today. This report gives an example of a cancer drug called Gleevec. The price of Gleevec increased by 46% between 2006 and 2009, from about $31,200 per year to about $45,500 per year. Average out-of-pocket costs for this drug per year increased from about $4,900 in 2006 to more than $6,300 in 2009. A $1,400 dollar difference over 3 years is hardly a trivial increase.

If drug prices were increasing for some underlying necessary reason – scarcity of resources, or excessive increase in demand – these drug price increases would be understandable. Problem is, they're not.

The very same drugs are sold all over the world for far less than they cost here in the United States. The 30 most commonly prescribed drugs cost 27 percent less in Canada and 66 percent less in New Zealand. The drugs are approximately 50 percent less in the United Kingdom, the Netherlands and France.

While pharmaceutical companies are giving other countries deep discounts, they're still able to maintain a tidy profit due to their high prices in the U.S. [Chart 3] Between 2006 and 2009, the profits of top drug makers grew by up to 201%. I'm afraid that the drug companies are laughing all the way to the bank, while seniors and taxpayers are picking up the tab.

I think one important way to insulate seniors from rising drug prices is by filling in the doughnut hole. It is there that they experience the full brunt of high and increasing drug prices. I have introduced a number of measures to achieve this aim. One bill, the Medicare Prescription Drug Gap Reduction Act, would require the Secretary to negotiate prescription drug prices with manufacturers, and the savings would be used to fill the doughnut hole for beneficiaries. I've also proposed requiring pharmaceutical manufacturers to pay a rebate to the government for so-called dual-eligible beneficiaries—those that are eligible for both Medicare and Medicaid. Prior to passage of the *Medicare Modernization Act*, which created the Part D program, these beneficiaries were covered under Medicaid, and the government received rebates to lower the cost of providing drugs to low-income seniors. Today, taxpayers pay higher costs for the same drugs for the same seniors for no good reason.

These provisions can lower costs for taxpayers and for seniors. If we can force drug companies to provide negotiated or mandated rebates by using the full weight of the Part D program, we will see prescription drug prices that are fair to both beneficiaries and to taxpayers.

I look forward to discussing these ideas and others with our distinguished panel of witnesses.