

**Testimony of  
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Before the Senate Special Committee on Aging  
Hearing on Generic Drug Utilization in the Medicare Prescription Drug Benefit  
September 21, 2006**

Chairman Smith, Senator Kohl, distinguished committee members, thank you for the opportunity to provide you with information on how the new Medicare prescription drug benefit (Part D) is helping to encourage generic drug utilization and lower the cost of prescription drugs for people with Medicare, the Medicare program, and taxpayers. I appreciate your interest in this topic, but more importantly, Members of Congress from both parties have been a key part of this massive grassroots education effort put in place to help Medicare beneficiaries select a plan that best fits their needs. Members of Congress have supported and participated in enrollment events sponsored by CMS and our thousands of partners throughout the country, sent flyers to their constituents, and spoken extensively to the public about the value of this new benefit. With the recent launch of this fall's *My Health. My Medicare.* campaign, I expect that this partnership will continue as we begin to drive greater awareness and use of the enhanced preventive benefits and coverage options for 2007.

Improvements made to the drug benefit in 2007 will continue to help beneficiaries save money, in part by increasing awareness about the value of generic drugs. There are a number of tools available to consumers to help them evaluate their options for the new plan year, including enhancements for the Drug Plan Finder, the *Medicare & You Handbook*, and personalized assistance through our 1-800-Medicare call centers and the State Health Insurance Assistance Programs (SHIP). As we change our focus from that of a payer of health benefits to one that

promotes steps to stay well and reduce health care costs, we will be educating beneficiaries and partners about the preventive benefits offered in Medicare.

The Part D benefit is the most important new coverage to be added to the Medicare program in its more than 40-year history. It is critical to preventing and managing chronic disease, treating illness, preserving quality of life, and delivering modern medical care in the 21<sup>st</sup> century.

Comprehensive prescription drug coverage is also a key element of our ongoing efforts to transform the emphasis in Medicare from simply paying bills when people get sick to paying for high quality, prevention-oriented care that allows people with Medicare to live healthier lives while avoiding preventable healthcare costs.

Thanks to the enactment of the new Medicare prescription drug benefit, tens of millions of Americans are now getting better benefits from Medicare than ever before and at a cost significantly lower cost than originally projected. Strong competition in 2006 and well-informed beneficiary choices have resulted significant savings over what had been previously estimated. Current estimates of the cost of the drug benefit indicate that beneficiaries and the Federal government will be saving tens of billions of dollars more, over the next five years, than had been anticipated just a year ago. Notably, the average Part D premium for 2006, now estimated to be less than \$24, is about 35 percent lower than had been projected a year ago. Beneficiaries, the Federal government and the states are all benefiting from lower costs and will continue doing so next year. And even greater savings are ahead in 2007. Based in part on the strong competitive bids for 2007, average premiums will again be around \$24 for beneficiaries, and the vast majority of beneficiaries will have access to Medicare drug plans that have lower premiums

than those in 2006. In addition, costs to taxpayers may be even lower in 2007 than 2006 because lower bid amounts mean that the Federal government's costs will be commensurately lower.

The utilization of generic drugs has played an important role in the low costs and expected further cost reductions in the drug benefit. Due in part to increasing generic drug availability, strong competition in the prescription drug marketplace has led to slower rates of growth in overall prescription drug spending. Also, the availability of excellent coverage of generic drugs in the Part D drug benefit, as well as personalized information and support to help beneficiaries find out about how they can save using generics, have been important contributors to costs that are much lower than expected. Continuing to promote greater reliance on generics when available among Medicare beneficiaries is an important strategy to keep the new drug benefit affordable over the long term.

### **Generics Are Widely Available at Low Cost**

With ever-increasing generic drug availability, more and more Americans are seeing the value of generics and using them to help save money on their prescription drug costs. Roughly three-quarters of the drugs currently listed in the Food and Drug Administration's Orange Book currently have generic counterparts. According to the Generic Pharmaceutical Association (GPhA), U.S. generic pharmaceutical sales increased 10 percent between 2003 and 2004 and amounted to \$22.3 billion in 2005; the generic share of the pharmaceutical market is expected to grow by roughly 13 percent in 2006. This growing availability of generics is well accounted for in Medicare Part D, with all stand-alone prescription drug plans and Medicare Advantage Prescription Drug plans (MA-PDs) offering comprehensive, low-cost access to generic

pharmaceuticals in 2006. In addition, all Medicare beneficiaries eligible for Medicare Part D had access to at least one prescription drug plan with some coverage in the gap in 2006, including coverage of generics during the gap. And in 2007, even more plans will offer coverage of generics in the gap.

Equally important, and again as a result of strong competition, the cost of generic drugs in the United States is very low and they are relatively widely used. The FDA notes that generic drugs typically cost 50-70 percent less than their brand-name counterparts. Further, prices for generic drugs in the U.S. are much lower than in many other countries. For example, a study by the National Opinion Research Center at the University of Chicago reported that people living in Canada pay 37 percent more for generic drugs than people in the U.S.<sup>1</sup> In addition, generic drugs are more widely used in the U.S. than in other countries, providing further drug cost savings. For example, during 2005, in terms of value, generic drugs accounted for less than 10 percent of the market in Austria, Belgium, Finland, France, Ireland, Italy, Portugal and Spain.<sup>2</sup>

The Medicare prescription drug benefit is reinforcing these trends. Generic drug prices for people with Medicare can be even lower due to the excellent coverage available through Part D. Medicare plans encourage the use of generics with tiered formularies, under which generic drug co-pays are typically far lower than co-pays for brand alternatives. Some Part D plans even offer generics for a \$0 copay. As a result of very low prices and information and support for beneficiaries on how they personally can save by using generic versions of their medicines, Medicare Part D has resulted in increased use of generic drugs by Medicare beneficiaries.

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<sup>1</sup> Understanding Variations in International Drug Prices. National Opinion Research Center (NORC) at the University of Chicago and Georgetown University. July 2006.

<sup>2</sup> See: <http://www.egagenerics.com/doc/PharmaMkts2005.pdf>

The benefits of generic drug use by the Medicare population is clear, and generic drug availability for Medicare beneficiaries will be increasing further, leading to additional savings. The GPhA has indicated that “blockbuster” name-brand pharmaceuticals coming off patent are valued at \$22 billion in 2006, \$27 billion in 2007, and \$29 billion in 2008. For example, Zocor, a cholesterol lowering drug and one of the nation’s top sellers, just recently came off patent. An anti-depressant, Zoloft, recently came off patent as well. The patent for a high blood pressure medicine, Norvasc, expires next year, and Advair, an asthma fighter, loses its patent protection in 2008. All told, between 2006 and 2009, there will be a significant number of patent expirations, opening the way for cheaper, generic alternatives.

Under the Medicare Part D program, prescription drug plans are able to add to their formularies at any time, making it simple to pass along to beneficiaries and taxpayers the savings offered by new generics as they become available. CMS takes its role as public health educator seriously, and we are committed to helping health care providers and people with Medicare to understand the value of generics.

### **Generic Utilization on the Rise**

As more widely used branded prescription drugs go off patent and more generics become available, we expect to continue to see generic utilization rise. This will help provide additional savings on prescriptions for beneficiaries, as well as for the Medicare program. In fact, early evidence shows that CMS and its partners’ efforts to promote generic utilization are paying off. There are early indications Medicare beneficiaries enrolled in Part D are relying on generics to a

greater extent than the U.S. population as a whole. We would expect this utilization trend to continue, as more and more beneficiaries realize the significant savings available by switching to generic drugs.

Nationwide, among all payers, the proportion of generic usage by prescriptions dispensed stands at 51.9 percent. Data recently gathered by CMS show that generic usage among all types of Part D plans was 60.1 percent during the first two quarters of 2006. Notably, Medicare Advantage plans offering drug coverage have achieved an even higher generic utilization rate. We attribute this to their longer experience with providing low-cost drug coverage to the Medicare beneficiaries they serve, and greater experience and ability to help provide well-coordinated, low-cost care for beneficiaries. In addition, many Part D plans are increasing the growth rate of generic utilization at a faster rate than the overall market. One large plan sponsor's generic utilization rate has grown at three times that of the national market.

This is very good news for beneficiaries and for the program. It means that beneficiaries have access to and are using lower-cost alternatives offered by their plans. It also means that our efforts to educate beneficiaries about the cost-saving potential of therapeutic alternatives have been successful and that pharmacists and physicians have the information they need to help beneficiaries make choices about their medications.

The benefit of greater reliance on generics or, in many cases, less expensive brand-name drugs that are equally effective for the same condition and appropriate for the beneficiary is well documented. According to an ongoing CMS analysis of negotiated price discounts available to

illustrative beneficiaries under Medicare Part D, when compared to retail prices, such beneficiaries would see savings of up to 74 percent if they joined one of a broad range of lower-cost Part D plans and then switched to generics.<sup>3</sup> When such beneficiaries, who are taking a brand name drug for which there are cheaper brand name drugs that treat the same condition and are clinically appropriate, switch to those cheaper alternatives, their savings increase to 82 percent for the lowest-cost plan and up to 75 percent for a range of low-cost plans. A number of external reports have comparable findings. For example, Consumers Union found that beneficiaries with common chronic conditions who switch to generic or other therapeutically equivalent medications can save between \$2,300 and \$5,300 a year.<sup>4</sup> These individual savings can add up to billions of dollars in savings across the beneficiary population as a whole

Similarly, the Pharmaceutical Care Management Association (PCMA) released a study earlier this year indicating that Medicare drug plans offer significant price discounts compared to what beneficiaries would pay without coverage.<sup>5</sup> A recent follow-up PCMA study found that beneficiaries can maximize the already-significant savings noted above by switching to lower-cost medications, such as generics.<sup>6</sup>

## **Education Helps Beneficiaries Save**

Beneficiary and partner education has been an essential component of our strategy to increase the utilization of generic drugs among Medicare beneficiaries, to help them get the most out of their

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<sup>3</sup> CMS Office of Policy, Analysis of Savings Available Under Medicare Prescription Drug Plans, June 20, 2006

<sup>4</sup> "Helping Medicare Beneficiaries Lower Their Out-of-Pocket Costs Under the New Prescription Drug Benefit," Consumer's Union, December 14, 2005. As CMS has noted, beneficiaries should discuss any therapeutic changes with their physician and pharmacist, and the personalized information we provide can help inform those discussions.

<sup>5</sup> "[Medicare Drug Discounts Real & Holding Steady](#)", Pharmaceutical Care Management Association, February 7, 2006.

<sup>6</sup> "[Potential Beneficiary Savings Associated with Generics & Mail-Service Pharmacies for Five Conditions Chronic to Seniors](#)," Pharmaceutical Care Management Association, September 7, 2006.

prescription drug coverage. The personalized attention that people found so helpful in making decisions about the new drug benefit has become part of routine business for CMS, and we are going to continue to build on it to ensure that beneficiaries have what they need to make informed choices.

Immediately after the MMA was signed into law in 2003, CMS devised a comprehensive strategy for successful implementation of the Part D benefit by its January 1, 2006 effective date. Educating people with Medicare about the design and availability of the new drug benefit, and developing information and resources to assist them in evaluating numerous plan options were and continue to be among CMS' highest priorities.

Beginning in the fall of 2005, CMS launched a major initiative to educate beneficiaries about Part D, putting into place an outreach and education partnership comprised of more than 20,000 local and national organizations. Forty thousand volunteers staffed more than 50,000 Part D enrollment events across the country. Today, more than 38 million Medicare beneficiaries -- over 90 percent of people with Medicare -- have prescription drug coverage either through Part D directly, an employer plan that is supported through Part D, or another equivalent source, and satisfaction rates with the Part D prescription drug plans' coverage are very high -- over 80 percent.

### **Improvements for 2007**

CMS has a new and more comprehensive approach to beneficiary outreach called *My Health. My Medicare.*, which exemplifies the transformation of CMS from an entity which simply pays the bills, to one that promotes quality health care, that provides personalized support to help each of



our beneficiaries stay well and lower their health care costs. We have been working to transform our approach at the agency to assisting beneficiaries in achieving this goal over the past few years. As a part of this approach, CMS has developed and enhanced many tools available to provide beneficiaries enrolled in Part D the information they need to achieve maximum savings on their prescription drugs. One of these key tools is the *Medicare & You Handbook* that beneficiaries will receive in October. This year, the Handbook will highlight the preventive services available to people with Medicare, including a wide range of screening services. It has also been revised to enhance information on the benefits of using generic drugs, and to address potential beneficiary concerns about switching from brand name drugs to generics. Additionally, during our outreach events and through our extensive partner network, we are advising beneficiaries that asking their doctor or pharmacist about the generics or lower cost brand name alternatives available for their prescription drug needs can help them delay reaching the coverage gap. This strategy is supported by a recent PCMA study, which found that beneficiaries who use more generic drugs may be able to delay by an average of 74 days or even avoid the coverage gap<sup>7</sup>.

In addition to outreach through partners and special events, CMS developed and maintains a comprehensive resource that beneficiaries can use to find lower-cost drugs covered by their plan: the “Drug Plan Finder” available at [www.MyMedicare.gov](http://www.MyMedicare.gov). Beneficiaries can use the Plan Finder to search for lower cost alternatives available under a specific plan. When beneficiaries enter their drug regimen in the Plan Finder, the system defaults to provide them information about lower cost generic drugs when they are available, including personalized information on

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<sup>7</sup> Pharmaceutical Care Management Association, “Potential Beneficiary Savings Associated with Generics & Mail-Service Pharmacies For Five Conditions Common to Seniors,” September 7, 2006.

the specific additional estimated savings. In addition, the Plan Finder provides a link to a page that highlights the benefits of generic alternatives. Millions of people have already accessed this site to find information on their options and to help make important choices about their drug coverage based on their preferences. Even beneficiaries who choose a plan with no coverage in the gap can use the Plan Finder to access and compare prices negotiated by their plan on both generics and branded drugs.

In an effort to improve our many resources for beneficiaries, we have made enhancements to the Medicare Drug Plan Finder for 2007. In addition to including call center performance, complaint information and other plan performance information, it will be tightly integrated with the updated Medicare Coverage Options tool, making it easy for people to get personalized comparisons of their health plan choices along with their drug plan options. Users will be able to get estimates for their total annual health costs, and month to month estimated costs, incorporating the latest information on discounted drugs.

### **Plans, Pharmacists and Physicians Help Beneficiaries Save**

In a competitive Part D market with proactive consumers who receive the support they need, Medicare drug plans have shown that competition leads to attractive plan options at competitive prices. Promoting generic utilization through education or by offering coverage for generics through the coverage gap helps plans stay competitive and saves beneficiaries and taxpayers money. This increased availability of plans with some coverage in the gap is good news for beneficiaries, who in 2006 overwhelmingly opted for benefit packages offering predictable coverage this year through features such as gap coverage, fixed co-pays and zero deductibles.

Physicians and pharmacists are important partners in helping beneficiaries get the most from their prescription drug coverage, and CMS truly appreciates their leadership in assisting so many beneficiaries to use their coverage effectively. CMS, Part D plans, pharmacists and physicians are all helping beneficiaries achieve even greater cost savings by educating them about lower-cost alternatives and their money saving potential. CMS has worked closely with physicians to ensure they have the tools and knowledge they need to help their Medicare patients. Among these key tools is a feature on [www.medicare.gov](http://www.medicare.gov) called the Formulary Finder that allows doctors to link directly to a plan's formulary through the Web. Additionally, it is possible for physicians to use handheld and web based clinical reference tools, to access all Medicare Part D formularies, which are being made available for free. This means that any physicians using this approach will have quick access to formulary information, enabling them to make a decision about the potential of a lower-cost prescription while a beneficiary is in their office.

As an important element of Part D implementation, CMS supported the launch of the Pharmacy Quality Alliance (PQA), in partnership with pharmacy organizations, health plans, employers, consumers and many others. This strong and extensive alliance will focus primarily on developing strategies for defining and measuring pharmacy performance. A key step that PQA has taken is to develop an initial set of metrics to measure quality based on available pharmacy claims data. Included in these metrics is an evaluation of generic efficiency and formulary management. More specifics on the results of these evaluations will be available in the fall, and will help CMS promote best practices in pharmacy care – including generic utilization – for the Medicare population and more broadly.

## **Looking Ahead**

Notwithstanding the many successes and high satisfaction with the Part D benefit in 2006, we are confident that even better things are coming in 2007 as a result of strong competition and enhanced benefit choices. More plans will be offering coverage in the gap, and lower-cost options will be available for most beneficiaries everywhere. Additional enhanced plan options enable beneficiaries to obtain more stable monthly costs throughout the year. And, with the average bids for 2007 almost 10 percent lower than in 2006, Part D will have lower Federal costs, making the program more stable and affordable over time. These cost savings are due in no small part to tough plan negotiation for lower drug prices and effective use of generics that cost much less than the drugs seniors may have used in the past.

## **Conclusion**

Chairman Smith and Senator Kohl, thank you again for inviting me to speak with you today about generic drug utilization and how we can work to continue providing a high quality, low cost prescription drug benefit for Medicare beneficiaries. The drug benefit provides important new coverage for people with Medicare, and generic alternatives serve as an important and safe way to save a lot of money for both beneficiaries and the Medicare program.

CMS is working hard to make sure that everyone with Medicare has the tools and knowledge to make the most of their Medicare coverage. This means receiving high quality benefits at the lowest possible cost. We will continue to work to meet the health needs of beneficiaries by building on the strong partnerships that are helping to make the Medicare prescription drug program a success.