



Prescription Drug Price Trends Are In Line with Medical Inflation

Rx Trends Remain Steady as Medicare Discount Program Moves Towards Implementation

On June 1, 2004, all Medicare beneficiaries will be eligible to participate in a prescription drug discount program. Competing private discount programs will enroll seniors and disabled persons in cards that have been selected and endorsed by the Centers for Medicare & Medicaid Services. This discount program was created by the Medicare Modernization Act and is intended to offer immediate assistance to Medicare beneficiaries in advance of the full prescription drug insurance benefit taking effect on January 1, 2006. The discount card program has been expected to achieve discounts in the range of 10–25 percent.¹ In some press reports, card sponsors have indicated that savings on some medicines could be even higher.² In addition to offering these discounts, the discount card program includes \$600 in cash credit toward the purchase of prescription medicines in 2004 and again in 2005 for Medicare beneficiaries with incomes below 135 percent of the federal poverty level.

Although the discount program offers substantial benefits to patients, Families USA (FUSA) has launched a campaign against it. FUSA alleges that the discount program won't help seniors since pharmaceutical companies are rapidly increasing drug prices in advance of the discount program's launch. According to Ron Pollock, Executive Director of Families USA, "I think seniors are going to be disappointed. Yes, they may technically get a discount, but since the base price is increasing so substantially they will be paying as much out-of-pocket as they did before."³

FUSA's claims don't stand up to the facts. Simple analysis of publicly available data collected by the U.S. government shows that retail prescription drug

prices have increased just 1.5 percent between November 2003 (the month the Medicare law passed) and March 2004 (the most recent month for which data are available). This is well below overall medical inflation, which increased by 2.1 percent over the November 2003–March 2004 period. This same simple analysis shows that retail prescription drug price increases have been roughly in line with medical inflation over the past one-, three-, four-, and six-year periods. In fact, prescription drug price increases have been slightly below medical inflation in recent years and also have been slightly lower in recent years than in earlier years.

This analysis is based on the U.S. government's Consumer Price Index (CPI), which is the best, most current, and most comprehensive publicly reported data on trends in the prices of medical items and services, including retail-level prescription drug prices. The CPI is maintained and publicly reported each month by the U.S. Bureau of Labor Statistics (BLS). The CPI includes a subcomponent measuring the rate of increase for overall medical care services (which we hereafter refer to as "CPI-M"). CPI-M in turn includes various subcomponents, including one that measures retail prescription drugs* and medical supplies (hereafter, "CPI-P"), and others measuring physician prices, hospital prices, and prices in other health care subsectors. Approximately 98 percent of the products includ-

* Retail-level prices are not determined by manufacturers. They encompass the cost of acquiring medicines from manufacturers and the cost of the distribution chain for pharmaceuticals, such as wholesalers, pharmacies, and prescription benefit managers.



ed in CPI-P are prescription medicines,* with the remaining two percent composed of prescription medical supplies (such as syringes for insulin injections). Therefore, CPI-P is a good measure of changes in the retail prices of prescription medicines. In this analysis, we compare trends in CPI-P and other health care sub-components to CPI-M (see Table 1 on page 3 for a comparison between CPI-P and CPI-M).

The results of our simple analysis of this publicly available data are as follows:

Prescription Drug Price Trend Was Below Medical Inflation from the Time of Medicare Bill's Passage to the Present

The Medicare Modernization Act passed Congress on November 25, 2003. In light of FUSA's allegation that price increases since the law was signed effectively eliminate meaningful discounts through the discount card program, we examine the BLS's publicly reported prescription drug inflation and medical inflation from November 2003 through March 2004 (the most recent data available). **During this period, prescription drug inflation was lower than medical inflation:**

- From November 2003 through March 2004, CPI-P grew by 1.5 percent. At the same time, CPI-M (i.e., all medical inflation) grew by 2.1 percent. Other major categories of health services grew by 1.9 to 2.8 percent during this period.

Prescription Drug Price Trend Was Below Medical Inflation from January 2003 to the Present

The Medicare Modernization Act was being seriously considered by January 2003. **CPI-P from January 2003 to March 2004 was below the CPI for all medical services during this period:**

- From January 2003 through March 2004, CPI-P increased at a compound annual growth rate of

2.9 percent. In contrast, CPI-M increased at a compound annual growth rate of 4.8 percent. Other major categories of health services increased at a rate of 4.3 to 7.1 percent during this period.

Prescription Drug Price Trend Was In Line with Medical Inflation from January 2001 to the Present

We extended the analysis further back to the start of the 107th Congress, which seriously considered Medicare prescription drug legislation. **We find that the CPI-P closely tracked the CPI for all medical services during this period:**

- From January 2001 through March 2004, CPI-P increased at a compound annual growth rate of 4.4 percent. In contrast, CPI-M increased at a compound annual growth rate of 4.6 percent. Other major categories of health services increased at a rate of 3.4 to 7.8 percent during this period.

Prescription Drug Price Trend Was In Line with Medical Inflation from January 2000 to the Present

We next compared CPI-P and CPI-M from January 2000, which marks the start of a presidential campaign during which a Medicare prescription drug benefit was discussed, to the present. **Again, we find that that the CPI-P closely tracked the CPI for all medical services during this period:**

- From January 2000 through March 2004, CPI-P increased at a compound annual growth rate of 4.2 percent. In contrast, CPI-M, our measure of overall medical inflation, increased at a compound annual growth rate of 4.6 percent. Other major categories of health services increased at a rate of 3.6 to 7.5 percent during this period.

* Figure based on conversations with BLS analyst, April 12, 2004.



Prescription Drug Price Trend Was Slightly Above Inflation from January 1998 to the Present

Finally, we examined the period from January 1998, which predates serious consideration of a Medicare prescription drug benefit (the Clinton Administration publicly unveiled its Medicare prescription drug proposal in June 1999), to March 2004. **Once again, during this period, CPI-P was in line with overall medical inflation:**

- From January 1998 through March 2004, CPI-P increased at a compound annual growth rate of 4.6 percent. In contrast, CPI-M, our measure of overall medical inflation, increased at a compound annual growth rate of 4.2 percent. Other major categories of health services increased at a rate of 3.4 to 6.4 percent during this period.

Table 1: Comparison of Compounded Annual Growth Rates (CAGR) for CPI-M and CPI-P Over Various Time Periods

Time Periods	CPI-M (CAGR)	CPI-P (CAGR)
November 2003 to March 2004*	2.1%	1.5%
January 2003 to March 2004	4.8%	2.9%
January 2001 to March 2004	4.6%	4.4%
January 2000 to March 2004	4.6%	4.2%
January 1998 to March 2004	4.2%	4.6%

* CPI-M and CPI-P are calculated using the percent increase instead of the compounded annual growth rate since this reflects a time period of just a few months.

Conclusion

Families USA's allegation that pharmaceutical prices have increased rapidly to offset the effects of the Medicare discount card program is wrong. Regardless of the time period examined, retail prescription drug prices as measured by publicly reported U.S. government data have been growing at a consistent rate that is closely in line with overall medical inflation, and far below the rate of some other health care services. In fact, the government data indicate that in recent years, as the Medicare drug benefit moved closer to passage, CPI-P growth slowed relative to overall medical inflation. Thus, Families USA's claim that patients will not benefit from the discount card is likewise wrong. Seniors and disabled Medicare beneficiaries can enroll beginning May 3rd for the discount card program, which will start offering discounts in June 2004. Rather than being led astray by FUSA's misinformation, they should take advantage of prescription drug discounts and, for those eligible, a \$600 per year credit, by signing up for a discount card.

Methods

We looked at a component of the CPI, the CPI-M, which measures the average change in prices for overall medical care commodities and medical care services. We then compiled several separately reported subcomponents of the CPI-M. The following Bureau of Labor Statistics measures were used for our analysis:

- Increases in medical services ("CPI-M") were captured using the CPI measure CUSR0000SAM.
- Increases in retail prescription drug prices ("CPI-P") were captured using the CPI measures CUSR0000SEMA.
- Increases in other major categories of health services were captured using CPI measures CUSR0000SEMC01 (physician services), CUSR0000SEMD (hospital and related services), and CUSR0000SEMD01 (hospital services).

The CPI-M and its subcomponents provide the best available and most current government data for track-



ing price trends for these various medical care costs (see Caveat section for more detail).

We examined the increase over various time periods.⁴ To find the percent change over these periods of time, we indexed these components of the CPI, using 1998 as the base year. We also calculated the growth rate, compounded annually, to measure the overall trend in increases. We used several different time periods to assess shorter- and longer-term trends; however, the general trends for all periods happened to remain consistent in this analysis.

Caveat

As described above, the prescription drug and medical supplies CPI was used as the basis for calculating drug price changes in this analysis.⁵ This figure provides the best publicly available measure of prescription drug price changes. However, the following limit on the data available from the CPI-P should be considered.

- CPI-P likely overstates pharmaceutical changes since it does not adjust for quality changes such as incremental improvements in pharmaceutical products (see, e.g., Cutler and McClellan, who find that, “Our results imply that quality change has been greater than, or at least comparable to, price increases for a range of conditions”⁶). ■

¹ Centers for Medicare & Medicaid Services, *The Facts About Upcoming New Benefits in Medicare: Medicare Modernization Act of 2003*, Publication No. CMS-11054 (CMS, 17 February 2004).

² See B. Toan, “Medicare Rx Legislation: Implications for PBMs,” National Medicare Prescription Drug Congress, 26 February 2004, and Medco Health Solutions, “Centers for Medicare and Medicaid Services Selects Medco for Medicare Discount Card Program,” News Release, 25 March 2004.

³ “Pros and Cons of the New Medicare Drug Discount Cards,” *NBC Nightly News*, 27 March 2004. See also “Rumblings of a Crisis in Health Care,” *The Washington Post*, 28 March 2004.

⁴ Most recent update was taken from <http://stats.bls.gov/cpi/cpid0403.pdf>.

⁵ U.S. Department of Labor, Bureau of Labor Statistics, *Measuring Price Change for Medical Care in the CPI* (rev.) (U.S. Department of Labor, Bureau of Labor Statistics, June 1998), www.bls.gov/cpi/cpifact4.pdf.

⁶ D. Cutler and M. McClellan, “Is Technological Change in Medicine Worth It?,” *Health Affairs* 20, no. 5 (September/October 2001): 11–29.