Highland Glen Analysis of Medicare Prescription Drug Bill

26 Nov 2003

The following is intended to interpret the new Prescription Drug Bill, as it applies for potential Highland Glen Clients in the United States.

Importation. Importation from Canada, is permitted, subject to HHS certifying the safety of imports. As reported in USA Today, 26 November, 2003, it appears that this option has risen high on the agenda. The complete text of the article is attached at the end of this Analysis. In addition, last week, Mark McClellan, Commissioner of the FDA was in Ottawa, where he signed a new agreement with Health Canada to improve the exchange of information between our two countries. He acknowledged in his speech that Canada's drug regulation system and its licensed pharmacies are as safe as the United States'. He stated he felt problems arise when those licensed pharmacies then export to the United States - as reported in the Globe and Mail.

Drug benefits, effective in 2006, under Medicare Bill passed in Congress.

Monthly Premiums $35 per member - therefore Annual Premium Cost $420

Deductible - client pays first $250

Total hard costs out of pocket annually = $670 - before subsidization kicks in.

75% subsidization up to $2,250 in costs means client will spend $562.50 of their own money, out of the $2,250.

Then the next $3,600 dollars will be 100% paid by the client, at the full cost of those drugs.

At $5,100 spent, the client will then be subsidized 95%.

Real Life Example.

The following analysis is based on a real client using Highland Glen's services, at this time. The client, a woman, uses 5 prescriptions. Her annual income in unknown, although she lives in an AAHSA residence.

Present Situation.

Cost of prescriptions every three months, at Walgreens - $2,810 US. Annual costs = $11,240 US.

Cost of Prescriptions from Highland Glen, every three months, - $1,970 US. Annual Costs = $7,880 US

Present savings with Highland Glen, every three months = $840. Annual Savings = $3,360 US.

Using the Congress formula. No account for 3 years of price increases is calculated. Formula begins 2006.

Based on one year.

Annual Premium $420 US

Deductible = $250 US

First level of subsidization ($2,250 X 25%) = $562.50 US out of pocket from the client.

Gap = $3,600 US paid 100% by the client.

At $5,100 - client pays 5% of remainder to annual cost of $11,240 = ($11,240 - $5,100) = $6,140 X .05 clients cost = $307 US

Total out of pocket costs to the client for one year = (420+250+562.5+3,600+307) = $5,139.50 US

Annual savings, compared to present US based costs ($11,240 - $5,139) = **$6,101.**

For this individual, it would be much better for them to order all of their drugs through the US system, due to the subsidization available after the $5,100 cost.

The above example demonstrates compelling economic reasons why this one case should cease using Highland Glen's services in 2006.

However, in the meantime, this client saves $3,360 annually, until 2006.

The same economic argument cannot be made, for someone who will use more than $2,250 in prescriptions, but less than $5,100 prescriptions.

<u>How Highland Glen fits in, under the new Medicare Bill</u>

There are two hidden groups where using Highland Glen makes more economic sense, even under the new Medicare Bill.

<u>First Group</u> - casual users of prescription drugs. This group uses less than $1,000 US per year in prescriptions.

They will pay $420 per annum, for a benefit that kicks in at $250 - total out of pocket per annum of $670, prior to any Medicare coverage.

Given the savings available, 40% to 60% saving with Highland Glen, it makes more sense to not use the plan, and place their orders from Canada. The $420 saved in premiums can buy a good amount of drugs - if you are a casual user.

<u>Second Group -Filling the Donut Hole</u> - the medium users, who use more than $2,250 per annum but less than $5,100 per annum in drug costs.

Once the medium user passes the annual limit of $2,250 they must pay full price.

If they are not going to exceed the $5,100, then it makes no sense to keep ordering drugs in the US.

The moment a citizen breaks the $2,250 mark, they will not have any interest in paying 100% of the price for their prescription drugs. They will look for a cheaper solution, Highland Glen can provide that solution.

<u>The Monthly Premium Trap - What is the real percentage share</u>

The monthly premium of $35 presents an interesting fee that will likely be manipulated.

What is the true percentage cost sharing for a person whose uses $2,500 annually in prescription drugs.

Annual premium - $420

Deductible - $250 - hard cost before cost sharing commences.

Out of pocket costs, based on 75% paid Subsidy (2,250 X 0.25 %) = $562.50

Total annual out of pocket = $1,232.50 - the real money out of a citizen' pocket.

True percentage subsidization = 1,232.50/2,250 = **54%** **ACTUAL** subsidization - not the 75% as advertised in the bill - a 21 % point difference from what the government has presented. While it will remain 75% after the deductible - the manipulated variable, the premium and the deductible, both drive the overall subsidization sharing.

One of the most interesting financial aspects of the Bill which also presents the greatest danger for US citizens is opportunity for "premium creep" and deductible creep, where the monthly premiums and the deductible will rise, a few dollars here, 50 cents there - until is it $50 per person, per month - which will be presented as fair. The subsidization will very likely remain at 75% - as it seems like a huge number. The Government of Canada, as a more socialistic system than the US system, are masters at this game. The result of premium creep and deductible creep is that the true subsidization ratio will drop, as the premiums increase.

Canadian Prices - No Change

Canadian Government Policy - as reported in the Globe and Mail, 26 Nov 2003.

John Manley, Minister of Finance, interviewed by Bloomberg News, Geraldine RyersonCruz, New York:

"Price Controls are Canadian Domestic Policy, intended to support Canadian Consumers. I don't think that we have any intention of changing that Policy. There has not been pressure from US officials to alter drug-pricing policy in Canada."

Keep in mind, we have a Federal Election in the Spring, and any evidence of caving to US interests would be political poison, for a Liberal Government - especially with a new Prime Minister, Paul Martin, in Power as of 13 Dec 03.

The Way Ahead.

Over the next 3 years, with no price controls, prices will rise, in the face of government subsidization - there is no reason for prices to fall - truthfully, big pharma won this round, on the backs of US citizens. In fact, they will maintain their present margins, by raising costs - 10% year over year is quite attainable since they rose 6% last year - knowing that they will then provide a "discount" through the legislation. A normal retail practice.

Some time in the coming year, a discount card for 15% off drugs will become available, under the present legislation, which I expect will be signed by the President, today, prior to the Thanksgiving Break. Highland Glen, with 40 % - 70 % price reductions saves more money for the client, and we offer profit sharing - and this service is available now. In the face of rising costs, the 15% Medicare discount card will not amount to much, in the true economics picture, which is real money out of consumer's pockets.

Realistically, more people will hit the $2,250 limit, on fewer prescriptions, because of rising costs.
Once users exceed the $2,250 limit, they will immediately look for cost savings when 100% comes out of their pocket - a role Highland Glen can fulfill at that time.

For those chronic users, whose drug use is in excess of $5,100, the must not use Highland Glen, in 2006, as this will cost them more, than the Medicare program.

However, for those chronic users, until 2006, should use Highland Glen, as cost savings, in the next 3 years, can, in the case of our real life example, save $3,300 per year, until the new benefit kicks in.

Summary

Overall, I am hopeful that the above analysis supports the use of Highland Glen's services now. In 2006, it will be very important to inform the heaviest users that they will actually save money, with the new benefit.

For those clients who are not heavy users, I would expect that they would initially use the Medicare benefits, until they exceeded the $2,250 mark, at which point, I would anticipate their becoming clients of Highland Glen. This will not hurt Highland Glen - the aim is to serve the residents - not to profit on their backs. In the meantime, Highland Glen can provide price relief of 40% - 70 % to your clients.

White House may be receptive to re-imported drugs

By Jim Drinkard
USA TODAY

WASHINGTON -- With the Medicare prescription-drug bill on the brink of failure last weekend, Health and Human Services Secretary Tommy Thompson suggested enticing votes by offering to create a trial program to import cheaper drugs from abroad, a Republican congresswoman said Tuesday.

The offer was a stark departure for Thompson. He has been the Bush administration's leading voice against re-importation, or the buying of drugs from Canada and other countries where prescriptions medicines sell for much less.

"He said, 'Too bad re-importation isn't in the bill. We probably would have had the votes,' " recalled Rep. Anne Northup, R-Ky., who spoke with Thompson on the House floor at about 5:15 a.m. Saturday. "That really astonished me."

The day before, Iowa Gov. Tom Vilsack, a Democrat, encountered no resistance when he told top officials of the Food and Drug Administration about his plan to import drugs from Canada for 70,000 state workers, retirees and their families. The officials even offered advice on how to go about it, he said. "It was a very constructive conversation. I appreciated the advice," Vilsack said.

Administration officials deny any shift in their policy, which maintains that re-importation is too dangerous to be legalized. But they acknowledged that a provision in the Medicare bill passed by the Senate on Tuesday could lead to opening foreign supplies.

Northup said Thompson told her that he was willing to pursue the broad-scale re-importation of cheaper drugs from other countries, but only if Congress directs it. "You all have to tell us to do it," she quoted him as saying.

But Thompson said he might be able to launch a smaller-scale demonstration project using money in the new Medicare bill, which won final passage in the Senate on Tuesday and is headed for President Bush's signature.

In an interview, Northup said opening the market for legal imports would address a major missing piece in the Medicare bill -- how to curtail the rising prices of prescriptions.

Thompson made the comments in a rare foray onto the floor of the House of Representatives by an administration official. The secretary was cajoling lawmakers for their votes with the "yes" tally for the bill stalled at 216 -- two votes short of a majority.

It was unclear whether Thompson's comments reflected the beginning of a policy change for the administration or merely the desperation of an all-night House session in which the Medicare bill, Bush's top domestic-policy priority, hung in the balance. Thompson's aides acknowledged the secretary and Northup had talked but denied any shift in policy.

Assistant Secretary Kevin Keane said Thompson's comments were in the context of the bill's call for a study of whether drug imports can be done safely. "We're going into it with an open mind," he said.

But Northup's willingness to make the conversation public highlights the increasing boldness of proponents of drug re-importation. The governors of Minnesota, Iowa, Wisconsin and Illinois and several mayors are pursuing various drug re-importation plans for their jurisdictions.

Illinois Gov. Rod Blagojevich, a Democrat, said Tuesday that his state will boycott name-brand drugs made by manufacturers who are trying to thwart re-importation by limiting shipments to Canada. He said the state will review its preferred drug list and remove medicines made by AstraZeneca, Eli Lilly, GlaxoSmithKline, Pfizer and Wyeth if safe equivalents are available from other makers.