



Problems With Prescription Drug Cards

**Prepared for
Rep. Henry A. Waxman**

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Committee on Government Reform
U.S. House of Representatives**

July 12, 2001

I. Introduction

President Bush has proposed a plan to offer prescription drug discount cards to older Americans. The President's plan is apparently based on similar programs currently offered by private companies and pharmacy benefit managers. These private plans typically charge an annual membership fee. In return, the cardholder is promised deep discounts off the price of prescription drugs at participating pharmacies. Some cards promise savings of over 50%.¹

This report by the Special Investigations Division of the minority staff of the House Government Reform Committee for Rep. Henry A. Waxman analyzes the actual discounts provided by five private drug card programs. This analysis indicates that many drug card programs offer little, if any, savings.

II. Methodology

The analysis examined the price of a one-month prescription for the five highest selling drugs for seniors. These drugs are Prilosec, Prevacid, Celebrex, Lipitor, and Zocor.² It first obtained the prices of these drugs from five private drug card programs. These programs are the Merck-Medco/Readers Digest YourRx Plan; the Express Scripts Cash Card Plan; the Member Health Network Plan; the Prescription Benefits Plan; and the ProCare Plan.

To determine if the private drug card programs offer seniors any price advantages, the analysis then compared the prices available under the private drug card programs with some of the better prices currently available to seniors through other sources. As a proxy for these prices, the analysis used the prices available through Drugstore.com. Drugstore.com is a national seller of prescription drugs. Drugs can be ordered over the internet or by phone, and refills can be picked up at Rite Aid. Drugstore.com prices are generally lower than prices at local pharmacies,

¹Some discount cards claim the following savings: "save up to 40% on brand drugs" (Merck-Medco/Readers Digest); "save 10% to 50%" (ProCare Benefit Card); "savings of up to 70% off retail prices" (ABC-RX/MemberHealth); "savings on generic medications can be as high as 90% off the retail price" (Prescription Benefits); and "our members have already saved over \$80 million dollars on their prescription drugs" (People's Prescription Plan).

²Prilosec is an ulcer and heartburn medication manufactured by Astra/Merck. Prevacid is an ulcer and heartburn medication manufactured by TAP Pharmaceuticals. Celebrex is an arthritis medication manufactured by Pharmacia and Upjohn. Zocor is a cholesterol-reducing medication manufactured by Merck. Lipitor is a cholesterol medication manufactured by Pfizer. The prices used in this analysis are the the prices for a one month supply of each of these drugs in a common dosage. These quantities are: Prilosec, 20 mg, 30 capsules; Prevacid, 30 mg, 30 tabs; Celebrex, 200 mg, 30 tabs; Lipitor, 10 mg, 30 tab; Zocor, 5, mg, 60 tabs.

but are comparable to prices at large discount chains such as Costco and Kmart.³

III. Findings

A. Prescription Drug Discount Cards Offer Minimal Discounts for Seniors

Under the five private drug card programs, the average price of a basket consisting of a one-month prescription of each of the five highest-selling drugs for seniors would be \$426.08. In comparison, the same drugs from Drugstore.com would cost only \$433.23 -- a difference of less than 2% compared to the average discount drug card price. Table 1.

Table 1: Prescription Drug Discount Cards Offer Minimal Discounts for Seniors

Drug	Drugstore.com Price	Average Discount Card Price	Drug Discount Card Price				
			Merck-Medco/Readers Digest	Express Scripts	Member Health Network	Prescrip. Benefits	ProCare
Prilosec	\$108.04	\$109.33	\$104.21	\$112.82	\$112.82	\$110.00	\$106.80
Prevacid	\$110.31	\$108.43	\$111.66	\$111.66	\$111.66	\$106.00	\$101.19
Celebrex	\$69.46	\$67.38	\$68.69	\$68.89	\$68.89	\$68.00	\$62.44
Lipitor	\$54.61	\$51.70	\$50.35	\$50.35	\$50.35	\$55.00	\$52.47
Zocor	\$90.81	\$89.23	\$86.64	\$86.64	\$86.64	\$97.00	N/A
Market Basket Cost	\$433.23	\$426.08	\$421.55	\$430.36	\$430.36	\$436.00	--

This comparison of the cost of drugs under the drug discount card programs and at Drugstore.com does not take into account the effect of the annual membership fee that the discount drug card programs charge. These fees can be substantial, ranging up to \$69.95 per year.⁴ If the costs of the annual membership fees are taken into account, the small price advantages of the discount drug card programs disappear. In fact, some programs will be more expensive for many consumers than the prices at Drugstore.com.

News reports have highlighted the Merck-Medco/Readers Digest plan as one example of a plan on which President Bush's program will be modeled. The Special Investigations Division

³Kmart will match Drugstore.com prices. Telephone survey conducted by Special Investigations Division, Minority Staff, Committee on Government Reform (July 2001). See also Consumer Reports, *Relief for the Rx Blues* (Oct. 1999).

⁴The annual fees are \$10.00 for the Member Health Network Plan, \$25.00 for the Merck-Medco/Readers Digest YourRx Plan, \$48.00 for the Prescription Benefits Plan, and \$69.95 for the ProCare Plan.

analysis shows, however, that this plan does not provide significant discounts for the five highest selling drugs for seniors. Prevacid, an ulcer medication, is the second highest-selling drug for seniors in the United States. A one-month supply of this drug is available through Drugstore.com for \$110.31. A senior who uses the Merck-Medco/Readers Digest discount card to buy this drug at a pharmacy would pay a higher price, \$111.66.

For a market basket of the five drugs, the Merck-Medco/Readers Digest price is \$421.55, a 2.7% savings over Drugstore.com. Annual median spending by seniors on drugs is \$1,027 per person.⁵ Under the Merck-Medco/Readers Digest plan, a typical senior who saved 2.7% on drug purchases would save only \$27.69 per year. After taking into account the annual \$25 fee that the Merck-Medco/Readers Digest plan charges, this is a total savings of just \$2.69 annually.⁶

A major reason why these card programs offer so little savings is because they only reduce costs at one point in the distribution chain -- at the pharmacy level. The card programs generally do nothing to lower the price that pharmaceutical manufacturers can charge for their products. In fact, it is estimated that the pharmacy's cost of obtaining medication represents 78% of the average prescription price.⁷

Another problem is that most current discount card programs offer savings based on a percentage discount (typically 10% to 13%) off a drug's average wholesale price (AWP) and include a drug dispensing fee for the pharmacy (typically \$2 to \$4). Very few consumers ever pay AWP, which is like a car's sticker price. In fact, consumers typically pay retail prices at drug stores that are below AWP.

B. Prescription Drug Discount Plans Have Been Implicated in Fraudulent Schemes and Have Been Banned in Some States

Because of the potentially deceptive nature of prescription card discount plans, several states have begun to regulate the marketing and sales of the cards. For example, in August 1998, the Iowa Attorney General's office issued a consumer advisory that warned the public of the potentially misleading claims made by some discount card programs. The consumer advisory states that "some health discount cards promise more than they can deliver, some are worthless, and some are outright frauds." The advisory also states: "The cards may cost hundreds of dollars per year, and some companies promise much more than they deliver. For example,

⁵CBO, *January 2001 Baseline Projections* (2001).

⁶This analysis assumes that seniors using the Merck-Medco/Readers Digest plan purchase their drugs through the plan at participating pharmacies. If a senior purchased drugs through mail order, a senior could realize modest savings (less than 10%).

⁷Letter from American Pharmaceutical Association, *et al.*, to Sen. Chuck Hagel (Apr. 23, 2001).

companies have promised that the cards could be used for discounts up to 40% at certain pharmacies -- but, after paying for a card, consumers discover that their pharmacy doesn't accept it."⁸ This advisory did not address any of the discount drug card plans examined in this analysis.

In response to the problems with the discount drug card programs, several states, including Arkansas, Georgia, Idaho, Kansas, and South Carolina have enacted laws strictly regulating the sales and marketing of these cards.⁹ Other states, like California and Washington, have prohibited discount drug card companies from operating in their states unless they are licensed as insurance companies. In 1999, California regulators sent cease-and-desist letters to 46 companies, claiming that some misled consumers about the extent of discounts and the providers who would grant them.¹⁰

⁸Iowa Attorney General Consumer Advisory (Aug. 1998) (available at <http://www.state.ia.us/government/ag/healdisc.htm>)

⁹*Caveat Doctor! Medical Discount Cards Could Burn You*, Medical Economics (Feb. 19, 2001); S.C. Code 37-17-10.

¹⁰*Obstacles Greet Discount Drug Plan*, USA Today (Apr. 20, 2000).