

September 2003

PRESCRIPTION DRUG DISCOUNT CARDS

Savings Depend on Pharmacy and Type of Card Used



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Highlights of [GAO-03-912](#), a report to congressional requesters

Why GAO Did This Study

While prescription drugs have become an increasingly important part of health care for the elderly, more than one-quarter of all Medicare beneficiaries have no prescription drug coverage.

Over the past decade, private companies and not-for-profit organizations have sponsored prescription drug discount cards that offer discounts from the prices the elderly would otherwise have to pay for their prescriptions. These cards are typically administered by pharmacy benefit managers (PBM). Pharmaceutical manufacturers also sponsor and administer their own discount cards.

The Administration has been interested in endorsing specific drug cards for Medicare beneficiaries to make the discounts more widely available. Legislative proposals in the Senate and House of Representatives have included drug cards as a means to lower prescription drug prices for Medicare beneficiaries.

GAO was asked to examine how existing drug discount cards work and the prices available to card holders. Specifically, GAO evaluated the extent to which PBM-administered drug discount cards offer savings off non-card prices at 40 pharmacies in California, North Dakota, and Washington, D.C., and the differences between PBM-administered cards and cards sponsored by pharmaceutical manufacturers.

www.gao.gov/cgi-bin/getrpt?GAO-03-912.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Laura A. Dummit at (202) 512-7119.

PRESCRIPTION DRUG DISCOUNT CARDS

Savings Depend on Pharmacy and Type of Card Used

What GAO Found

Medicare beneficiaries can receive prices with prescription drug discount cards at retail pharmacies that are generally lower than those available to seniors without cards. Prices available for a particular drug tend to be similar across PBM-administered cards. Savings from PBM-administered cards, however, can differ because retail pharmacy prices vary widely. For example, in Washington, D.C., which had the highest median retail pharmacy prices of the three areas GAO surveyed, median savings using a PBM-administered card ranged from \$2.09 to \$20.95 for a 30-day supply of the nine drugs frequently prescribed for the elderly that GAO examined. This was after accounting for the 10 percent discount for senior citizens given by each of the 14 surveyed pharmacies. Savings in California with the use of a card tended to be lower because 10 of the 13 California pharmacies GAO surveyed participated in the state's Medicaid program (Medi-Cal) and are required to give Medicare beneficiaries the Medi-Cal price. For seven of the nine drugs, savings ranged from \$0.44 to \$13.06. For the other two drugs the cards offered no savings at Medi-Cal-participating pharmacies because the Medi-Cal prices were lower than the median price available with a PBM-administered card. Savings in North Dakota for the nine drugs ranged from \$0.54 to \$7.72 even though 10 of the 13 pharmacies there did not offer a senior discount. Any savings achieved with a card are reduced by the annual or one-time fee charged by the PBM-administered cards. Prices available with a pharmaceutical-manufacturer-sponsored card for a particular drug are typically lower than prices obtained using PBM-administered cards, and are often a flat price of \$10 or \$15.

PBM-administered cards differ from pharmaceutical-manufacturer-sponsored cards with respect to eligibility and the range of drugs they cover, as well as the price available with the card. PBM-administered discount cards are available to all adults and can be used to purchase most outpatient prescriptions. Pharmaceutical-manufacturer-sponsored cards are available only to Medicare beneficiaries with incomes below a certain level who have no prescription drug coverage and can be used to purchase only outpatient prescription drugs produced by the sponsoring manufacturers.

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Abbreviations

CMS	Centers for Medicare & Medicaid Services
PBM	pharmacy benefit managers

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United States General Accounting Office
Washington, DC 20548

September 3, 2003

Congressional Requesters

Prescription drugs have become an increasingly important part of health care for the elderly. While many Medicare beneficiaries have some of their out-of-pocket drug costs covered by employer-sponsored retiree health plans, Medicare+Choice plans, Medicare supplemental plans, or Medicaid, more than one-quarter of all Medicare beneficiaries have no prescription drug coverage.¹ Over the past decade, private companies and not-for-profit organizations have sponsored card programs that give the elderly discounts from the retail prices they would otherwise have to pay for their prescriptions.

In July 2001, the President announced a set of principles for reforming Medicare, including adding a prescription drug benefit for the elderly. As an initial step toward providing a drug benefit, the Administration proposed establishing a drug discount card program to lower prescription drug out-of-pocket expenses for Medicare beneficiaries. The Centers for Medicare & Medicaid Services (CMS) issued a final rule in September 2002 for the Medicare-Endorsed Prescription Drug Plan Assistance Initiative, in which the agency would endorse discount card programs developed by private entities if they met certain standards.² The initiative would promote the use of drug discount cards by Medicare beneficiaries. A federal district court judge found in January 2003, however, that CMS did not have authority for the initiative and permanently enjoined the agency from going forward with it.³ In March 2003, CMS filed a notice of appeal from this decision. More recently, legislative proposals in the Senate and the House of Representatives have included drug cards as a means to lower the prices Medicare beneficiaries pay for their prescription drugs.

¹Medicare generally does not cover outpatient prescription drugs, except if they cannot be self-administered and are related to a physician's services, such as cancer chemotherapy, or are provided in conjunction with covered durable medical equipment, such as inhalation drugs used with a nebulizer. In addition, Medicare covers selected immunizations and certain drugs that can be self-administered, such as blood clotting factors and some oral drugs used in association with cancer treatment and immunosuppressive therapy.

²Medicare-Endorsed Prescription Drug Card Assistance Initiative, 67 *Fed. Reg.* 56,618 (2002).

³*National Association of Chain Drug Stores v. Thompson*, No. 01-1554 (D.D.C. 2003).

The Medicare-endorsed card initiative has focused interest on private-sector prescription drug discount card programs. You requested that we examine these programs and pertinent state laws and regulations. Specifically, you asked (1) how do existing prescription drug discount card programs work, (2) how do the prescription drug prices available with existing discount cards compare to prices available without a discount card, and (3) how do states regulate card programs?

To obtain information on discount card programs, we used a structured interview guide to conduct telephone interviews with officials from five organizations that administer many of the programs. Four of these organizations are among the nation's largest pharmacy benefit managers (PBM)⁴—Medco Health Solutions (formerly Merck-Medco Managed Care), AdvancePCS, Express Scripts, and WellPoint Health. They administer numerous nationwide card programs sponsored by a range of entities, such as health insurers, retail pharmacies, employee associations, and other organizations.⁵ The fifth organization was Citizens Energy, a nonprofit company that sponsors and administers the Citizens Health drug discount card, which is available to all adults in Connecticut, Massachusetts, and Rhode Island. We also obtained information from company Web sites on the prescription drug discount card programs introduced in the last 2 years by four pharmaceutical manufacturers—Eli Lilly, GlaxoSmithKline, Novartis, and Pfizer—as well as the Web site for Together Rx, a card that provides discounts on some drugs produced by eight pharmaceutical manufacturers.⁶ An estimated 18 to 19 million people have enrolled in one or more of the drug discount card programs that we examined. In addition, we examined CMS's final rule on the Medicare-Endorsed Prescription Drug Plan Assistance Initiative. To understand the role of drug discount cards in the retail pharmacy marketplace, we spoke with representatives of three retail pharmacy chains whose pharmacies comprise about 22 percent of all retail pharmacies nationwide.

⁴The primary functions of PBMs are negotiating drug prices with pharmacies and pharmaceutical manufacturers on behalf of health plans, processing drug claims for health plans, and dispensing prescriptions through mail order pharmacies.

⁵Discount card sponsors put their name on the card and establish its terms and conditions.

⁶The founding members of Together Rx are: Abbott Laboratories; AstraZeneca; Aventis Pharmaceuticals, Inc.; Bristol-Myers Squibb Company; GlaxoSmithKline; Janssen Pharmaceutical Products, L.P.; Novartis; and Ortho-McNeil Pharmaceutical, Inc. Ortho-McNeil and Janssen are owned by Johnson & Johnson.

We obtained April 2002 prices from 40 retail pharmacies in California, North Dakota, and the Washington, D.C. area for nine drugs frequently prescribed for the elderly.⁷ The prices reflect any senior citizens discount that the pharmacies routinely provide. We compared these prices to prices for these drugs in the same period that were available using five PBM-administered discount cards at retail pharmacies or through the PBMs' mail order pharmacies.⁸ We did not independently verify the drug prices that we obtained, and they may not reflect current prices.

To examine state regulation of drug discount cards, we obtained information from the National Conference of State Legislatures, the National Association of Chain Drug Stores, and several PBMs that track state regulation of discount cards. We also contacted legislators from New Hampshire, South Dakota, and Mississippi to learn more about why they supported legislation to regulate drug cards. We performed our work from July 2002 through August 2003, in accordance with generally accepted government auditing standards.

Results in Brief

PBM-administered cards differ from pharmaceutical-manufacturer-sponsored cards with respect to eligibility, the range of drugs they cover, whether the pharmaceutical manufacturer pays the pharmacy part of the card discount, and the price available with the card. Most of the card programs administered by PBMs are available to all adults, while the pharmaceutical manufacturers' cards are available only to Medicare beneficiaries with incomes below a certain level who have no prescription drug coverage. The PBM-administered cards provide discounts on most outpatient prescription drugs, while each of the cards sponsored by a pharmaceutical manufacturer typically provides discounts on all the outpatient prescription drugs that its manufacturer produces. For drugs purchased with PBM-administered cards, retail pharmacies accept a lower price from cardholders than their usual price, and in some cases receive partial payment for the difference. For drugs purchased with cards sponsored by pharmaceutical manufacturers, retail pharmacies receive payment from the manufacturer for a portion of the difference between

⁷The nine drugs are Atenolol, Celebrex, Fosamax, Furosemide, Lipitor, Norvasc, Premarin, Prilosec, and Zocor.

⁸For additional information on drug discount card prices see U.S. General Accounting Office, *Prescription Drugs: Prices Available Through Discount Cards and From Other Sources*, [GAO-02-280R](#) (Washington, D.C.: Dec. 5, 2001).

the usual price and the cardholder's price. PBM-administered cards typically offer a price to a cardholder that is 10 to 15 percent below either a standard reference price or the retail pharmacy's usual price, whichever is lower. Prices available with a manufacturer-sponsored card for a particular drug are typically lower than those through PBM-administered cards because the pharmaceutical-manufacturer-sponsored cards offer either a larger discount off a lower reference price or a flat price (\$10 or \$15).

PBM-administered drug discount cards used at retail pharmacies or the PBMs' mail order pharmacies generally offer savings to cardholders because card prices are typically lower than the prices retail pharmacies would otherwise charge. Card savings—the difference between the pharmacy's usual price and the cardholder's price—vary, primarily because the usual price varied across the 40 pharmacies we surveyed. For example, even though all the surveyed Washington, D.C. pharmacies offered a 10 percent discount to senior citizens, cards provided the highest median savings because the usual pharmacy prices were higher than in the other areas. The median savings with the use of a PBM-administered card were from \$2.09 to \$20.95 for a 30-day supply of the nine drugs. The range of card savings in North Dakota for these drugs was from \$0.54 to \$7.72, even though most of the pharmacies there did not offer a senior discount. Because the majority of the California pharmacies we surveyed participated in the state's Medicaid program (Medi-Cal) and are required to give Medicare beneficiaries the Medi-Cal price for drugs, card savings ranged from \$0.44 to \$13.06 for seven of the drugs. Medi-Cal prices for the other two drugs were lower than the median drug card prices so a card offered no savings at Medi-Cal participating pharmacies. Savings achieved through a drug discount card would be reduced by any fee that the card charges.

As of October 2002, 16 states had enacted laws regulating one or more aspects of prescription drug discount card programs. While the scope of each of the laws varies, the sponsors of several of the laws have characterized their purpose as consumer protection. Thirteen of the states required that a notice appear prominently on the card declaring that it does not represent insurance coverage (the cards may be similar in appearance to insurance cards). Eleven states required that the discounts offered by the cards not be misleading, deceptive, or fraudulent. Twelve states required that the discounts be specifically authorized by separate contracts between the card administrator and each pharmacy or pharmacy chain that accepts the card. Under certain conditions, Mississippi requires

a drug card program to compensate a pharmacy for accepting the card price.

We received technical comments on a draft of this report from four of the five PBM administrators we surveyed, as well as from one pharmaceutical manufacturer that sponsors its own card and participates in the Together Rx card, and from one independent expert reviewer. We incorporated their technical comments as appropriate.

Background

Prescription drug discount cards are a relatively new option for consumers. Most of the large PBM-administered programs have been operating for less than 5 years, although some cards, such as one administered by Express Scripts, have been available for about a decade.⁹ Pharmaceutical-manufacturer-sponsored discount cards are a more recent development; the first one began in fall 2001. Together Rx began operating in June 2002.

Features Common to Most Cards

PBM-administered drug discount card programs are generally offered to consumers through such organizations as retail stores, retail pharmacies, employee and other associations, nonprofit organizations, insurance companies, and PBMs. The sponsoring organization typically markets the program under its own name, but contracts with another organization—usually a PBM—to administer the program. Generally, the PBM creates a network of participating pharmacies that have contracts with the PBM specifying discount arrangements. The PBM processes orders for the cards and operates a mail order pharmacy that cardholders may use. Consumers can have as many different cards as they like. Each card can be used at any participating retail pharmacy or through the PBM's mail order pharmacy.

Retail pharmacies play an important role in drug discount card programs because they agree to offer a lower price to cardholders. The PBM administrators with whom we spoke estimated that retail pharmacies fill 75 to 95 percent of the prescriptions paid for using PBM-administered discount cards, with mail order filling the remaining prescriptions. A large majority of prescriptions paid for using pharmaceutical-manufacturer-

⁹Kaiser Family Foundation, *Prescription Drug Discount Cards: Current Programs and Issues* (Prepared by Health Policy Alternatives, Inc., Feb. 2002), p. 9.

sponsored cards are also filled by retail pharmacies, rather than through mail order. To the typical pharmacy, however, card users comprise a small share of their prescription business. Representatives of three retail pharmacy chains we contacted told us that from 2 to 10 percent of a pharmacy's prescriptions are purchased using a card.

Medicare-Endorsed Prescription Drug Card Assistance Initiative

Under the Administration's proposed Medicare-Endorsed Prescription Drug Plan Assistance Initiative, established drug card sponsors could apply to CMS for a Medicare endorsement; if they get it, sponsors could advertise this endorsement.¹⁰ Before the injunction was issued, applications from card sponsors were due March 7, 2003, and a final decision on the initial cards that would be Medicare-endorsed was slated to be announced in May 2003. On this timetable, CMS said it expected that beneficiaries would be able to enroll in the card program of their choice beginning in September 2003. Cards receiving the endorsement would have to meet certain standards, which are described below. The CMS rule does not provide details on some of these standards and is silent on how the agency would ensure compliance with some of them.

Beneficiary eligibility. A card program would have to be open to all Medicare beneficiaries. Each beneficiary could be enrolled in only one Medicare-endorsed card program at a time, but could withdraw from it at any time. (A database of all cardholders would be maintained to ensure that each beneficiary was enrolled in only one Medicare-endorsed card program.) After withdrawing from a card program, the beneficiary could enroll in another Medicare-endorsed card program, but that enrollment would not take effect until the first day of the following July or January, whichever came first.

Fees. A card program could charge an enrollment fee of no more than \$25 to each Medicare beneficiary.

Coverage. Each card program would provide a discount for at least one brand name or generic prescription drug from each therapeutic class of drugs (specified in the final rule) commonly needed by Medicare beneficiaries. CMS said it anticipated periodically modifying the therapeutic classes to keep them up to date with Medicare beneficiaries'

¹⁰Major legislative proposals in both houses of Congress, S. 1 and H.R. 1, contain sections on establishing drug discount card programs.

use of drugs and with changes in the pharmaceutical marketplace, including newly approved drugs.

Advertised discounts. The discount that a beneficiary would receive by purchasing drugs with a Medicare-endorsed prescription drug card must be advertised in dollars, not as a percentage. CMS said it anticipated working with beneficiaries and the pharmaceutical industry to create a means to compare prices for drugs among all Medicare-endorsed prescription drug cards. CMS stated that it would give a special designation to up to 10 percent of cards that offered the deepest discounts to beneficiaries.

Negotiation of discounts. Medicare-endorsed cards would require card administrators to negotiate with pharmaceutical manufacturers to provide lower prices to retail pharmacies for drugs purchased by cardholders. Discount card administrators would have to ensure that a “substantial” share of the lower prices was passed on to beneficiaries, either indirectly, through retail pharmacies, or directly.

Information for beneficiaries. Enrollment fees, the availability of patient management services, such as drug interaction warnings, and information about the generic equivalent of brand name drugs for each Medicare-endorsed card would be included on CMS’s Web site and in the documents that contain card price comparisons developed by CMS.

Characteristics of Drug Discount Cards Vary Based on Their Sponsor

PBM-administered drug discount cards differ from pharmaceutical-manufacturer-sponsored cards with respect to eligibility, the range of drugs they cover, the extent to which the retail pharmacy is paid for all or part of the difference between the price a person pays without a discount card and the discount card price for a particular drug, and the prices available with a card. The discount card programs administered by PBMs are available to any adult, while the pharmaceutical manufacturers’ cards are available only to Medicare-eligible individuals and couples with incomes below a certain level who do not have prescription drug coverage. Each PBM-administered card covers most outpatient prescription drugs, while the cards sponsored by pharmaceutical manufacturers generally provide discounts only on the outpatient prescription drugs that company produces. PBM-administered discount cards specify that the cardholder’s price will be the lower of a percentage below a commonly used reference price or the pharmacy’s usual price (generally referred to as the usual and customary price). The typical card sponsored by a pharmaceutical manufacturer offers cardholders either a

price that is a specified percentage off a list price or a fixed price for a specified quantity of each covered drug. (See appendix I for selected characteristics of the drug card programs that we examined.)

Eligibility Requirements

The eligibility requirements for a card generally depend on whether it is administered by a PBM or sponsored by a pharmaceutical manufacturer. Unlike the PBM-administered cards, which are available to any individual, the drug company-sponsored cards are available only to Medicare-eligible individuals and couples with no prescription drug coverage who earn less than a certain amount. Income eligibility limits for these cards range from \$18,000 to \$30,000 for an individual and from \$24,000 to \$40,000 for a couple.

Covered Drugs

PBM-administered discount cards usually cover most brand name and generic drugs. PBM officials said exceptions could include high-cost drugs in limited supply, those needing special administration, and the relatively few outpatient prescription drugs covered by Medicare. Each of the cards sponsored by a pharmaceutical manufacturer typically covers all the outpatient prescription drugs that the manufacturer produces. The number of drugs covered by the four manufacturer-sponsored cards we reviewed ranges from 14 to 46. The Together Rx card offers discounts on about 150 brand name drugs manufactured by its participating pharmaceutical manufacturers.¹¹

Retail Pharmacy Payment Arrangements

Under all drug discount card programs, retail pharmacies agree to accept a lower price from a cardholder than the usual price they would charge a noncardholder. The card programs vary, however, in whether and to what extent the pharmacies are paid for the difference between these two prices. For purchases with the Medco Health Solutions and WellPoint Health PBM-administered cards, there is no such payment. For some of the purchases made with the other three PBM-administered cards, the retail pharmacy is either paid a portion of the difference between the pharmacy's usual price and the price the cardholder pays. For other purchases made with any of these three cards, the pharmacy is not paid for any of the difference between the usual price and the price the cardholder pays.

¹¹In November 2002, one retail pharmacy chain began offering discounts on generic drugs to Together Rx cardholders.

Under the typical pharmaceutical manufacturer-sponsored card, the manufacturer pays retail pharmacies for a portion of the difference between the usual price it charges for a drug and the lower price the pharmacy agrees to charge a cardholder. Some manufacturers set limits on the usual price that will be used to determine this portion.

Expression of Card Prices

While PBM-administered drug discount cards typically express their savings to cardholders as a percentage off what a cardholder would otherwise pay, the cards differ in how they calculate the price that cardholders pay at a retail pharmacy. For example, all the PBM-administered cards other than Citizens Health express the cardholder's price as the lower of the average wholesale price¹² minus 10 to 15 percent or the retail pharmacy's usual price. Citizens Health and the AARP card administered by Express Scripts use similar formulas, but further stipulate that the cardholder's price must be at least one dollar below the retail pharmacy's usual price.

Drug prices available with pharmaceutical manufacturer-sponsored cards are typically lower than the prices available with PBM-administered cards because a manufacturer-sponsored card's price is either a percentage off the manufacturer's list price to wholesalers,¹³ which is generally lower than average wholesale price, or a dollar amount for a specified amount of a drug. For example, Aventis cardholders pay no more than 15 percent below its list price to wholesalers for a covered drug, and a Pfizer Share Card enrollee pays \$15 for each 30-day supply of any covered drug. With GlaxoSmithKline's Orange card a cardholder pays a price that is the pharmacy's usual price, subject to a limit determined by the manufacturer, minus 25 percent off the company's list price to wholesalers. Each manufacturer participating in Together Rx sets the price for each of its drugs independently, while guaranteeing that the price will be at least 15 percent off the manufacturer's list price to wholesalers.

¹² Average wholesale price is often described as a list price or suggested retail price because it is not necessarily the price paid by a purchaser. Most manufacturers periodically report average wholesale prices to publishers of drug pricing data who make them publicly available. Because it is publicly available, average wholesale price is a commonly used reference price for determining drug discounts.

¹³ The list price to wholesalers, also called the wholesale acquisition cost, is the price that manufacturers generally charge wholesalers, excluding any rebates or discounts, and is published by the manufacturers.

Card Savings Depend on Usual Pharmacy Prices and Any Card Fees

PBM-administered drug discount cards used at retail pharmacies or the PBMs' mail order pharmacies generally offer savings to consumers because card prices are typically lower than the prices retail pharmacies would otherwise charge. Card savings—the difference between the pharmacy's usual price and the cardholder's price—vary, primarily because the usual price varied across the 40 pharmacies we surveyed. For certain drugs at certain pharmacies, however, no savings were achieved through the use of the card because the retail pharmacy's usual price was lower than the median card price. Savings achieved through a PBM-administered card would be reduced by the annual or one-time fee that the card charges.

Cards Used at Retail Pharmacies

The range of savings achieved using a PBM-administered drug discount card at a retail pharmacy for a 30-day supply of the nine drugs we examined varied within and across geographic areas, primarily because of differences in the usual prices charged by the pharmacies. Choice of pharmacy rather than choice of card had more effect on how much a person saved with a discount card. (See appendix II for more information on the median retail drug card prices and the median retail pharmacy prices in the three areas we examined.)

Median savings available with a PBM-administered card in the Washington, D.C. pharmacies ranged from \$2.09 to \$20.95 for the nine drugs. All 14 of the surveyed pharmacies offered a 10 percent senior discount. Card savings amounted to an additional 1.7 percent to 43.9 percent off the median pharmacy price. The highest percentage discount was for the two generic drugs in our sample (atenolol and furosemide), although because these were the lowest priced drugs, the dollar savings were among the lowest in the sample. The substantial price differences across pharmacies affected the card savings for a given drug. For example, the noncard price for a 30-day supply of 200 milligrams of Celebrex at the surveyed Washington, D.C. pharmacies ranged from \$74.33 to \$95.59.

Median savings in North Dakota ranged from \$0.54 to \$7.72 for the nine drugs or from 1.3 percent to 42.3 percent off the median pharmacy price. Only 3 of 13 pharmacies offered a senior discount (two offered 10 percent and one offered 5 percent). At one of the pharmacies offering a senior discount, some card prices for eight of the nine drugs were higher than the pharmacy's usual price for those drugs.

In California, Medi-Cal, the state's Medicaid program, requires retail pharmacies that participate in the program to offer the Medi-Cal price to

Medicare beneficiaries who do not have prescription drug coverage.¹⁴ At the 10 Medi-Cal-participating pharmacies, savings for seven of the nine drugs ranged from \$0.44 to \$13.06 or from 0.7 percent to 11.1 percent off the median pharmacy price. The Medi-Cal prices for the other two drugs at these pharmacies were lower than the median drug card prices for these drugs so the use of the card offered no savings. At the two pharmacies that did not participate in Medi-Cal, but offered a 10 percent senior discount, the savings were similar to those at the Medi-Cal participating pharmacies, although one pharmacy's prices for four drugs were lower than the median card prices. Savings at the other pharmacy, which did not offer a senior discount or participate in Medi-Cal, were considerably higher.

Cards Used at Mail Order Pharmacies

Mail order prices for a 30-day supply¹⁵ of a drug with a PBM-administered discount card were typically lower than the retail pharmacies' usual price without a discount card, resulting in greater card-related savings. The mail order prices with a discount card resulted in savings ranging from \$6.30 to \$27.56 for eight of the nine drugs we examined at the Washington, D.C. pharmacies we surveyed. The average retail pharmacy usual price without a discount card for the other drug was lower than the mail order price with a card. In North Dakota, the savings realized by using a PBM-administered drug card to purchase the nine drugs from a mail order pharmacy ranged from \$0.63 to \$17.58. In California, mail order prices using a PBM-administered drug card were lower than the Medi-Cal price for eight of the nine drugs we examined, resulting in savings ranging from \$1.03 to \$19.67; the Medi-Cal price was lower than the mail order drug card prices for the other drug. Mail order savings at the three California pharmacies that were not participating in Medi-Cal ranged from \$3.12 to \$104.32, except at one of the pharmacies offering a 10 percent senior discount where the retail price for two drugs was lower than the mail order price.

Because it generally offers lower prices than retail pharmacies, mail order can be an attractive option for purchasing drugs for the chronic conditions

¹⁴Florida is the only other state that requires retail pharmacies in the state that participate in Medicaid to offer the Medicaid price to Medicare beneficiaries who do not have prescription drug coverage.

¹⁵The mail order option of PBM-administered cards generally dispenses a 90-day supply of a drug. The PBMs gave us their mail order prices for a 30-day supply, which allowed us to compare these prices to 30-day retail pharmacy prices for purchases without a discount card.

common among the elderly, such as diabetes, arthritis, and high blood pressure. Two PBM administrators noted, however, that many elderly people cannot afford to buy at one time the 90-day supply of a drug that mail order pharmacies typically dispense.

Consumers who use a mail order option can purchase drugs at Internet pharmacies without a discount card. Our comparison of prices using data from November 2001 found that the median mail order price using a PBM-administered discount card was generally lower than Internet pharmacy prices for a drug. But we also found at least one Internet pharmacy at that time that offered a price lower than the median discount card mail order price for 8 of 17 drugs that we examined.¹⁶

Card Fees' Effect on Savings

The savings from using a card are reduced if the card charges a fee. None of the pharmaceutical manufacturers' cards charges a fee. The PBMs whose cards we examined generally charged a one-time fee or an annual fee. For example, the discount card we examined from Wellpoint Health charges a one-time fee of \$25 for an individual and about \$50 for a family. The Citizens Health card costs \$12 a year for an individual and \$28 a year for a family.

State Regulatory Efforts Focus on Protecting Consumers

As of October 2002, 16 states had passed laws regulating one or more aspects of prescription drug discount card programs (see table 1). While the scope of each of the laws varies, the sponsors of several of the laws have characterized their purpose as consumer protection.

¹⁶See U.S. General Accounting Office, *Prescription Drugs: Prices Available Through Discount Cards and From Other Sources*, [GAO-02-280R](#) (Washington, D.C.: Dec. 5, 2001).

Table 1: Selected Provisions of State Regulation of Prescription Drug Discount Card Programs, November 2002

Provision	States that have adopted the provision
Card must prominently display that it does not represent insurance	Ark., Ga., Idaho, Ind., Kans., Ky., Minn., Mont., N.H., Oreg., S.C., S. Dak., Tenn.
Discounts' description must not be misleading, deceptive, or fraudulent	Ark., Idaho, Ind., Kans., Minn., N.H., Oreg., S.C., S. Dak., Tenn., Tex.
Discounts must be authorized by separate contracts for each retail pharmacy	Ark., Ga., Idaho, Ind., Kans., Ky., Minn., Oreg., S.C., S. Dak., Tenn., Tex.
Card seller must register with state	N.H., Oreg., S.C.
Card administrator required to pay a portion of any discount	Miss.
Specifies restrictions on use of information about consumers by retailer issuing card	Conn.

Source: National Conference on State Legislatures and National Association of Chain Drug Stores.

Thirteen of the states require that a notice appear prominently on the card declaring that it does not represent insurance coverage. Eleven of the states require that the reporting of discounts offered by the cards not be misleading, deceptive, or fraudulent. New Hampshire's law, for example, requires that the advertising for any discount card expressly state that the discount is available only at participating pharmacies. The law was enacted in May 2001 after some consumers complained about confusion in how and where discount cards could be used. The sponsor of the New Hampshire law told us that she heard from consumers in her state who said they would pay for a card over the telephone, only to later find that the nearest pharmacy honoring it was 50 to 100 miles away from their home.

Twelve states require that the discounts be specifically authorized by separate contracts between the card administrator and each participating pharmacy or pharmacy chain. South Dakota's law, which includes such a provision, was enacted following complaints from pharmacists that companies were selling cards that promised discounts at various

pharmacies, but that the companies did not have agreements with all of those pharmacies to actually provide the discounts. The sponsor of the South Dakota law said some cardholders claimed that certain pharmacies that the card's sponsor advertised as accepting the card did not do so. The sponsor of the law told us that it is intended to protect consumers and pharmacies from deceptive sales practices by drug discount card sponsors.

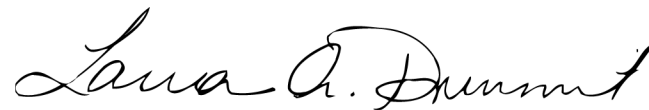
Mississippi's drug discount card law bars a program administrator, such as a PBM, from requiring pharmacies to accept a card as a condition of receiving a contract for the PBM's other business, unless the administrator "pays a portion" of the cost of the discount given by the pharmacy. According to a representative of the Mississippi Attorney General's office, which is responsible for enforcing the law, the state has not defined "portion" in regulation and the meaning of the term has not been the subject of litigation.

Comments from External Reviewers

We provided a draft of this report for review to the five PBM administrators whose cards we examined, four of whom responded. We also obtained comments from a pharmaceutical manufacturer that sponsors its own card and participates in the Together Rx card, and one independent expert reviewer. They provided technical comments that we incorporated as appropriate.

As agreed with your offices, unless you publicly announce this report's contents earlier, we plan no further distribution until 30 days after its issue date. At that time, we will send copies to the Administrator of CMS, the PBMs that administered the cards we examined, the pharmaceutical manufacturers that sponsored cards we examined and other interested parties. We will also make copies available to others upon request. This report is also available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please call me at (202) 512-7119 or John Hansen at (202) 512-7105. Major contributors to this report were Roseanne Price, Michael Rose, and Jeff Schmerling.

A handwritten signature in black ink that reads "Laura A. Dummit". The signature is written in a cursive style with a large, stylized 'L' and 'D'.

Laura A. Dummit
Director, Health Care—Medicare Payment Issues

List of Congressional Requesters

The Honorable John D. Dingell
Ranking Minority Member
Committee on Energy and Commerce
House of Representatives

The Honorable Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
House of Representatives

The Honorable Charles B. Rangel
Ranking Minority Member
Committee on Ways and Means
House of Representatives

The Honorable Sherrod Brown
Ranking Minority Member
Subcommittee on Health
Committee on Energy and Commerce
House of Representatives

The Honorable Pete Stark
Ranking Minority Member
Subcommittee on Health
Committee on Ways and Means
House of Representatives

The Honorable Mike Ross
House of Representatives

Appendix I: Selected Drug Discount Card Characteristics

Card sponsor	Card name	Eligibility	Income requirements	Drugs covered	Advertised prices	Approximate number of enrollees
Retail pharmacies, employee associations, and insurance companies (All administered by PBMs)	Cards use different names	No eligibility requirements	No requirements	Each card covers all generic drugs and most brand name drugs	10 to 15 percent off average wholesale price	17-18 million ^a
Consortium of 8 pharmaceutical manufacturers	Together Rx	Medicare eligibility and no other prescription drug coverage	Individual annual income below \$28,000 or couple income below \$38,000 ^b	About 150 brand name drugs produced by participating pharmaceutical manufacturers	At least 15 percent off manufacturer's list price to wholesalers	920,000 ^c
Eli Lilly	LillyAnswers	Medicare eligibility and no other prescription drug coverage	Individual annual income below \$18,000 or household income below \$24,000	All drugs manufactured by the company, except controlled substances, and products not distributed by retail pharmacies	\$12 for a 30-day supply	100,000 ^d
GlaxoSmithKline	Orange Card	Medicare eligibility and no other prescription drug coverage	Individual annual income below \$30,000 or couple income below \$40,000 ^e	All outpatient prescription drugs manufactured by the company	Average savings of 30 percent off the usual price	100,000 ^f
Novartis	Care Card	Medicare eligibility and no other prescription drug coverage	Individual annual income below \$18,000 or household income below \$24,000	Certain Novartis outpatient prescription drugs	\$12 for a 30-day supply or 25 to 40 percent off depending on the beneficiary's income	15,000 ^g
Pfizer	Share Card	Medicare eligibility and no other prescription drug coverage	Individual annual income below \$18,000 or household income below \$24,000	All Pfizer prescription drugs	\$15 for up to a 30-day supply	250,000 ^h

Source: Pharmaceutical manufacturers' Web sites and interviews with card administrators.

^aBased on information provided by five PBM card administrators surveyed in February 2003.

^bAs of February 2003.

^cAs of August 2003.

^dAs of October 2002.

**Appendix I: Selected Drug Discount Card
Characteristics**

^gIn Alaska, individual annual income must be below \$35,000 or a couple's income below \$48,000. In Hawaii, individual annual income must be below \$33,000 or a couple's income below \$44,000.

ⁱAs of November 2002.

^gAs of April 2002.

^hAs of December 2002.

Appendix II: Median Retail Pharmacy PBM-Administered Drug Discount Card Prices and Median Retail Pharmacy Noncard Prices

Drug	Median retail drug card price	California median retail price ^a	North Dakota median retail price ^b	Washington, D.C. median retail price ^c
Atenolol 50 mg	\$5.57	\$5.19	\$9.65	\$9.09
Celebrex 200 mg	\$75.35	\$69.76	\$78.12	\$84.68
Fosamax 70 mg	\$62.42	\$62.86	\$70.14	\$71.05
Furosemide 40 mg	\$5.04	\$5.60	\$7.65	\$8.99
Lipitor 10 mg	\$63.77	\$69.62	\$66.09	\$70.85
Norvasc 5 mg	\$41.37	\$45.16	\$41.91	\$50.93
Premarin .625 mg	\$22.53	\$25.33	\$23.10	\$26.00
Prilosec 20 mg	\$123.19	\$130.06	\$126.95	\$125.28
Zocor 20 mg	\$116.39	\$129.45	\$119.69	\$137.34

Source: Drug prices obtained from five PBM-administered drug discount cards and 40 retail pharmacies.

Note: GAO analysis.

^aTen of the 13 pharmacies were Medi-Cal participants, meaning they had to offer seniors Medi-Cal drug prices. Two of the three pharmacies not participating in Medi-Cal offered a 10 percent senior discount; the other pharmacy offered no discount.

^bTwo of the 13 pharmacies offered a 10 percent senior discount and one offered a 5 percent discount; the other ten pharmacies offered no senior discount.

^cAll 14 pharmacies offered a 10 percent senior discount.

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