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MEDICARE FACT SHEET

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Projected Net Medicare Drug Costs Drop by Another 10 Percent

\$96 billion Reduction Due to Competition and Lower Prescription Drug Plan Bids; Average National Monthly Premium Declines to \$22

- As a result of strong competition and informed beneficiary choices, the average Part D premium due to basic benefits is 42 percent lower than had been projected originally; more than 90 percent of all Medicare beneficiaries are receiving prescription drug coverage from Part D or other sources; and, five surveys place beneficiary satisfaction with the program at 75 percent or higher. Medicare beneficiaries are living better, healthier lives and they are saving money.
- With the latest reduction in the Part D cost estimates, the CMS Actuaries' new estimates for the FY 08 budget cycle show that net Medicare costs are 30 percent or \$189 billion lower than the actuaries originally anticipated when the MMA was enacted over the same MMA budget window (2004 – 2013).
- The updated Medicare Part D baseline of payments to Part D plans for the FY 08 budget cycle has decreased from last summer's mid-session review numbers by \$113 billion over the next ten years (2007 – 2016). Based on the strong competitive bids for 2007, the actuaries estimate the average premium due to the basic benefit to be around \$22 for beneficiaries, down from \$23 in 2006, if enrollees remain in their current plans.
- The \$113 billion reduction in the baseline of payments to Part D plans from the mid-session review stems from three factors: 1) lower bid submissions; 2) lower enrollment than originally expected; 3) lower growth in drug costs in general.
- Of the \$113 billion reduction in the baseline from the mid-session review, \$96 billion is a direct result of competition and significantly lower Part D bids. The drug plans competing for Medicare beneficiaries have produced greater-than-

expected savings from aggressive price negotiation, rebates, and utilization management. Many Part D plans with above-average premiums in 2006 substantially reduced their bids in 2007 in an effort to be competitive. Plans also expect to further increase the proportion of drugs provided through lower-cost, generic equivalents.

- Another factor, the lower-than-anticipated enrollment in Part D, reduced the new Medicare Part D baseline of payments to Part D plans by \$20 billion compared to the mid-session review, because many beneficiaries had creditable prescription drug coverage from other sources (such as FEHB, Tricare, and the VA), and did not need to sign up for what would have been duplicative coverage under Part D.
- Finally, lower actual growth in drug costs in 2005, compared to the mid-session review estimates, resulted in approximately \$13 billion of the reduction in the new baseline. The reduced Part D cost estimates reflect this lower actual growth in drug costs, with a single-digit percentage increase (5% in 2005) observed for only the second time in more than a decade. Relatively slow growth in actual drug prices and costs, compared to past trends, is expected to persist over the next few years, as more generic drugs become available and aggressive steps to keep down drug costs continue.
- The new baseline numbers also reflect an increase of \$16 billion due to updated figures from the 2002 to the 2003 Medicare Current Beneficiary Survey.
- It is important to note that beneficiaries are saving more as well by overwhelmingly selecting less-costly drug plans for themselves. The average monthly Part D premium in 2006 for the standard benefit package would have been about \$32 if beneficiaries had enrolled in plans randomly, without a preference for the lower-cost, lower-premium plans. Instead, the average premium due to basic benefits was about \$23 in 2006, reflecting beneficiaries' choice of more efficient plans with lower premiums. This pattern is expected to occur again in 2007, as beneficiaries opt for the best bargains among competing plans, and should further lower the average monthly premium.