

Pricey drugs overwhelm Medicare safeguard

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In this June 14, 2011 file photo, various prescription drugs on the automated pharmacy assembly line at Medco Health Solutions in Willingboro, N.J. A safeguard for Medicare beneficiaries has become a way for drugmakers to get paid billions of dollars for pricey medications at taxpayer expense, government numbers show. The cost of Medicare's "catastrophic" prescription coverage jumped by 85 percent in three years, from \$27.7 billion in 2013 to \$51.3 billion in 2015, according to the program's number-crunching Office of the Actuary. (AP Photo/Matt Rourke, File)

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Out of some 2,750 drugs covered by Medicare's Part D benefit, two pills for hepatitis C infection—Harvoni and Sovaldi—accounted for nearly \$7.5 billion in catastrophic drug costs in 2015.

The pharmaceutical industry questions the numbers, saying they overstate costs because they don't factor in manufacturer rebates. However, rebates are not publicly disclosed. Sen. Charles Grassley, R-Iowa, is calling the rise in spending "alarming."

Medicare's catastrophic coverage was originally designed to protect seniors with multiple chronic conditions from the cumulatively high costs of taking many different pills. Beneficiaries pay 5 percent after they have spent \$4,850 of their own money. With some drugs now costing more than \$1,000 per pill, that threshold can be crossed quickly.

Lawmakers who created Part D in 2003 also hoped added protection would entice insurers to participate in the program. Medicare pays 80 percent of the cost of drugs above a catastrophic threshold that combines spending by the beneficiary and the insurer. That means taxpayers, not insurers, bear the exposure for the most expensive patients.

The numbers provided to The Associated Press reflect the total paid by taxpayers, insurers and beneficiaries. They offer a glimpse into the volatile and often mysterious world of high-cost drugs:

— Catastrophic spending for Harvoni and Sovaldi—two hepatitis C pills from Gilead Sciences—more than doubled in two years, from about \$3.5 billion in 2014 to nearly \$7.5 billion in 2015. Harvoni topped the list of Medicare's high-cost drugs last year; Sovaldi was first in 2014.

The FDA approved Sovaldi in Dec., 2013, and its \$1,000-per-pill price quickly made headlines. A congressional investigation last year found that Gilead was focused on maximizing revenue, even as a company analysis showed that a lower price would allow more patients to be treated.

— Revlimid, a cancer drug derived from 1950s thalidomide, surpassed \$1.7 billion in catastrophic costs in 2015, coming in second among high-cost drugs. Spending on the medication from biotech company Celgene increased by 50 percent in three years.

— Gleevec, a breakthrough drug introduced in 2001 to treat leukemia, was ensconced as 5th among the top ten pricey medications, with more than \$1 billion spent in 2015. That was a 54-percent increase from 2013. Drugmaker Novartis has been criticized for repeatedly hiking the price of Gleevec.

— Catastrophic spending accounts for a fast-growing share of Medicare's drug costs, which totaled nearly \$137 billion in 2015. The catastrophic share was 37 percent, yet only about 9 percent of beneficiaries reached the threshold for such costs. For those patients, average spending jumped by 46 percent, from \$9,666 in 2013 to \$14,100 in 2015.



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"If the numbers continue to increase like this each year, I worry about how much the taxpayers could afford," said Sen. Grassley, who plans to ask Medicare for explanations.

"It may be that some drug companies are taking advantage of

government programs to maximize their market share, and we need to know whether that's the case," he added.

Catastrophic coverage will soon cost as much as the entire prescription program did when it launched, said Sen. Ron Wyden, D-Ore. "Congress can't continue to stand idle."

Experts say the rapid rise in spending for pricey drugs threatens to make the popular prescription benefit financially unsustainable.

Nonpartisan congressional advisers at the Medicare Payment Advisory Commission have called for an overhaul. The presidential candidates, as well as the Obama administration, have proposed giving Medicare legal authority to negotiate prices.

The drug industry says Medicare patients are getting valuable, innovative medicines.

Lisa Joldersma, policy vice president for the Pharmaceutical Research and Manufacturers of America, also questioned the cost numbers. "I would push back on the notion that taxpayers are bearing 80 percent of the risk here because the numbers do not reflect rebates," she said.

Rebates for individual drugs are not disclosed. They averaged nearly 13 percent across the entire program in 2013, according to government figures, and were estimated at about 17 percent for 2015.

Most beneficiaries haven't seen a drastic hit yet from rising drug costs, but that may be changing. This year, average premiums went up more than 15 percent in five of the top eight drug plans, according to the Kaiser Family Foundation.

Concerns about catastrophic costs undercut the image of Medicare's

prescription program as a competitive marketplace in which private insurers bargain with drugmakers to drive down prices.

"The incentive is to price it as high as they can," said Jim Yocum, senior vice president of Connecture, Inc., a company that tracks drug prices. Medicare is barred from negotiating prices, "so you max out your pricing and most of that risk is covered by the federal government."

An architect of the program says no one anticipated \$1,000 pills. Former Medicare administrator Tom Scully said catastrophic coverage was meant to protect patients taking many different medicines over months and years.

"The pricing is pretty wild," he said.

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