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New Medicare drug plan crucial to Big Pharma

How much profit is involved depends on whom you ask.

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With time dwindling before launch of the new federal prescription-drug program, one weighty question looms: How much profit will flow to the drug industry itself?

The answer ranges from $139 billion, according to critics of the industry, to a tiny fraction of that amount, say Wall Street boosters eager to see it succeed. As with other political hot buttons, it depends on whom you ask.

The figure is no mere curiosity. Medicare profit will be crucial to Big Pharma. If many of the 43 million eligible Americans sign up during the coming year, the Medicare Prescription Drug Benefit may reshape the whole business of drug development and marketing, buoy sagging stock prices, and affect thousands of local jobs.

But if people do not sign up or if premiums rise sharply, pharmaceutical profit may become a red flag again for patients and politicians looking to control costs. The industry managed to block price controls when the program was designed in 2003.

"As Medicare becomes an increasingly larger part of the budget, I don't see how that doesn't create pressure for greater management of prices," said Marc Benoff, Medicare expert at Cambridge Pharma Consultancy, a unit of IMS Health, an industry-monitoring firm.

The Bush administration's program, also known as Medicare Part D, is meant to make medicines available at a lower cost to more patients, particularly senior citizens and low-income and disabled Americans, starting Jan. 1. It is expected to cost the government $724 billion over the next 10 years.

Hoping for a large chunk of that money, drug companies in the last year have been negotiating with insurers over the price and placement of drugs on the list of reimbursable medications, or formulary, to be finalized this month. The companies are devising sales strategies and conducting media campaigns to get people to sign up.

As many as 13 million low-income and senior-citizen patients may be obligated to enroll by June, paying average annual premiums of $32.20 a month. But success depends on signing up many more premium-paying patients.

"All of Big Pharma has a major incentive in making sure enrollment is large," said Richard Stefanacci, executive director of the Health Policy Institute at Philadelphia's University of the Sciences.

In recent months, industry analysts and consultants have begun issuing reports saying Medicare may raise drug sales next year only modestly, by 1 percent to 4 percent - from $2 billion to $9 billion - or less. Actual industrywide profit hovers around 20 percent of revenue, meaning Medicare could increase profit by just $400 million to $1.8 billion, according to the investment banking firm Friedman Billings Ramsey.

The reason, they say, is that pharmaceutical companies must grant big discounts to insurers to get on the lists of medicines that they will cover. Average discounts off retail price eventually could top 20 percent, compared with 15 percent currently for commercial insurers, one analyst predicted. People also may be slow to sign up.

"It looks like business as usual in 2006," said Jack Rodgers, a health economist at PricewaterhouseCoopers L.L.P. and co-author of an industry-funded report on the impact of the Medicare changes. "We might see more changes in 2007-08."

Companies most likely to see a windfall, at least initially, are makers of generic drugs and certain branded medications for needy or elderly patients - the beneficiaries covered by Medicaid, the state-run program for low-income patients, who will be automatically switched to Medicare, analysts said.

At least four companies in the Philadelphia area may see such a boost: Merck & Co. Inc., which makes the osteoporosis drug Fosamax; AstraZeneca P.L.C., maker of the antipsychotic drug Seroquel; Wyeth, maker of the antidepressant Effexor; and generic drugmaker Teva Pharmaceutical Industries Ltd.

But many companies are gearing up. Germany-based Merck KGaA has expanded its generic business to tap the Medicare market. New York-based Pfizer Inc. is redrawing its national marketing regions to match Medicare's insurance zones. Valley Forge-based distributor AmerisourceBergen Corp. said its 34 distribution centers were prepared for additional inventory.

Friedman Billings Ramsey said it figured Medicare could boost revenue by $20 billion and earnings by $4 billion over the next 10 years for the industry, which last year had about $34 billion in profit on $235.6 billion in sales, according to

Fortune magazine.

"Managing the drug benefit properly could stave off future price intervention by the federal government," the report said.

Industry critics, however, said drug companies stood to gain tens of billions of dollars as long as the government was barred from dictating lower prices.

A 2003 Boston University report, updated last year, asserted that drug companies would boost annual profit by roughly 38 percent, or $17 billion, over profit that otherwise would have been $45 billion per year. Over an eight-year period, it said, profit would total an additional $139 billion.

The researchers said most drugmakers would cut prices only modestly, if at all, under pressure from individual insurance plans.

"To rely on consumerism to hold down prices is to put a transparent fig leaf over an invitation to pillage and plunder the American patients," said Alan Sager, a director of Boston University's Health Reform Program and co-author of the study.

Drug companies, until now, have mostly avoided public speculation, acutely aware of the public's already dim view of their motives as measured by opinion polls. Pfizer and Teva declined requests for interviews.

"The impact of the benefit on us will depend on the amount of enrollment and the types of [insurance] formularies used," David Brennan, newly appointed chief executive of AstraZeneca, said in a recent conference call with reporters. "All that said, the potential exists for this to be good for AstraZeneca."

What to Know About Medicare

More than 43 million people will become eligible Nov. 15 for government pharmaceutical insurance who currently have no or limited coverage. Coverage will be offered through a new Medicare drug plan.

Who is covered. Anybody who is eligible for Medicare or Medicaid. It will be voluntary for most people, but mandatory for roughly 6.4 million current beneficiaries who are eligible for both Medicaid and Medicare because of age, income or disability. They are obligated to enroll and may be penalized if they do not.

Standard coverage. Average monthly premium will be $32.20; deductible of up to $250; co-pay 25 percent on charges up to $2,250; co-pay 100 percent on charges $2,251 to $5,100; co-pay 5 percent on charges $5,101 and higher.

Dual-eligible coverage. Monthly premium zero for people earning less than 135 percent of federal poverty line; co-pay $1 to $3 per prescription with no co-pays after drug spending reaches $5,100.

Timetable

Late September. Government will announce names of the insurers (managed-care and pharmaceutical-benefit managers) that won bids to sell the Medicare Prescription Drug Benefit by region next year.

Oct. 1. The managed-care and pharmaceutical plans can begin advertising and marketing to beneficiaries by region.

Nov. 15. Six-week period begins for beneficiaries to select an insurer and enroll in a prescription drug plan, or PDP.

Jan 1. Government launches the program and begins assigning unenrolled Medicare beneficiaries to a PDP. Individuals can still sign up or modify their PDP choice.

May 15. Deadline for all current Medicare beneficiaries to be enrolled in a PDP or face a possible penalty.

SOURCES: Medicare, Kaiser Family Foundation

Read more about the Medicare Part D program at: http://go.philly.com/partd.

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