n c n

o ith the en ct ent of the Medic re Prescription Dr g pro e ent nd Moderniz tion Act of MMA ne prescription dr g enefit s dded to Medic re constit ting the rgest e p nsion of enefits since Medic re s cre tion in hro gh the MMA the go ern ent cre ted ne r et for prescription dr g ins r nce here pri te p ns de i er the enefits nd the e der y p y s sidized pre i to o t in the he cti e ro e of the go ern ent in cre ting nd s sidizing this r et s response to the sence of ppropri te prescription dr g co er ge for the e der y d e to d erse se ection nd response to diffic ties f ced y o inco e seniors in p ying for dr gs he i p e ent tion of the progr st rted in n ry ith ssi e entry of pri te p ns, i ion Medic re enefici ries enro ed y the end of the first open enro ent period CM he e der y h e the option of either dding st nd one prescription dr g p n PDP to their Medic re fee for ser ice co er ge or enro in n ged c re p n th t is p rt of Medic re Ad nt ge MA th t offers dr g inp tient

th t o d req ire the go ern ent to negoti te dr g prices ith n f ct rers n ddition in n n ysis of opinions of seniors done y the iser F i y Fo nd tion one s ry st tes Benefici ries nt fe er P rt D choices iser F i y Fo nd tion Another report finds th t of enefici ries strong y f or nd so e h t f or i p ifying the ne enefit y red cing the n er of i e p ns iser F i y Fo nd tion hese findings indic te th t there y e po itic press re to i it the n er of choices

n ight of the ch enges the go ern ent f ces in reg ting this r et effecti e y o r p per es se er contri tions First e pro ide e idence on the re ti e ti ity th t the e der y deri e fro p n design fe t res s ch s the e istence of the co er ge g p he fe t res re he i y dict ted y po icy so it is i port nt to no ho they re ed econd e n yze the e f re i p ct of this go ern ent inter ention y seeing h t cons er s rp s nd prod cer s rp s h s een cre ted y the progr hird sing o r de nd nd s pp y side esti tes e cond ct se er co nterf ct s reg rding reg tion pr ctices for this r et pecific y e ssess the effects on eq i i ri prices nd e f re fro recent or erger re o ing p ns th t co er the g p nd i iting e ch fir to t o p ns per region s opposed to three O r co nterf ct s reg rding re o of p ns pro ide n i port nt ssess ent of the osses to cons ers nd prod cers res ting fro go ern ent i it tions on choice these st e eighed g inst the e pected g ins d e to red ced cons er se rch costs

For o r e piric or e se discrete choice ethods pioneered y Berry to reco er str ct r esti tes of p r eters of the de nd nd cost f nctions for the differenti ted PDPs his ethod is especi y ppe ing since it req ires on y ggreg te d t t the p n e e hich is p ic y i e for PDP p ns e g p n r et sh res nd ch r cteristics he esti tes fro this proced re o s to e s re the e of p n ch r cteristics to ho seho ds price e sticities of de nd for e ch p n nd the cons er s rp s cre ted y the r et n ddition e ode the s pp y side of the r et t ing into cco nt the e pected s sidy recei ed y fir s Co ining the s pp y ode ith the de nd ode e c n c o t fir s rgin costs nd ti te y prod cer s rp s he str ct r n t re of the esti tes o s s to cond ct co nterf ct po icy e peri ents to see ho prices nd e f re o d ch nge if e de ch nges in progr design

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Medic re Prescription Dr g Price Negoti tion Act of + nd P rt D Medic re Dr gs Price Bi of MR Act of + i e t http opencongress org i s sho nd http opencongress org i h sho

sing this ppro ch e h e se er ey findings First e s rize res ts fro o r ssess ent of ho cons ers e rio s p n ttri tes o e find th t the e der y e decre se in the nn ded cti e fro to t ppro i te y per ye r, hey e incre sing the n er of top dr gs y pop rity on the for ry y one t ppro i te y nd o t ining co er ge in the g p y + o e find co nterint iti e res ts for co p e of the ore s t e p n ch r cteristics s ggesting seniors did not f y cco nt for these ttri tes hese res ts c n e sef to g ide f t re po icy ing in ter s of the p n design

econd e esti te the e f re i p ct of this ne go ern ent cre ted r et he esti tion ppro ch e fo o o s s to c c te oth cons er nd prod cer s rp s so e c n deter ine hether the enefits of the progr re c pt red in y y the e der y or y the pri te p ns o e find th t the progr res ts in nn cons er s rp s of i ion nd prod cer s rp s of i ion o e find th t go ern ent e pendit re in s sidizing st nd one prescription dr g co er ge is i ion o hi e the cons er nd prod cer s rp ses c e r y do not o t eigh the go ern ent e pendit res the effect of the s sidy on

P rt B the de i ery of the ne enefit h s een co p ete y entr sted to the pri te sector
Pri te co p nies c n pro ide the ne enefit s either st nd one p ns c ed Prescription
Dr g P ns PDPs or they c n offer it together ith P rts A nd B s Medic re Ad nt ge p ns
MA PDs, + Medic re enefici ries c n enro in these p ns y p ying s sidized pre i ,
F rther price red ctions h ppen ccording to inco e nd d Medic id st t s he first open
enro ent too p ce fro No e er , th to M y , th d ring hich ti e the e der y
co d e decisions o t p rticip ting in this r et n s seq ent ye rs open enro ent
t es p ce fro No e er , th Dece er , st of the pre io s ye r D e igi e enefici ries
ere to tic y enro ed in cert in o cost p ns t o ed to s itch to other p ns
A tho gh MMA specifies st nd rd dr g enefit the o s de i tions fro th t design s
ong s the odified p ns re ct ri y eq i ent to the st nd rd enefit Most enefici ries
re oc ed in to their c rrent p n for f ye r t re o ed to s itch p ns e ch open
enro ent period t pre i th t is co nity r ted he e ception is for Medic id
Medic re d e igi e enro ees ho re o ed to s itch p ns t ny point in the ye r nd
ho y h e to p y s pre i to the e tent th t they s itch into cert in higher priced
p ns

he st nd rd dr g enefit design specified in MMA for ye r co prises
ded cti e of nd three co er ge zones here the fr ction of the ddition dr g do r
co ered y the ins rer ries s st nti y As noted r es differ for d e igi e nd other o
inco e enefici ries ho f ce ery ini o t of poc et costs Appendi , Fig re , sho s
ho o t of poc et dr g e penses ry ith tot dr g spending in the different co er ge zones

o the se of i order p rch sing hich y often e che per P ns re o ed to se
ti iz tion contro s s ch s prior thoriz tion q ntity i its nd step ther py for dr gs
Mo d ey For ries c n e c osed o ed to e c de ny p y ent for cert in dr gs
or open in the sense th t dr gs re co ered y not on the s e ter s For ries re

e pected cost per enefici ry of pro iding the sic dr g co er ge he e pected cost is
c c ted ith the nderst nding th t CM nd not the indi id ins rer is responsi e for
of dr g costs th t re inc rred in the c t strophic zone his is req ired y MMA
nd is referred to s the reins r nce fe t re of P rt D hich essens fe rs o

o e foc s on the t nd A one p ns hich enro ed i ion of the i ion P rt D enro ees in A tot of different ins r nce p ns o ned y ppro i te y + different co p nies ere i e in regions into hich the co ntry is di ided, +h s seen e en ore p ns enter ith ne tot of p ns cross regions MMA sets st nd rds for p n design t p ns h e consider e freedo here is s st nti ri tion in the pre i s ch rged nd in the design of the enefits o hi e cert in fe t res of p n design s ch s the ded cti e re e ident hen p ns re se ected y cons ers nd re o ser e in s ry fi e re e sed y CM p ns c n differ in other spects s ch s prices negoti ted ith ph r ce tic co p nies nd the co p y ents req ired fro the enefici ries for different dr gs hese re ttri tes rese rchers nd cons ers c n on y o ser e thro gh e q eries nd n e in tion of the p n s for ry Mo d ey et o e so o t ined d t on ess isi e p n fe t res dr g prices for ry design nd cost sh ring for e ch PDP p n y repe ted y q erying the p n finder too i p e ented y Medic re in the er of for ten sets of dr gs o e processed the so rce code of e ch res ting e p ge to cre te d t se of p n ttri tes to s pp e ent d t pro ided y CM to rese rchers n this pre i in ry n ysis e se generosity inde sed on the top dr gs t en y seniors

he re e nt iter t re c n e c ssified into t o c tegories the st dies th t e te the e f re i p ct of p ic ins r nce progr s nd Medic re in p rtic r nd the st dies th t descri e nd n yze the post i p e ent tion of Medic re P rt D

A ong the first c tegory Fin e stein nd Mc night st dy the i p ct of the Medic re progr s ho e on ort ity nd o t of poc et e pendit re of the e der y heir res ts s ggest th t Medic re did not h e ig effect on ort ity of the e der y ho e er the direct ins r nce enefits re s st nti if co p red to the costs of the Medic re progr C ey Cherne nd McL gh in st dy the Medic re MMO r et nd find th t the p y ents de to pri te p ns not opti y set in ny c ses s CM does not h e infor tion o t the oc he th c re costs Mo ing to idding syste y is e pected to re edy this

sit tion s this is ech nis for re e ing pri te infor tion o t the cost str ct re
h sing dyn ic progr ing ppro ch e ted the i p ct of Medic re y
e ns of co nterf ct th t ss ed Medic re s dis nded Me so conc des th t
Medic re pro ides consider e enefits to the e der y thro gh ins r nce g inst edic
e pendit res s i p ct on i pro ed ort ity nd he th st t s nd incre ses of edic
c re cons ption of o t to C osest in spirit to o r or is o n nd Li
ho esti te the e f re i p ct of Medic re MMOs d ring the to period hey
fo nd ig incre ses in cons er s rp s d e to the introd ction of Medic re MMOs nd
siz e portion of th t s rp s co es fro ing i e prescription dr gs to the
e der y thro gh these p ns n different po icy conte t they perfor ed si i r co nterf ct s
to o rs nd pro ide e r y e idence th t ro d prescription dr g co er ge for the e der y co d e
chie ed thro gh pri te n ged c re p ns

n the c tegory of p pers th t st dy the post i p e ent tion of P rt D the iter t re h s
prod ced n er of descripti e p pers C ns i pro ides n n ysis of fir specific
r et sh res for oth PDP nd MA PD p ns nd finds th t fir s c pt red + of the tot
enro ent pri ri y in their o pre i p ns Go d nd Mo d ey et pro ide
e idence th t ost of the p ns offered re pro ided y n tion ins rers nd ne r n tion
ins rers here h e een so e s r eys of seniors to find o t their opinions o t Medic re
P rt D p ns Meiss McF dden nd o inter s r eyed seniors thro gh o e t de ices nd
report on s tisf ction ith p n ch r cteristics hey find for e p e th t seniors ere
diss tisfied ith the don tho e pro ision of the p n A iser F i y Fo nd tion M r rd
choo of P ic Me th po cond cted d ring the open enro ent period iser F i y
Fo nd tion finds th t seniors f or si p ific tion re o ing the don tho e etc on y
strong y f ored eeping the progr s is L dh nd ood + esti te the e f re
cre ted y Medic re dr g ins r nce in ter s of ho it corrects distortions th t disco r ge
inno tion c rrent y f there is dr g ins r nce then the f ct th t cons ers f ce the o ered
rgin cost gi es n dded incenti e for inno tion correcting the disincenti e th t e ists
ec se of i ited p tent engths hey esti te th t ong this di ension one P rt D incre ses
e f re y i ion ye r thro gh red ction in e isting de d eight oss

For o r e pirics e esti te the str ct r p r eters of the de nd

o e deco pose ti ity into t o p rts e n ti ity nd n idiosyncr tic shoc , he e n ti ity for prod ct is s fo o s

$$\delta_{jt} = \hat{\boldsymbol{X}}_{jt}\beta + \alpha \boldsymbol{p}_{jt} + \xi_{jt}$$

nd the idiosyncr tic shoc is si p y ε_{ijt} o e ignore the inco e ter since it is co on to p ns nd i e ent y drop o t of the n ysis ,

o ithin the o e fr e or once distri tion for the idiosyncr tic error ter s is chosen e c n then c c te the pro i ity th t n indi id i choose gi en p n At the ggreg te e e these pro i ities represent r et sh res for e ch p n For e p e if e ss e the ε_{ijt} re distri ted i i d type e tre the o e ode si p ifies to the ggreg te ogit ode here the pro i ity of choosing gi en p n nd hence the r et sh re of th t p n is

$$\boldsymbol{s}_{jt}\ \delta = \frac{\text{e p } \delta_{jt}}{+\sum_{k=}^{J} \text{e p } \delta_{kt}}$$

Ne t e find the ector of e n ti ities

$$+ \qquad \ln s_{jt} - \ln s_{t} = X_{jt}'\beta - \alpha p_{jt} + \xi_{jt}$$

ɔ ritten this y e c n se L esti tor sing proper instr ents to get esti tes for α nd β f e ss e X_{jt} nd p_{jt} re ncorre ted ith ξ_{jt} e i get proper esti tes y si p y perfor ing OL ,

n pr ctice e esti te α nd β sing t o different ss ed distri tions for the idiosyncr tic error ter s ɔ e first ss e they re i i d type e tre r ndo ri es prod cing the ggreg te ogit s descri ed o e A co on criticis of the ogit ss ption is th t it i poses strong restrictions on s stit tion p tterns cross prod cts For e p e it

Gi en this ti ity for tion e fo o the s e

here c p nd s re ectors of rgin costs prices nd r et sh res nd $\Delta \boldsymbol{p}\ \boldsymbol{X}_{\cdot}, \theta$ is the ppropri te y defined tri of o n nd cross price sh re deri ti es Petrin , Once e h e esti tes for the de nd side p r eters e c n direct y so e for rgin costs sing eq tion ,

sing the esti ted p r eters of the ti ity f nction e c n c c te o n nd cross price e sticities for e ch prod ct F rther co ining these de nd side esti tes ith o r rgin cost esti tes e c n c c te e f re

nn enro ent period n the enro ent fi e it is i possi e to te h t n er is d e to Medic id d s s opposed to others o e se the tot enro ent

O r d t set consists of one o ser tion for e ch of p ns of hich enro ent d t re i e for p ns s the others enro ed fe er th n th t ere offered in the PDP r et in

ri e definitions

c n c

n e e present the res ts for t o ode s

An e tr top dr g dded to the for ry is orth ppro i te y nd g p co er ge of generics is orth o t he co er ge of r nded dr gs ppe rs to e h t seniors e the ost ith n esti ted nn e of sing the esti tes fro o r se ine ode e c n c c te o n nd cross price e sticities for the different p ns sing the fo o ing for s

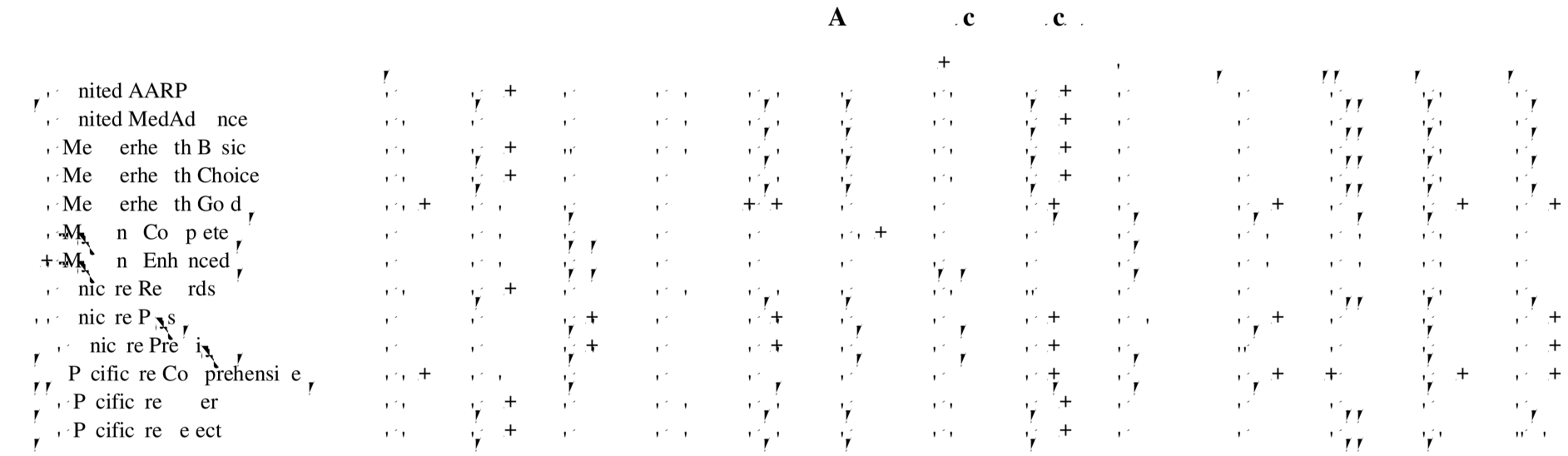
$$\eta_{jj} = \frac{\partial s_j}{\partial p_j}\frac{p_j}{s_j} = -\alpha p_j s_j + \alpha p_j \left(\frac{1}{1-\sigma} - \frac{\sigma}{1-\sigma} s_{j|g}\right)$$

$$\eta_{jj} = \frac{\partial s_j}{\partial p_k}\frac{p_k}{s_j} = -\alpha p_k s_k \quad \text{if } j \neq k \quad k \notin g \quad j \in g$$

$$\eta_{jj} = \frac{\partial s_j}{\partial p_k}\frac{p_k}{s_j} = -\alpha p_k s_k \left(\frac{\sigma}{1-\sigma}\frac{s_{j|g}}{s_k} + 1\right) \quad \text{if } j \neq k \quad j,k \in g$$

here g is the gro p enh nced or not enh nced

he first for is the o n price e sticity the second is the cross price e sticity for p ns j nd k th t do not e ong to the s e nest g nd the third the cross price e sticity for prod cts th t e ong to the s e nest Gi en the rge n er of p ns e c n on y present s p e of o r esti ted e sticities O r esti tes re consistent ith pre io s y esti ted e sticities M r y Fe d n et nd e re e to c pt re the int iti e res t th t enh nced p ns re c oser s stit tes to e ch other th n to non enh nced p ns e sho s s p e of o r esti ted e sticities for the p yers ith the rgest r et sh res he e sticities in the t e sho th t enh nced p ns denoted y re c oser s stit tes to e ch


A c c
nited AARP
nited MedAd nce
Me erhe th B sic
Me erhe th Choice
Me erhe th Go d
M n Co p ete
M n Enh nced
nic re Re rds
nic re P s
nic re Pre i
P cific re Co prehensi e
P cific re er
P cific re e ect

O r esti tes so o s to c c te i port nt e f re e s res of this r et
n p rtic r e c n c c te prod cer nd cons er s rp s nd co p re those to
go ern ent e pendit re on s sidiz tion he for s for these three e s res re s
fo o s

r et po er d e to this erger res ted in incre se in er ge prices for the erged fir s nd + incre se in prices for other fir s Cons er s rp s dec ined y hi e prod cer s rp s incre sed y + hese res ts not on y i str te the effects of erger of this gnit de on this r et t so de onstr te o r ode s i ity to prod ce sensi e co nterf ct res ts consistent ith econo ic theory

O r re ining t o po icy e peri ents foc s on the effects fro re o ing p ns fro the r et he first of these po icy e peri ents in o es the re o of p ns offering g p co er ge e perfor this e peri ent to ssess the e f re osses if the go ern ent h d not o ed this ri tion in design nd so to find the conseq ences of s inter ention to i it the n er of choices e find th t cons er nd prod cer s rp s decre se y nd respecti e y he effect of this po icy on eq i i ri pre i is ery s in the ggreg te Mo e er it h s igger i p ct on the pre i of the re ining enh nced p ns nd pr ctic y no effect for the p ns in the other nest Enro ent is so oder te y ffected +

he second of these po icy e peri ents e p ores h t o d e the effect of ore ni ers i it tion in the n er of options n p rtic r e consider the effect of restricting fir s to i of t o p n offerings per region hen i posing this r e in o r ode e ss e fir s eep the p ns th t h d the rgest enro ent his e peri ent i its the n er of p ns to + of the se ine e e s he pre i of the re ining p ns incre ses y ppro i te y + e find th t oth cons er s rp s f s y ppro i te y nd prod cer s rp s f s y o t Enro ent f s y nder the ss ption th t the eq i i ri e find is ct y p yed fter this po icy is i p e ented the oss in s rp s per person ppro i te y ong ith the oss of p rticip tion st e eighed g inst the g in d e to red ced se rch costs hen e ting s ch po icy

t sho d e noted th t the ne eq i i ri pre i re c c ted sed on the str ct re reco ered for o r Bertr nd g e hich is n str ction of the re idding ech nis e re c rrent y odifying this ss ption to c pt re the effect of o r co nterf ct s nder ore cc r te reg tory fr e or

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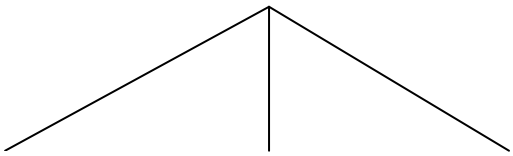
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