

September 1991

# MEDICAID

## Changes in Drug Prices Paid by VA and DOD Since Enactment of Rebate Provisions



\_\_\_\_\_

\_\_\_\_\_

**Human Resources Division**

B-245667

September 18, 1991

The Honorable Lloyd Bentsen  
Chairman, Committee on Finance  
United States Senate

The Honorable John D. Dingell  
Chairman, Committee on Energy and Commerce  
House of Representatives

The Honorable David Pryor  
Chairman, Special Committee on Aging  
United States Senate

The Honorable Edward R. Roybal  
Chairman, Select Committee on Aging  
House of Representatives

In 1990, congressional concerns about rapid increases in Medicaid prescription drug costs led to the enactment of significant changes in how Medicaid programs pay for outpatient prescription drugs. These changes, included in the Omnibus Budget Reconciliation Act of 1990 (OBRA), enacted on November 5, 1990, require drug manufacturers to give rebates to state Medicaid programs based on the discounts offered to large purchasers.

Because of concerns that to pay for these rebates, drug manufacturers would increase prices to purchasers that previously received large discounts, OBRA required the Comptroller General to study changes in the prices charged by prescription drug manufacturers. The study is to include prices charged to the Department of Veterans Affairs (VA), other federal programs, retail and hospital pharmacies, and other purchasing groups and managed care plans.

After OBRA became effective in January 1991, reports that drug manufacturers were increasing the prices charged to VA and the Department of Defense (DOD) raised congressional concerns about the impact of the act's provisions on federal agencies' costs. We therefore agreed with your offices that the initial focus of our study would be on how VA and DOD prescription drug prices had changed and what effect the changes had on agency costs.

The Congress is now considering several bills that would change OBRA's Medicaid drug rebate provisions and freeze VA's drug prices. To help the

---

Congress decide what action to take on these bills, this report provides preliminary information on how drug prices charged to VA and DOD have changed since OBRA's enactment.

We are continuing our work on this issue, and we plan to issue a report on changes in drug prices experienced by hospitals, managed care plans, and others, as well as VA and DOD drug prices, by May 1, 1992.

---

## Results in Brief

Both VA and DOD have experienced increases in prescription drug prices since OBRA's enactment. It is difficult, however, to determine the effect of these price changes on overall VA and DOD costs because neither agency maintains centralized price and utilization information for the prescription drugs it buys. Further, we could not determine how the increases in drug costs experienced by VA and DOD since OBRA's enactment compare with those of previous years because the agencies could not give us historical price data. Also, we could not determine whether the price growth was attributable to OBRA.

Prices for drugs purchased from the Federal Supply Schedule, a main source of drug purchases for about 10,000 pharmaceutical and drug items, have on average increased at almost twice the 8.3-percent increase in the 1990 producer price index for prescription drugs. This includes 12 drugs that had price increases of over 300 percent. Prices for widely used drugs stocked by the VA and DOD supply depots have increased at about the inflationary rate for 1990.

Our assessment of price changes for 50 drugs that seven VA medical centers told us were widely used in 1990 indicates that each center's costs will increase over fiscal year 1990. Five of the seven centers will experience cost increases of from 8 to 11 percent. The other centers' costs will rise by 17 and 26 percent, respectively.

Based on the preliminary results of its analysis of utilization data from a sample of medical centers for 30 widely used drugs, VA estimates that the higher prices will increase VA's costs by \$28 million (about 21 percent) over 1990 costs.

DOD estimates that price increases for a sample of 25 drugs will increase the military services' costs by about \$5.8 million (14 percent) over 1990 costs.

---

## Background

Medicaid was established in 1966 as a federal-state means-tested entitlement program of medical assistance for certain low-income people. Eligibility and coverage standards are determined jointly by the federal government and the states. Coverage of outpatient prescription drugs is an optional Medicaid service provided by all states and the District of Columbia.

Before OBRA's enactment in 1990, federal Medicaid law did not address reimbursement for outpatient prescription drugs.<sup>1</sup> Federal regulations set upper limits on each state's drug payments. States designed and administered their outpatient prescription drug programs. These programs often declined to cover certain high-cost drugs in order to control prescription drug costs.<sup>2</sup>

---

## OBRA Medicaid Drug Provisions

Several concerns led the Congress to consider changing how much Medicaid programs paid for outpatient prescription drugs. First, prescription drug costs to Medicaid were increasing faster than the rate of inflation in the economy. Second, Medicaid was paying near-retail prices for outpatient drugs, while other large purchasers received discounts from drug manufacturers. Third, some states attempted to control Medicaid drug costs by denying coverage for certain expensive drugs.

After much debate, the Congress passed legislation (sec. 4401 of OBRA) that changed how Medicaid reimburses for outpatient prescription drugs. The key element of these provisions was a requirement that, in order to participate in the Medicaid program, drug manufacturers had to agree to give rebates to state Medicaid programs. In addition, states must cover, with some exceptions, all drugs of a manufacturer who signed a rebate agreement.

Under OBRA's Medicaid provisions, each manufacturer is required to complete a rebate agreement with the Health Care Financing Administration (HCFA), acting on behalf of the states.<sup>3</sup> As a condition of this agreement, each state Medicaid program must cover, with some exceptions, all of the manufacturer's outpatient drugs that are prescribed for

---

<sup>1</sup>Federal law did prohibit payment for certain types of drugs classified by the Food and Drug Administration as less than effective.

<sup>2</sup>Medicaid: Reimbursement for Outpatient Prescription Drugs, Congressional Research Service, March 7, 1991, p. 1.

<sup>3</sup>As of March 8, 1991, nearly all brand-name and generic drug manufacturers had signed rebate agreements with HCFA.

---

medically accepted indications. In general, the amount of the rebate equals the greater of (1) a sliding percentage of the average manufacturer price (AMP)<sup>4</sup> or (2) the difference between the AMP and the "best price"<sup>5</sup> for a particular drug. (See app. I for more details on how the Medicaid rebates are determined.)

Two types of prices are exempt from OBRA's best price definition—prices offered to federal depots (centralized purchasing and distribution facilities that serve VA and military medical facilities) and single-award contracts.<sup>6</sup>

---

## VA and DOD Drug Purchasing Methods

VA spends about \$700 million a year on prescription drugs dispensed by its 159 medical centers. The medical centers can purchase drugs through several sources, and the price of the drugs can vary significantly depending on the source.

One source from which VA medical centers purchase drugs is the VA depot system. VA maintains three supply depots that stock about 850 pharmaceutical and drug items that have substantial usage. VA officials negotiate contracts with drug manufacturers for these products and distribute them when they are ordered by VA medical centers. VA estimates that between 35 and 45 percent of the drugs used by its centers are purchased from the depot. According to VA officials, the depot offers centers the lowest prices for prescription drugs.

VA also administers the Federal Supply Schedule for drugs and pharmaceuticals. The schedule is a price catalog containing about 10,000 pharmaceutical and drug items. VA negotiates the catalog prices with various drug manufacturers. The contracts had been awarded for 3-year periods; however, beginning in 1991 they are 5-year contracts. VA medical centers maintain the catalogs and purchase these items directly from the manufacturer at the catalog price. VA estimates that between 40 and 45 percent of its drugs are purchased from the schedule. According to VA officials, these prices are higher than depot prices, but

---

<sup>4</sup>The average price paid to a manufacturer by retail pharmacies or by wholesalers for drugs distributed to the retail pharmacy class of trade.

<sup>5</sup>OBRA defines best price for single-source drugs or innovator multiple-source drugs as the lowest price available from the manufacturer to any wholesaler, retailer, nonprofit entity, or U.S. governmental entity.

<sup>6</sup>In a single-award contract, a federal agency obtains bids from drug manufacturers for a particular pharmaceutical product and selects one manufacturer to be the sole supplier of that product.

---

lower than direct, open-market, or local purchases from the manufacturer.

Finally, VA medical centers purchase between 15 and 20 percent of their drugs either from manufacturers who have been awarded single-award contracts for a particular drug item or directly from manufacturers on the open market. According to VA, single-award contract prices provide large discounts similar to VA's depot, while open-market prices are the most expensive.

VA medical centers can also purchase items from DOD's depot either directly or through a shared procurement program started in 1978. The agreement between VA and DOD allows the agencies to consolidate contracting for certain drugs common to both and assign contracting responsibility to one agency.

According to the Assistant Secretary of Defense (Health Affairs), the military services spent about \$534 million on prescription drugs in fiscal year 1990. The Defense Personnel Support Center (DPSC) manages DOD's three depots that procure pharmaceutical items in support of the military services. DPSC spends about \$256 million a year on about 3,000 drug items it stocks in its depots. Military hospitals spend about \$278 million on drugs bought off the Federal Supply Schedule or on the open market.

---

## Scope and Methodology

To determine how prescription drug prices charged to VA and DOD had changed since OBRA's enactment, we obtained and analyzed information on the prices they were charged for prescription drugs. Price information was obtained for the primary sources from which VA and DOD medical facilities obtain their prescription drugs—VA's depots, the Federal Supply Schedule, and DOD's depots operated by DPSC.

Prices for drugs purchased from the Federal Supply Schedule are as of October 1, 1990 (before OBRA's enactment), and on April 1, 1991. However, VA could not give us prices for depot-stocked drugs for these dates because the depot prices are established by contracts that vary in length and expire at different times. Instead, VA gave us the current contract prices in effect as of July 1, 1991, and the prices from the previous contracts. We do not know, however, the actual dates on which the current and previous contract prices were in effect, because VA could not provide this information.

---

Although the VA and DOD depot prices were exempt from OBRA's best-price definition, we included them in our analysis because VA reported that, notwithstanding the exemption, these prices were also increasing significantly.

To determine what effect these price changes had on each agency's costs, we obtained drug price and utilization information from seven VA medical centers on the 50 drugs purchased off the Federal Supply Schedule that the centers had spent the most on in fiscal year 1990. The seven centers, selected by VA, included three with large pharmaceutical budgets, two with budgets in the middle range of all VA medical centers, and two with small budgets.

The centers selected were in Minneapolis, Minnesota; Syracuse, New York; San Antonio, Texas; West Los Angeles, California; Miles City, Montana; Cheyenne, Wyoming; and the Bronx, New York. Because VA's Bronx medical center could not provide information on the drugs purchased from the Federal Supply Schedule it spent the most money on or the amount of the drugs used in 1990, we replaced it with the Jackson, Mississippi, center. In fiscal year 1990, these seven centers spent about \$38 million on drugs, which represents about 5 percent of VA's total pharmaceutical budget.

We also analyzed drug utilization information for VA's depots, as well as VA's preliminary utilization study of the impact of Federal Supply Schedule price changes for 30 drugs. VA officials selected these drugs because they believed they were widely used at VA medical centers.

To the extent that VA changes its drug utilization patterns in response to price increases, our estimates of the effect of price increases on VA's costs may be overstated.

To determine how the changes in drug prices since OBRA compared with those of previous years, we asked VA and DOD for information on how the prices they paid for prescription drugs had changed over the past 6 years. We also reviewed the Bureau of Labor Statistics producer price index for pharmaceuticals<sup>7</sup> which is commonly used to track changes in prescription drug prices. From 1984 through 1990, the annual change in this index ranged between 8 and 10 percent.

---

<sup>7</sup>The producer price index tracks price changes of a market basket of prescriptions drugs over time.



---

In addition, we interviewed officials from VA's pharmacy service, the pharmacy directors at seven VA medical centers, and officials from the Office of the Assistant Secretary of Defense (Health Affairs), military medical centers, and DPSC. We also obtained the views of an outside expert on pharmaceutical prices.

Our work was performed between March and September 1991 in accordance with generally accepted government auditing standards.

---

## Changes in VA Drug Prices and Effect on Agency Costs

In April 1991, the Deputy Secretary for Veterans Affairs reported that increases in prescription drug prices since the enactment of OBRA would increase VA's 1991 costs by about \$150 million more than it had expected to spend. However, VA officials told us that this estimate was an educated guess based on personal contacts with drug company representatives and media reports that drug manufacturers intended to increase the prices charged to VA and others in order to reduce the amount of the rebates they would have to pay state Medicaid programs.

Initially, we asked VA to give us a list of the 50 prescription drugs it spent the most money on in fiscal year 1990. For each drug we requested the amount used in 1990 and the price paid for the drug on October 1, 1990 (before the passage of OBRA), and on April 1, 1991.

However, VA was unable to give us this information because it does not have a centralized management information system to identify the kinds of drugs it purchases and uses, the prices it pays for them, or the source from which they are purchased. As a result, utilization information could be obtained only at VA's 159 medical centers.

In July 1991, VA gave us detailed computerized information on changes in depot and Federal Supply Schedule prices, usage data on depot-stocked drugs, and partial utilization information from some VA medical centers for a sample of 30 drugs purchased from the Federal Supply Schedule.

---

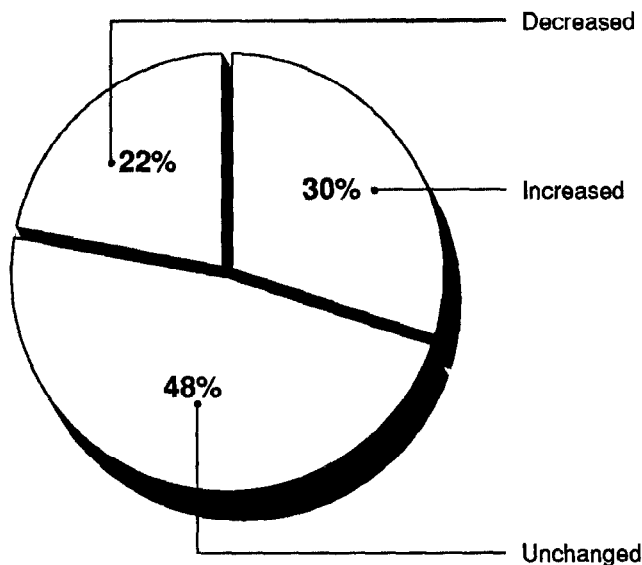
## Changes in VA Depot Prices

As mentioned previously, the prices VA pays for drugs stocked in its depots were exempt from OBRA's best-price definition. However, we included them in our analysis because VA reported that, notwithstanding the exemption, these prices were also increasing significantly.

VA gave us a computerized list of the current and previous contract prices<sup>8</sup> for 682 drug items stocked in its depots, as well as the quantity of each item purchased from the depots in fiscal year 1990. We excluded eight items from our comparison because VA records did not have both current and previous prices.

As shown in figure 1, prices for almost half of the remaining 674 drugs stocked by VA's depots were unchanged. According to VA pharmacy officials, one reason the prices for these 325 drug items may not have changed is because the contracts for them may not have been up for renegotiation. However, neither we nor VA reviewed the contracts for each of the 325 items to determine to what extent this was the case.

**Figure 1: Changes in VA Depot Drug Prices**



Note: Differences between current and previous contract prices.

The average price change for the 674 depot-stocked drugs was an increase of about 5.5 percent.<sup>9</sup> However, if the 325 drug items whose prices did not change are excluded from the analysis because they may

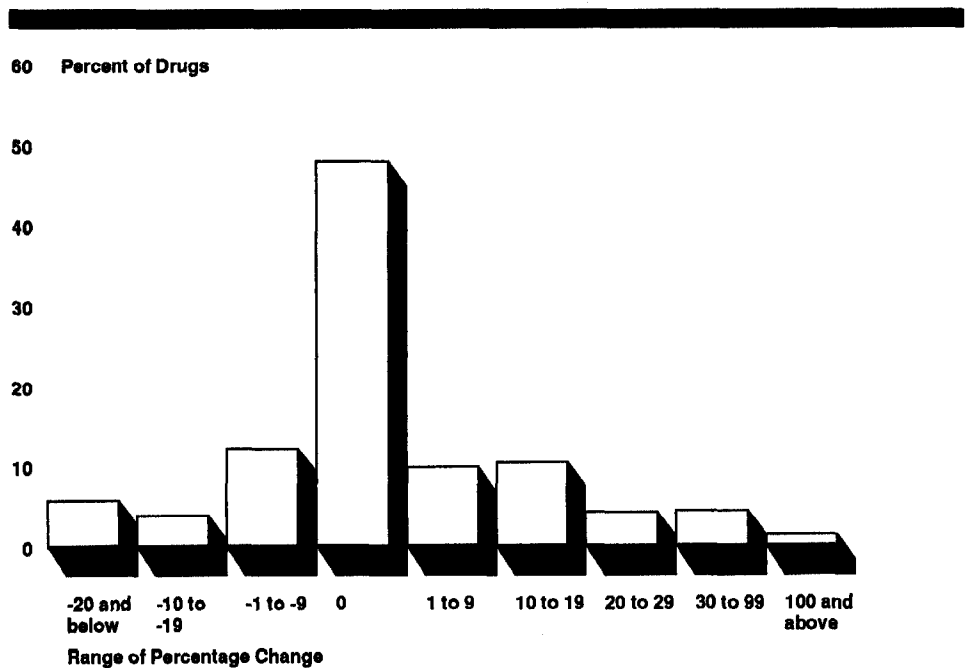
<sup>8</sup>As stated previously, the current prices VA gave us are from the contracts in effect as of July 1, 1991, and the previous prices are from the previous contracts. We do not know, however, the actual dates on which these prices were effective.

<sup>9</sup>The average is weighted based on 1990 utilization information.

represent drugs whose contracts have not been renegotiated, the percentage increases to about 10.6 percent.

The range of price changes for the drugs was wide. Figure 2 shows the percentage of the 674 depot-stocked drugs whose price changes fell within different percentage decreases and increases. About 11 percent of the drugs experienced price increases of between 1 and 9 percent, and prices for about 13 percent of the drugs declined between 1 and 9 percent. Further, about 9 percent of the drugs had price increases of 20 percent or more, and about 9 percent had price decreases of more than 10 percent.

**Figure 2: Range of Changes in VA Depot Drug Prices**



Note: Differences between current and previous contract prices.

**Effect of VA Depot Price Changes on VA's Drug Costs**

VA gave us an analysis of the effect of depot price changes for 270 proprietary drug items<sup>10</sup> stocked by the depots. VA excluded generic drugs from this analysis because it believed there would be little change in their prices. Using 1990 usage data, VA determined that as a result of

<sup>10</sup>According to a VA pharmacy official, proprietary drugs are either single-source drugs or innovator multiple-source drugs.

price changes for the 270 items, its costs would be \$19.6 million (about 10.7 percent) higher.

If price changes for all 674 VA depot-stocked items are included, the estimated effect on VA's costs is an increase of about \$13.1 million (about 5.5 percent) over 1990, assuming that demand for the items is constant.

The results of the two analyses differ because one includes the changes in generic drug prices, many of which have declined, in determining the effect of drug price changes on depot-stocked items. VA pharmacy officials told us that they believed declines in the price of generic drugs would have occurred regardless of OBRA's drug rebate provisions and that in their view, the price increases experienced by the proprietary drugs reflected changes that were attributable to OBRA. They could not, however, provide us any historical information to support their contention.

Table 1 lists the six drug items that accounted for about 85 percent of the \$13.1 million increase in VA depot costs.

**Table 1: Drug Items That Accounted for 85 Percent of the Increase in VA's Depot Costs**

Drug (manufacturer)	Old price	New price	1990 Usage	Estimated cost increase
Phenytoin 100mg cap (Parke-Davis)	\$17.71	\$100.49	44,874	\$3,714,670
Nitroglycerin sublingual 0.4 mg sl tab (Parke-Davis)	0.66	3.16	1,030,917	2,577,293
Atenolol 50mg tab (ICI Pharm.)	34.46	42.11	188,894	1,445,039
Metoprolol 50mg tab (Geigy)	126.17	176.51	24,808	1,248,835
Captopril 25mg tab (Squibb)	280.70	314.40	31,843	1,073,109
Pentoxifylline 400mg tab (Hoechst-Roussel)	25.15	31.16	173,522	1,042,867
<b>Total</b>				<b>\$11,101,813</b>

## Changes in Federal Supply Schedule Drug Prices

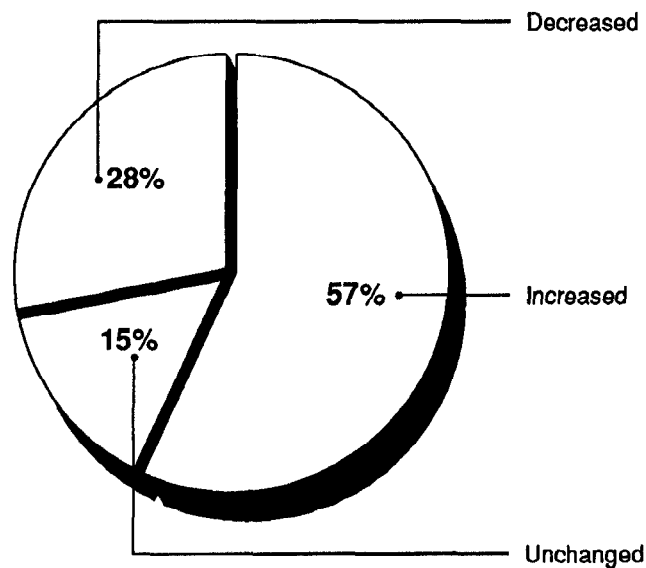
VA gave us a computer list of the 1990 and 1991 prices for 8,565 drug items from the Federal Supply Schedule. However, we had to exclude 4,640 of the items (about 54 percent) because they did not have prices for each year. Of the 4,640 items, 1,777 had 1990 prices but no 1991 prices, and 2,863 had 1991 prices but no 1990 prices.

VA officials told us they believed many of the 1,777 items did not appear on the 1991 schedule because drug manufacturers may have decided not to list their products on the Federal Supply Schedule so they would not

be considered in the best-price determination. VA pharmacy officials recently began analyzing these items. The officials told us that their preliminary analysis indicates that many of the drug items will have to be purchased on the open market at a significantly higher price than was offered from the schedule. In other cases, a change in the dosage or package size of a drug could result in the lack of price information for both years, even though the drug was still available from the schedule.

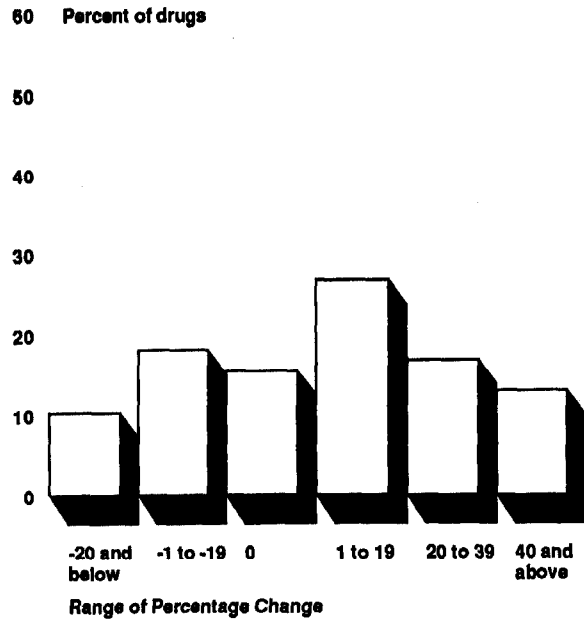
Overall, prices increased for about 57 percent of the 3,925 drug items listed for both years on the Federal Supply Schedule (see fig. 3).

**Figure 3: Changes in Federal Supply Schedule Drug Prices From 1990 to 1991**



The Federal Supply Schedule price changes ranged from a decrease of over 90 percent to an increase of over 500 percent. About 27 percent of the drugs (1,052) had price increases of between 1 and 19 percent, and about 30 percent (1,168) had increases of 20 percent or more. On the other hand, about 18 percent (711) of the drugs had price decreases of from 1 to 19 percent, and about 10 percent (399) had decreases of 20 percent or more. About 15 percent of the drugs (594) had no price change (see fig. 4).

**Figure 4: Range of Percentage Changes in Federal Supply Schedule Drug Prices From 1990 to 1991**



As shown in table 2, 12 drug items experienced price increases of over 300 percent.

**Table 2: Federal Supply Schedule Drugs  
With Price Increases of Over 300 Percent**

<b>Drug (manufacturer)</b>	<b>Old price</b>	<b>New price</b>	<b>Percentage increase</b>
Genoptic 0.3% sol. 5 ml btl. (Allergan)	\$1.01	\$6.42	536
Elixophyllin 80 mg 15 ml elixer 3840 ml btl. (Forest)	6.72	38.81	478
Verapamil 2.5 mg 5 x 2 ml ampule (American)	1.68	9.26	451
Vasocon-A Opth. sol (Iolab)	1.32	6.46	389
Mellaril HCL 100mg/5ml 480ml btl. (Sandoz)	11.75	57.20	387
Elixophyllin 80 mg 15 ml elixer 240 ml btl. (Forest)	1.27	6.18	387
Procan 500mg tab. 120 btl. (Parke-Davis)	6.35	30.74	384
Procan 500 mg tab. 500 btl. (Parke-Davis)	28.46	128.12	350
Reglan 10 mg tab. 500 btl. (Wyeth-Ayerst)	27.00	118.50	339
Procan 500 mg tab. 100 btl. (Parke-Davis)	6.11	26.42	332
Premarin 1.25 mg tab. 1000 btl. (Wyeth-Ayerst)	70.80	289.31	309
Premarin 2.5 mg tab. 100 btl. (Wyeth-Ayerst)	12.94	52.51	306

The average price change for all items was an increase of about 16 percent. Because VA could not give us utilization information for these drugs, this is an unweighted average of the percentage change in the price of each drug. As a result, the average is sensitive to a small number of drugs with large percentage changes in price. For example, if the 12 drugs with price increases over 300 percent are excluded, the average price change falls from 16 to 12.8 percent.

### Impact of Federal Supply Schedule Drug Price Changes on VA's Costs

Although VA was able to give us centralized utilization information for depot-stocked drugs, similar information for drugs purchased from the Federal Supply Schedule is maintained only at VA's 159 medical centers. VA is gathering this information so it can determine the actual cost impact of Federal Supply Schedule price increases on its medical centers. A VA pharmacy official told us VA expects to complete the utilization study by the end of 1991.

Our preliminary assessment of the impact of price changes at seven VA medical centers, and VA's preliminary analysis of the impact of price increases for 30 drugs they believe are widely used, suggest that Federal

---

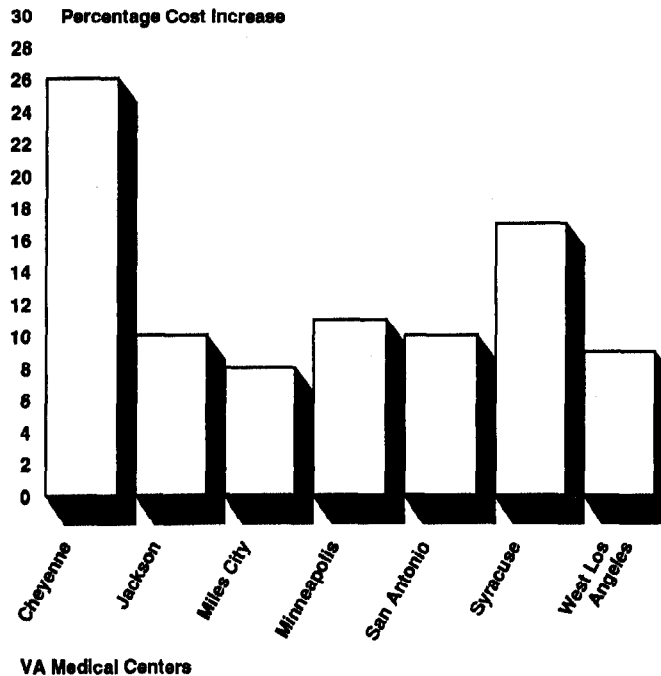
Supply Schedule price increases could raise VA's prescription drug costs above the 8.3-percent increase in the producer price index for pharmaceuticals for 1990.

To determine how VA medical centers were being affected by price increases, we asked seven of them for a list of the 50 drugs purchased off the Federal Supply Schedule on which they spent the most money on in fiscal year 1990. For each drug we requested the amount purchased in fiscal year 1990, the price as of October 1, 1990, and the price as of April 1, 1991.

Collectively, the seven medical centers identified 89 different drugs (see app. II for a list of these drugs). About two-thirds of these drugs had price increases of from 2 to 93 percent; the other third had prices that were unchanged or decreased. Based on the usage information provided, we estimate that the increased prices will raise the cost of the 50 Federal Supply Schedule drugs for each center between 8 and 26 percent (see fig. 5). Five of the seven centers will experience cost increases of from 8 to 11 percent. The other two centers' costs will rise by 17 and 26 percent. VA was not able to give us information on how these increases compared to increases in prior years.



**Figure 5: Estimated Percentage Increase in the Cost of 50 Federal Supply Schedule Drugs at Seven VA Medical Centers From 1990 to 1991**



The effect on the seven centers appears to differ because the types of drugs used most often by each facility depend on the types of veterans' health problems being treated.

VA is also studying the cost impact of Federal Supply Schedule drug price increases. On August 26, 1991, VA gave us the preliminary results of its cost-impact analysis for 30 single-source drugs that are purchased from the schedule or on the open market, but cannot be obtained from VA's depots. These drugs were selected based on VA pharmacy officials' judgments that they are widely used by VA medical centers.

Each VA medical center was asked to submit usage information for prescriptions written for these drugs during January 1991. The number of centers used to compute the cost impact varied for each drug analyzed, depending on how many centers had reported utilization information at the time the analysis was conducted. As a result, VA's preliminary analysis is based on usage information obtained from between 6 and 78 centers, depending on how many centers reported using the drug at the time of the analysis.

---

VA estimates that the price increases for these 30 drugs will increase its fiscal year 1991 costs by about \$28 million. This estimate was computed by first projecting 1 month's usage of a particular drug to an entire year for all the centers that reported using the drug. VA then projected the cost impact for each drug based on the percentage of total outpatient prescriptions filled by the reporting centers.

Based on their preliminary estimate of a \$28 million increase, VA believes that its completed analysis will show that the overall cost impact of price increases for all the drugs it uses will equal or exceed its initial estimate of a \$150 million increase. As VA adds usage information from medical centers and drugs to its cost-impact study, a more complete estimate of the impact of drug price changes on VA's costs will be available. Without comparative data on price changes in prior years, however, VA will not be able to demonstrate whether the cost impact of post-OBRA price changes is more significant than it has experienced in the past.

---

## Changes in DOD Drug Prices and Impact on Agency Costs

In a May 29, 1991, letter to the Chairman, Senate Special Committee on Aging, the Assistant Secretary of Defense (Health Affairs) provided information on how the military services had been affected by increases in prescription drug prices for items purchased from nondepot sources. When we reviewed the analysis, we identified numerous errors in the price information used that we brought to DOD's attention.

In a August 29, 1991, letter, the Assistant Secretary gave the Chairman revised information on price changes for 25 drugs the military services purchase from the Federal Supply Schedule that are not available from DOD's depot. According to DOD officials, the 25 drug items were examples selected because new Federal Supply Schedule contract prices were available, the items were used by each military service, and they were not available from DOD's depot. DOD estimates that based on fiscal year 1990 usage data, these 25 drugs will cost about \$5.8 million (14 percent) more than in 1990.

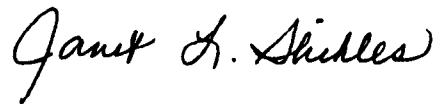
The Assistant Secretary added that it is difficult to estimate the overall impact of drug price increases because data on Federal Supply Schedule purchases are not readily available from the military services. In addition, DOD said it was unable to identify what portion of this price growth was attributable to OBRA. DOD officials also told us that there had been little impact on the prices being paid for prescription drugs purchased from the depots.

---

In order to issue this report so it could be used by members of Congress in debating proposed changes in OBRA's Medicaid drug rebate provisions, we did not obtain written agency comments on a draft of the report. However, we discussed the report's contents with responsible officials in VA's pharmacy service and the Office of the Assistant Secretary of Defense (Health Affairs) and have incorporated their views where appropriate.

We are sending copies of this report to the Secretary of Veterans Affairs, the Secretary of Defense, the Secretary of Health and Human Services, and other interested parties. Copies also will be made available to others upon request.

Should you have any questions about our review, please call me at (202) 275-5451. Other major contributors are listed in appendix III.



Janet L. Shikles  
Director, Health Financing  
and Policy Issues

---

# Contents

---

Letter		1
Appendix I OBRA 1990 Medicaid Drug Rebate Provisions		20
Appendix II Changes in Prices for 89 Drugs Purchased by Seven VA Medical Centers From the Federal Supply Schedule		21
Appendix III Major Contributors to This Report		24
Tables		
	Table 1: Drug Items That Accounted for 85 Percent of the Increase in VA's Depot Costs	10
	Table 2: Federal Supply Schedule Drugs With Price Increases of Over 300 Percent	13
Figures		
	Figure 1: Changes in VA Depot Drug Prices	8
	Figure 2: Range of Changes in VA Depot Drug Prices	9
	Figure 3: Changes in Federal Supply Schedule Drug Prices From 1990 to 1991	11
	Figure 4: Range of Percentage Changes in Federal Supply Schedule Drug Prices From 1990 to 1991	12
	Figure 5: Estimated Percentage Increase in the Cost of 50 Federal Supply Schedule Drugs at Seven VA Medical Centers From 1990 to 1991	15

---

**Abbreviations**

AMP	average manufacturer price
DOD	Department of Defense
DPSC	Defense Personnel Support Center
HCFA	Health Care Financing Administration
OBRA	Omnibus Budget Reconciliation Act of 1990
VA	Department of Veterans Affairs

# OBRA 1990 Medicaid Drug Rebate Provisions

---

OBRA provides for a basic rebate and additional rebate for single-source drugs<sup>1</sup> and innovator multiple-source drugs.<sup>2</sup> In general, the basic rebate equals the greater of (1) a sliding percentage of the average manufacturer price (AMP) or (2) the difference between the AMP and the "best price" for a particular drug. The rebate is capped at 25 percent of the AMP during the first year and 50 percent during the second. Thereafter, the rebate is the greater of 15 percent of the AMP or the full difference between the AMP and best price.

The additional rebate allows state Medicaid programs to recapture increases in the AMP that exceed the rate of inflation. Initially, the additional rebate is based on the difference between increases in the AMP for a particular drug and increases in the consumer price index. In 1994, the additional rebate formula changes to a weighted AMP to be calculated on an aggregate basis by the Secretary of Health and Human Services.

Rebates for noninnovator multiple-source or generic drugs are initially a flat 10 percent of the average manufacturer price, increasing to 11 percent after 1993.

---

<sup>1</sup>Drugs that are on patent for which there is only one manufacturer or supplier or for which there is a cross-licensing/marketing agreement between two manufacturers.

<sup>2</sup>Drugs that are the original patented brand of a product that is now a multiple-source drug available in generic versions from several manufacturers.

# Changes in Prices for 89 Drugs Purchased by Seven VA Medical Centers From the Federal Supply Schedule

Product name	Vendor/mfg.	Size package	Oct 90 price	April 91 price	FY 1990 usage	Projected cost difference	Percentage price change
Ativan 2Mg/MI Inj	Wyeth	10x1ML CA	\$45.78	\$88.34	392	\$16,683.74	93
Questran	Bristol Labs	210 GM/CN	12.71	23.27	1,483	15,658.51	83
Pamelor HCL 25Mg Cap	Sandoz	100/BT	27.98	49.95	898	19,729.06	79
Pamelor HCL 25Mg Cap	Sandoz	500/BT	132.26	235.75	2,519	260,738.34	78
Trandate 200Mg Tab	Glaxo	500/BT	102.45	176.30	32	2,363.20	72
Voltaren 75Mg Tab	Geigy	100/BT	42.50	71.86	480	14,092.80	69
Voltaren 50Mg Tab	Geigy	60/BT	21.15	35.60	504	7,282.80	68
Hydrea 500Mg Cap	Squibb	100/BT	62.86	97.19	257	8,828.10	55
Cafergot 100Mg Tab	Sandoz	250/BT	99.95	146.30	16	729.91	46
Cafergot 100Mg	Sandoz	90 TABS	37.02	53.82	12	201.60	45
Xanax 0.25Mg	Upjohn	500 TAB	116.18	165.14	7,619	373,006.02	42
Xanax 0.5Mg Tab	Upjohn	500/BT	149.71	205.58	2,803	156,639.07	37
Ridaura 3Mg	SKF	60 CAPS	32.00	42.21	192	1,960.32	32
Mycelex 10Mg	Miles	70/BT	27.20	35.05	456	3,579.60	29
Cipro 750Mg Tab	Miles	50/BT	145.00	184.34	1,078	42,421.27	27
Quinaglute Dura-Tabs	Berlex	500 TABS	30.00	38.00	48	384.00	27
Parlodol 2.5Mg Tab	Sandoz	100 TABS	73.15	92.50	204	3,947.40	26
Xanax 1Mg	Upjohn	100	45.53	56.59	1,215	13,437.90	24
Xanax 1Mg Tab	Upjohn	500/BT	220.77	274.37	141	7,547.25	24
Brethine 5Mg Tab	Geigy	1000/BT	48.50	59.70	36	403.20	23
Zestril 5Mg	Stuart	100/BT	39.55	48.36	2,148	18,923.70	22
Cordarone 200Mg Tab	Wyeth	60/BT	78.11	94.32	1,298	21,040.58	21
Mycostatin	Squibb	15GM BT	10.03	11.75	505	869.26	17
Zestril 20Mg Tab	Stuart	100/BT	46.13	53.60	900	6,722.93	16
Zantac 150Mg Tab	Glaxo	60/BT	47.47	54.51	60,026	422,581.28	15
Prinivil 5Mg	MSD	100	43.75	50.22	3,690	23,874.30	15
Mutamycin 20Mg/Vil Inj	Bristol-Myers	INJ	248.52	284.97	46	1,668.79	15
Zestril 10Mg	Stuart	100/BT	43.95	49.99	2,976	17,975.04	14
Megace 40Mg Tab	Bristol-Myers	250/BT	176.86	200.59	48	1,139.04	13
Prinivil 20Mg	MSD	30/BT	14.78	16.67	3,501	6,616.89	13
Prinivil 20Mg	MSD	100/BT	49.26	55.55	2,511	15,794.19	13
Vasotec 5Mg Tab	MSD	100/BT	53.97	59.82	530	3,100.50	11
Vasotec 20Mg Tab	MSD	100/ud	82.86	91.84	360	3,232.80	11
Vasotec 10Mg Tab	MSD	100/BT	56.68	62.82	314	1,927.96	11
Vasotec 2.5Mg Tab	MSD	100/BT	42.48	47.08	3,409	15,679.42	11
Norcuron 10Mil Vial	Organon	BX OF 10	132.27	145.52	55	728.75	10
Nizoral 200Mg	Janssen	100 TABS	114.91	126.39	690	7,921.20	10
Imodium 2Mg Cap	Janssen	100/BT	31.14	34.25	395	1,228.45	10

(continued)

**Appendix II  
Changes in Prices for 89 Drugs Purchased by  
Seven VA Medical Centers From the Federal  
Supply Schedule**

<b>Product name</b>	<b>Vendor/mfg.</b>	<b>Size package</b>	<b>Oct 90 price</b>	<b>April 91 price</b>	<b>FY 1990 usage</b>	<b>Projected cost difference</b>	<b>Percentage price change</b>
Florinef Acetate 0.1Mg Tab	Squibb	100/BT	17.44	19.18	144	251.02	10
Calan SR 240 Mg	Searle	60/BT	32.22	35.15	1,580	4,629.40	9
Cytotec 200Mg Tab	Searle	100/BT	41.50	45.24	568	2,125.49	9
Cytotec 200Mg Tab	Searle	60/BT	24.90	27.14	2,500	5,600.00	9
Prinivil 10Mg	MSD	30/BT	14.35	15.58	5,415	6,660.45	9
Prinivil 10Mg Tab	MSD	100/BT	47.83	51.91	3,093	12,619.44	9
Timolol 0.5 Opth Soln	MSD	5ML	8.83	9.57	34	25.16	8
Timoptic 0.5 Soln	MSD	10ML/BT	20.27	21.95	613	1,029.84	8
Timoptic 0.5 Soln	MSD	5ML/BT	10.45	11.32	9,886	8,600.42	8
Mephyton 5 Mg Tab	MSD	100/BT	32.70	35.31	264	689.04	8
Cytosan 2Gm/Vil Inj	Bristol	6x2GM VIAL	73.39	79.14	103	594.74	8
Lopid 600Mg Cap	Parke-Davis	500/BT	313.61	337.77	362	8,737.23	8
Tonocard 400Mg	MSD	100/BT	53.09	56.49	600	2,040.00	6
Noroxin 400Mg Tab	MSD	100/BT	153.00	162.28	59	547.52	6
Clinoril 150Mg Tab	MSD	100/BT	59.44	62.69	254	825.50	5
Azactam 1Gm	Squibb	Each CH	95.00	99.99	141	703.59	5
Azactam 1Gm	Squibb	25 VI/BX	237.50	249.95	48	597.60	5
Sandimmune 100Mg/5MI Soln,Oral	Sandoz	50ML/BT	169.80	178.50	599	5,211.31	5
Mevacor 20Mg Tab	MSD	60/BT	79.13	83.09	5,846	23,149.84	5
Clinoril 200Mg Tab	MSD	100/BT	74.34	77.89	856	3,038.80	5
Cefotetan 1Gm	Stuart	EACH	8.33	8.59	156	40.56	3
Rocephin 1Gm	Roche	BOX OF 10	239.00	243.59	384	1,762.56	2
Procardia XL 30Mg Tab	Pfizer	300/BT	247.66	247.66	2,200	0.00	0
Procardia XL 60Mg	Pfizer	100 TABS	151.59	151.59	2,696	0.00	0
Procardia XL 90Mg	Pfizer	100	181.91	181.91	1,261	0.00	0
Diffucan 100Mg Tab	Roerig	30/BT	165.00	165.00	68	0.00	0
Vancomycin HCl 1Gm	Quad	300/BX	72.00	72.00	300	0.00	0
Sandoglobulin 0.9	Sandoz	6GM VIAL	210.00	210.00	90	0.00	0
Maxzide 75Mg	Lederle	500 TABS	55.00	55.00	24	0.00	0
Retrovir 100Mg Cap	Burroughs	100/BT	120.19	120.19	3,845	0.00	0
Diffucan 200Mg Tab	Roerig	30/BT	270.00	270.00	240	0.00	0
Proventil Solution 0.5	Schering	20 ML/BT	7.95	7.95	156	0.00	0
Diffucan Inj 2Mg	Roerig	6 VIAL/BX	390.00	390.00	37	0.00	0
Trilafon 16Mg/5MI Liquid,Oral	Schering	120ML BT	17.25	17.25	265	0.00	0
Albuterol 2Mg Tab	Lederle	100/BT	4.00	4.00	336	0.00	0
Triamcinolone, 0.1Cm 80Gm	Goldline	EACH	2.39	2.39	521	0.00	0
Cleocin 150Mg	Upjohn	100 CAPS	77.71	77.71	12	0.00	0

(continued)



**Appendix II  
Changes in Prices for 89 Drugs Purchased by  
Seven VA Medical Centers From the Federal  
Supply Schedule**

<b>Product name</b>	<b>Vendor/mfg.</b>	<b>Size package</b>	<b>Oct 90 price</b>	<b>April 91 price</b>	<b>FY 1990 usage</b>	<b>Projected cost difference</b>	<b>Percentage price change</b>
Cleocin Inj 150Mg	Upjohn	VIAL	14.20	14.20	4,100	0.00	0
Kerlone 10Mg	Searle	100 TABS	22.20	22.20	300	0.00	0
Roferon-A	Roche	18 MILLION IU	120.00	119.60	528	(211.20)	-0
Fortaz 1Gm	Glaxo	BOX OF 10	113.80	111.84	516	(1,011.36)	-2
Roferon-A	Roche	36 MILLION IU	240.00	235.20	56	(268.80)	-2
Chlorzoxazone 250Mg Tab	Goldline	100/BT	3.17	2.99	3,232	(581.76)	-6
Zantac 25Mg/MI	Glaxo	10ML	11.46	10.46	620	(620.00)	-9
Zinacef 750Mg	Glaxo	10 VIAL/B	59.24	53.91	400	(2,132.00)	-9
Thrombostat 20000UNT/Vil Pwdr	Parke Davis	20ML VIAL	45.00	40.89	406	(1,668.11)	-9
Pepcid Inj 10Mg/MI	MSD	4ML VIAL	7.36	6.62	5,184	(3,836.16)	-10
Procardia XL 30Mg Tab	Pfizer	100/BT	94.24	84.24	5,754	(57,543.90)	-11
Fluocinonide .05 Cream, Top	Goldline	30GM TUBE	4.68	3.85	1,700	(1,411.00)	-18
Pitressin 20UNT/MI Inj	Parke Davis	10x1ML AMP	63.83	50.39	288	(3,875.13)	-21
Gamimune N	Cutter	2.5GM VIAL	79.00	55.00	80	(1,920.00)	-30

---

# Major Contributors to This Report

---

**Human Resources  
Division,  
Washington, D.C.**

John C. Hansen, Assistant Director, (202) 426-1053  
Robert J. Wychulis, Evaluator-in-Charge  
Claude B. Hayeck, Evaluator  
Matthew A. Varden, Evaluator  
Joan K. Vogel, Evaluator

---

### **Ordering Information**

**The first five copies of each GAO report are free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.**

**U.S. General Accounting Office  
P.O. Box 6015  
Gaithersburg, MD 20877**

**Orders may also be placed by calling (202) 275-6241.**

United States  
General Accounting Office  
Washington, D.C. 20548

Official Business  
Penalty for Private Use \$300

First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100