

PEP REPRINT

The District Council 37 newspaper, the *Public Employees Press (PEP)*, is an outstanding labor publication. *PEP* covers the bread and butter issues of all such periodicals: notices of meeting, votes on contracts, grievance victories or defeats. *PEP*, however, does more.

Since its founding in the mid-sixties *PEP* has provided frequent articles of investigative journalism or insightful analysis. The current Editor in Chief, Bill Schleicher started off as a union activist and evolved into a brash investigative reporter long before he came to lead *PEP*.

It was Bill who responded to attacks on Civil Servants, over a third of a century ago. At that time, the *New York Times* was bashing Civil Servants by seeking out cases where one or more City employees would be caught idling at a moment when there was no work to be done. The *Times*' editorial writers would then righteously paint all of us as lazy ne'er-do-wells of little value to the City.

Bill's answer was to quietly work his way into the *Times* editorial department late one night. He slipped unobtrusively from place to place and photographed, the editorial staff. He recorded their sitting with their feet up on their desks, sipping coffee (or whatever), chatting idly and clearly not working at all. The editors of the *New York Times* were, thereafter, far more cautious in sending reporters out looking for cheap shots at us.

On the three pages to follow you will find (reprinted with permission) Gregory Heires excellent two-part article on the soaring cost of drugs and the resulting impact on the DC 37 Welfare Fund.

OSA's welfare fund was, in effect, lucky, when, on inception we generally used the Management Benefit Funds (MBF) plan as a model. MBF did not supply a drug card, so OSA did not. As a result the OSA Welfare Fund has not had to spend the past decade playing a losing game of catch-up with drug prices.

On the dark side, each of us paying our health plan drug riders has been paying an ever-larger part of our income to support the rider. Drug costs are becoming unbearable and, as Greg Heires points out, the Pharmaceutical industry has become the most profitable industry in our country.

National drug crisis sq

Industry profits on your pain

By GREGORY N. HEIRES

THE ROOT of the prescription drug crisis is the aggressive marketing and political clout of pharmaceutical companies, whose soaring prices and excessive profits come at the expense of consumers.

Among the hardest hit are seniors. Most live on fixed incomes and — unlike DC 37 retirees — have no drug coverage at all.

But if you are looking for Washington politicians to solve the problem with a Medicare prescription drug benefit, forget about it.

The Medicare privatization schemes backed by the Bush administration don't even try to control skyrocketing drug prices, and critics say they could actually lead to cuts in the benefits now enjoyed by millions of retirees.

"The drug companies will make out like bandits if the new Medicare benefit is approved," said Rosaria R. Esperon, administrator of the DC 37 Health and Security Plan. "The legislation would preserve the industry's unique niche in the economy, guaranteeing its favorable tax status and super profits."

Pills for profit

Rising prices, greater use of medication and new drugs have fueled drug spending in recent years.

Between 1981 and 1999, drug prices rose 306 percent, while the cost of living rose 99 percent. Prescription spending is expected to triple to \$366 billion in 2010, according to "The Profit in Pills," a report by the AFL-CIO's Alliance for Retired Americans.

Between 1992 and 1998, drug sales increased by 37 percent. To promote their products, manufacturers use expensive television and other ads and a network of peddlers, who dole out free samples to doctors and hospitals. The industry spent \$13.9 billion on promotion in 1999, pushing prices still higher.

Pharmaceuticals constitute the most profitable industry in the country. Among Fortune Magazine's top 500 companies, the drug makers took home after-tax median profits of 18.6 percent, compared with 4.9 percent for all other businesses.

Drug companies also pay lower taxes than other industries. The tax rate for drug companies was 16.2 percent in 1993, compared with the rate of 27.3 percent for all industries, according to the federal Congressional Research Service.

Last year, drug firms contributed more than \$20 million — 80 percent on Republicans — to Congressional campaigns. They spent \$91.4 million on 675 lobbyists, including 26 former members of Congress, according to Public Citizen's Congress Watch. With their allies in the White



Bush and Congress fail drug test

The plan to create a Medicare prescription drug benefit could actually reduce coverage for millions.

House and Congress controlling the content of the legislation, the drug industry is backing the Medicare legislation.

Ending Medicare as we know it

The Medicare legislation would do nothing to curb the drug industry's excessive profits or control prices.

In fact, the House and Senate proposals prohibit the government from participating in drug price negotiations. That task would be left up to the insurance companies that provide the prescription drug benefit, which wouldn't be included in the traditional Medicare program, except in rural areas where private coverage is unavailable.

The benefit would provide less help than many of the plans offered by employers and unions. In fact, it is worse than the federal employees' plan, which covers the senators and representatives who wrote the Medicare drug legislation.

Both bills call for annual deductibles of \$250 or more, contain high co-payments and permit substantial gaps before catastrophic coverage kicks in.

"It is estimated that over the next decade seniors will spend more than \$1 trillion for their medication," said Stuart Leibowitz, president of the DC 37 Retirees Association. "The Medicare legislation proposes to allocate only \$400 billion in 10 years for the prescription benefit. That means there clearly will be a shortfall, and it will be left to people like us to pick up the tab."

A major problem with the proposals is that companies would be encouraged to drop their retiree drug plans because of inadequate subsidies for continued coverage. The Congressional Budget office estimates that 4.4 million retirees would lose coverage from their former employers.

The House bill would require Medicare to compete with HMOs and managed care programs that establish benefits and services.

"President Bush is trying to use this tremendous crisis in prescription drugs as a Trojan horse to privatize Medicare itself, not just the drug program. His plan won't help control prices and will lead to a deterioration of benefits for millions," Mr. Leibowitz said.

Freezes union benefit

Part 1 of a series on prescription drug costs

High prices chew into DC 37 plan

PRESCRIPTION DRUGS continue to eat up a growing proportion of the resources of the DC 37 Health and Security Plan. "The rising cost of the prescription benefit is leaving less for the other benefits we provide," said Rosaria R. Esperon, administrator of the DC 37 Health and Security Plan.

Besides drugs, the plan offers an array of benefits, including dental care, eye exams and glasses, hearing tests, podiatry and legal services.

In 1998, prescription drugs accounted for 59 percent of spending, compared with 41 percent for the other benefits. In 2003, drugs will consume an estimated 69 percent, leaving 31 percent for other benefits.

All told, in fiscal year 2003, the plan projects prescription drug spending at \$143 million, compared with \$90.7 million four years ago.

In the late 1990s, the plan suffered from a similar hemorrhaging because of skyrocketing prescription drug costs.

The plan managed to control costs somewhat by implementing a three-tier, managed-care generic

drug program, putting the drug benefit up for bids and streamlining management. The City Comptroller recently audited 109 municipal union funds and found that DC 37 had cut its administrative expenses from 8.22 percent of total revenues in 2000 to 5.10 percent in 2001 — the best improvement among the large municipal unions.

The plan also cut costs by working with other

unions to get the city to establish the PICA program.

Under PICA, psychotropic, injectable, chemotherapy and asthma drugs are paid for through the Stabilization Fund, a reserve for the city's health-care program. Money for welfare benefits, including drugs, comes from a separate funding stream and results from contracts between municipal unions and the city. Currently, the city provides DC 37 with \$1,475 for each eligible member and retiree.

But while cost-saving steps reduced spending by more than \$2 million in 2002, the continuing escalation of drug prices at well over 10 percent a year has forced the plan to dip into its reserve.

"As we negotiate a new contract, a priority will be to obtain sufficient funding to protect our drug benefit," said DC 37 Executive Director Lillian Roberts. Meanwhile, the plan's trustees are taking a close look at the funding challenges.

Nationwide, as employers and unions confront the inexorable rise in the cost of prescription drugs, many have adopted cost-saving changes. These include upfront annual deductibles; higher copays; mandatory preferred medication lists; lower annual caps on coverage; "greater of" coverage, in which individuals pay either a dollar amount or a percentage of the cost of medication, whichever is greater; and step therapy, in which patients are required to use "tried-and-true" medicines, including over-the-counter drugs, before taking new and more expensive prescriptions.



Containing costs:

How you can help

Members and retirees who use regularly prescribed drugs can save time and money by getting their medication through the union's mail-order service.

With our mail-order program, you pay substantially less for a long supply of prescription drugs than if you buy them at your neighborhood pharmacy, said Rosaria R. Esperon, administrator of the DC 37 Health and Security Plan. It offers a convenient way of getting your prescriptions filled while also helping the plan control costs.

The program covers maintenance medications. These are drugs approved by the Federal Drug Administration for the treatment of chronic illnesses such as heart disease, hypertension, high cholesterol and arthritis.

Mail-order prescriptions through the mail-order program are only one-third of what you would pay at a neighborhood pharmacy. All you do is fill your doctor's prescription with a form and a check or money order in a postage-free envelope. The drugs

are delivered to your home, and the prescription plan covers shipping and handling fees.

Mail-order purchase of a 90-day supply of medication costs \$6 for generic drugs, \$16 for medications on the plan's preferred list and \$30 for brand-name drugs that are not on the list.

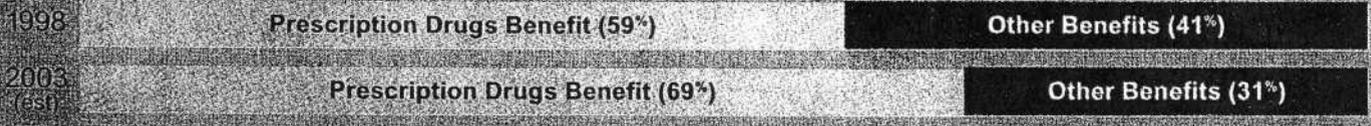
By contrast, a 30-day supply at a pharmacy costs \$9 for generics, \$8 for generics on the preferred list and \$15 for non-preferred drugs.

National Prescription Administrators, which handles the DC 37 drug benefit, provides the mail-order through Central Fill Inc., which is situated in Harrisburg, Pa. CFI pharmacists are available to help you with questions about medications.

If you're interested in the mail-order service, call the DC 37 Health and Security Plan Inquiry Unit at 202-342-1511. The unit will provide you with envelopes to order your medication.

For more details, call CFI at 1-800-233-9139 or visit its Web site at www.cfi-pharmacy.com.

Drug costs skyrocket



Source: DC 37 Health and Security Plan

Drug plans tackle cost crisis

Part 2 of a series on prescription drug costs

Throughout the nation, prescription drug plans run by unions and employers are implementing changes as they confront skyrocketing medication prices, which in recent years have far outpaced inflation.

As they restructure their programs, the plans face the challenge of limiting new expenses and inconveniences for members while upholding the quality of the benefits.

In recent years, the DC 37 Health and Security Plan has taken steps to control expenses. But despite that action — including administrative improvements, the adoption of a three-tier generic drug program and competitive bidding — soaring costs continue to drain the plan.

In 1998, prescription drugs accounted for 59 percent of the spending by the plan, which provides several other benefits, including dental care, eye exams and glasses, hearing tests, podiatry and legal services. This year, the plan expects drugs to consume 69 percent of its spending.

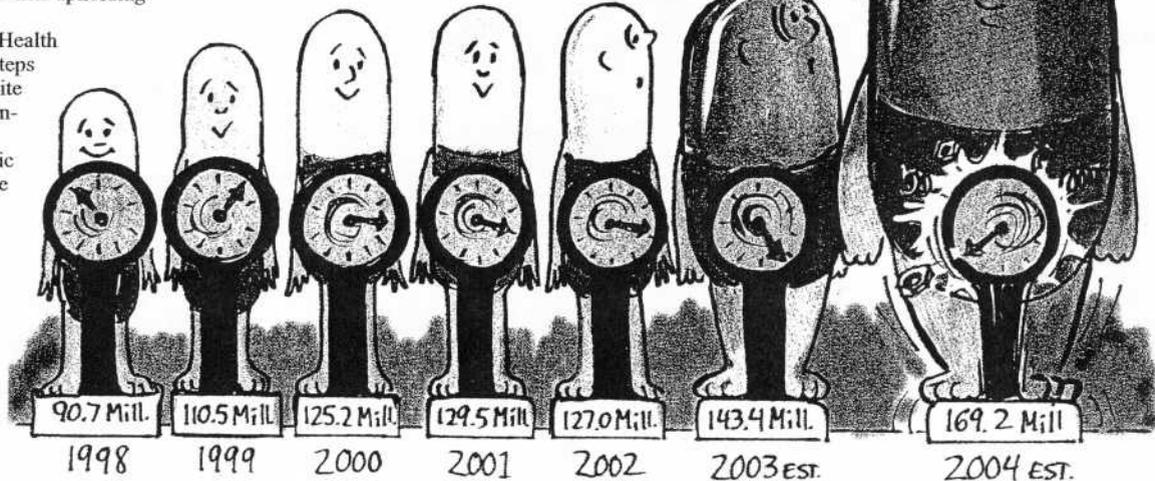
"Perhaps the most striking sign of how the drug crisis has become a crucial issue for our entire country is that Washington is now at least seriously working on providing a Medicare prescription drug benefit for retired Americans," said DC 37 Executive Director Lillian Roberts.

"Together with our national union, we are fighting against negative aspects of the proposed legislation, which could lead to the privatization of Medicare and a loss of coverage for millions of retirees," Ms. Roberts said. "But the fact that a prescription drug benefit is on the radar screen of our national politicians and that they are actually trying to take action in this crisis is a positive step."

"Unfortunately, until there is some kind of government control, prescription prices will

Pill pressure

DC 37 prescription drug benefit expenditures
(in millions of dollars)



Source: DC 37 Health and Security Plan

probably continue to outstrip inflation," said Rosaria R. Esperon, administrator of the DC 37 Health and Security Plan. "Meanwhile, prescription drug plans struggle to find their own solutions to keep costs down," she said.

Following are some ways union and employer plans are attempting to control costs without cutting back on the quality of their benefits:

- **Upfront deductibles:** A growing number of employer plans are requiring individuals and families to pay an annual deductible.

- **Mandatory preferred lists:** Increasingly, plans are not covering brand-name drugs that are not on their "preferred list." Preferred lists provide for a selection of drugs according to treatment category. Using the lists cuts costs by limiting the number of covered drugs and the

duplication of medications.

- **Step therapy:** Some drug plans require patients to use traditional and less costly "tried-and-true" medications before taking more expensive and newer drugs. Plans encourage this option for the treatment of illnesses that have many drug choices, such as diabetes, arthritis, high-blood pressure, depression and sleep disorders.

- **Lower annual caps:** The annual limit for families covered by the DC 37 plan is \$100,000. One city union that used to have unlimited coverage now has a \$10,000 annual maximum for the families of active employees and \$11,000 for the families of retirees.

- **Changing co-pay structures:** For a 30-day medication supply purchased at a pharmacy, the DC 37 plan requires members and retirees to pay \$3 for generics, \$8 for drugs on the preferred list and \$15 for non-preferred drugs.

Some plans are adopting "greater-of" co-pay structures in which covered individuals and families pay a percentage of the cost of a drug or a set dollar amount, whichever is greater. Others have raised co-pays.

The Auto Workers new pact with Daimler-Chrysler and Ford doubles co-pays to \$10, while a recent contract between the Steelworkers and the Goodyear Tire Co. hikes co-pays for brand-name drugs from \$4 to as much as \$80.

- **Mandatory mail programs:** Some city unions require members and retirees to obtain their maintenance drugs through a mail program.

DC 37 provides a financial incentive for members and retirees to use a mail-order program. Members save 33 percent by ordering a 90-day supply of medication by mail.

In October, National Prescription Administrators, a division of Express Scripts Inc. that handles the DC 37 drug benefit, will send a letter to members and retirees to publicize the mail-order service.

—GNH

How you can help

Use generics and preferred medications

You can cut your prescription costs substantially by purchasing generic drugs and using the union's preferred list of medications.

The three-tier structure of the DC 37 Prescription Drug Benefit provides a financial incentive for subscribers to avoid more costly, non-preferred brand-name drugs.

The co-payment for a 30-day supply purchased at a pharmacy is \$3 for generics, \$8 for drugs on the preferred list and \$15 for non-preferred drugs. The co-pay for purchases of 90-day supplies through the mail-order program is \$6 for generics, \$16 for medications on the preferred list and \$30 for brand-name drugs not on the list.

Equivalents for virtually all brand-name drugs are available either in a generic variety or on the plan's preferred list," said Rosaria R. Esperon, administrator of the DC 37 Health and Security Plan. "Using generic or preferred medications many way sacrifices the quality of your treatment.

Generics are chemically the same as their brand-name counterparts, but they generally cost 30 to 50 percent less. The federal Food and Drug Administration approves generics after extensive testing to ensure that the medications are safe and have the same therapeutic effect as brand-name equivalents.

National Prescription Administrators, a division of Express Scripts Inc. that operates the union's drug plan, created the preferred list in response to escalating pharmaceutical costs.

A panel of doctors and pharmacists selected the listed medications after evaluating the drugs' safety and effectiveness. Prescription drug managers like NPA use their mass purchasing power to negotiate discounts with pharmaceutical companies.

Currently, 43 percent of the drugs dispensed by the plan are on the preferred list or generic medications. Union families and the plan could save millions of dollars if members press their doctors and pharmacists for generic or preferred list drugs.