A Winning Strategy for Medicare Savings: Better Prices on Prescription Drugs

July 2014

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MedicareRights.org

The Medicare Rights Center is a national, nonprofit consumer service organization that works to ensure access to affordable health care for older adults and people with disabilities through counseling and advocacy, educational programs and public policy initiatives.

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The mission of Social Security Works is to protect and improve the economic security of disadvantaged and at-risk populations, and, in so doing, to promote social justice for current and future generations of children as well as young, middle-aged and older adults.

With Medicare a target for federal savings, lawmakers propose many ways to cut costs. Unfortunately, many of these strategies involve slashing benefits or shifting costs to seniors and people with disabilities. Often overlooked in this debate is that the federal government can secure significant Medicare savings without worsening the already fragile health and economic wellbeing of most Medicare beneficiaries—most notably by reducing the cost of prescription drugs. There are several viable ways to do so. Paying less for prescription medicines is a winning strategy for the federal government, for American taxpayers, and for Medicare beneficiaries.

Most People with Medicare Cannot Afford to Pay More for Health Care

Proposals to increase premiums, deductibles, and other cost sharing ignore widespread economic insecurity among older Americans and people with disabilities. Half of all Medicare beneficiaries—almost 25 million retirees and people with disabilities—live on annual incomes of $23,500 or less, and one quarter live on $14,400 or less.[1] At the same time, the burden of health care costs for Medicare beneficiaries, including premiums, deductibles and copayments, has risen sharply, increasing by 34% in real terms between 1992 and 2010.[2]

Responsible Savings Solutions for Medicare Prescription Drugs

Fortunately there is considerable scope for Medicare to cut costs, without simply shifting costs to seniors and people with disabilities. Four policy options are readily available to allow Medicare to secure the best possible price on prescription drugs.

Restore Medicare prescription drug rebates.

The most straightforward option for securing savings on Medicare prescription drugs involves simply restoring a discount that used to exist. Prior to the creation of the Medicare prescription drug benefit, the federal government benefited from discounts on prescription medicines for people covered by both Medicare and Medicaid. Reinstating this discount would create considerable savings for Medicare—an estimated $141.2 billion over 10 years.[3]

Upon passage of the Medicare Modernization Act (MMA), millions of older Americans and people with disabilities gained access to prescription drug coverage through private health plans approved by the federal government, commonly known as Medicare Part D. Today more than 35 million Medicare beneficiaries are enrolled in a Medicare prescription drug plan.[4]

While the MMA significantly enhanced health coverage for older Americans and people with disabilities, the law also severely limited the government's ability to control Medicare drug prices. When Part D was created, drug coverage for beneficiaries with both Medicare and Medicaid switched—from Medicaid to Medicare Part D— and the federal government lost the Medicaid discount for these beneficiaries, even though they are still enrolled in both programs. This switch resulted in windfall profits for pharmaceutical manufacturers: according to one analysis, drug companies' profits soared by 34% to $76.3 billion in the first year of the Part D program.[5]

To rectify this, and to secure significant savings, Congress should pass the Medicare Drug Savings Act (S. 740 and H.R. 1588). Championed by Senator Rockefeller (D-WV) and Congressman Waxman (D-CA), this legislation is supported by 19 Senators and over 30 members of Congress.[6] In addition, in his 2015 budget request President Obama proposes restoring Medicare drug rebates, and has consistently championed this common-sense solution.[7] Most importantly, the American people strongly support it. In one national poll, 85% favored "requiring drug companies to give the federal government a better deal on medications for low-income people on Medicare."[8]

Opponents of this proposal often claim that reinstating Medicare drug rebates would make it more difficult for pharmaceutical manufacturers to invest in new medicines. Yet there is no evidence to suggest that innovative spending was curtailed in the years that drug companies were required to pay these rebates.[9] An examination of industry spending trends further suggests that restoring Medicare drug rebates will *not* limit research and development.[10] Analyses show that pharmaceutical manufacturers spend 2 to 19 times as much on on marketing and advertising than they do on research and development.[11]

Allow Medicare to negotiate drug prices for a public Part D option.

Both the Veteran's Administration and state Medicaid programs directly negotiate on prescription drug prices, but the Medicare program is expressly prohibited from participating in the same kind of negotiations. This prohibition was advanced by the MMA and, much like the loss of drug rebates, severely limits the federal government's ability to secure the best prices on Medicare prescription drugs. Yet most Americans—regardless of political party—disagree with this policy: according to a 2012 national poll, 81% of Democrats, 86% of Independents and 70% of Republicans support drug price negotiation in Medicare.[12]

At the same time, several members of Congress support allowing the Medicare program to actively negotiate drug prices under Medicare Part D. Bills such as the Medicare Prescription Drug Price Negotiation Act (S. 117 and H.R. 1102) and the Prescription Drug and Health Improvement Act (S. 77) would restore the federal government's ability to negotiate Medicare drug prices.[13] This proposal is also a cornerstone of the Medicare improvements included in the House Congressional Progressive Caucus' 2015 budget.[14]

Under the Part D program, private health plans negotiate directly with drug manufacturers to set prices. Without administering its own drug program, Medicare has limited tools to entice drug companies to provide rebates (or discounts) on specific medicines. If allowed to negotiate, Medicare would be best positioned to secure a better deal on costs for popular, blockbuster medicines new to the market.[15] The federal government's ability to achieve significant savings would be enhanced by both allowing the federal government to negotiate prices *and* letting Medicare operate its own drug benefit. Legislation introduced by Illinois Senator Dick Durbin and Congresswoman Jan Schakowsky would do just that.

The Medicare Prescription Drug Savings and Choice Act (S. 408 and H.R. 928) would create one or more Medicare-administered drug plans, with a uniform premium and a vetted benefit design to ensure safety, appropriate use and high value care. Additionally, the legislation would allow for drug price negotiations by the federal government. Authorizing the Medicare program to negotiate drug prices, coupled with a public drug benefit, has the potential to save up to $20 billion over 10 years.[16]

Secure better discounts from drug manufacturers to close the Part D doughnut hole sooner.

When first constructed, Medicare Part D included a considerable coverage gap for beneficiaries, more commonly known as the doughnut hole. Under the program's original design, when a beneficiary's drug costs reached a specific cap, the person became responsible for 100% of the cost of their prescription drugs up to a catastrophic limit, with the exception of the lowest income beneficiaries enrolled in low-income assistance.

The Part D doughnut hole posed significant financial and health risks to people with Medicare. Faced with significant costs for prescription drugs, many beneficiaries were shown to forgo essential medicines altogether. In 2009, Medicare beneficiaries without low-income assistance filled an average of 11% fewer prescriptions in nine selected drug classes after falling into the doughnut hole.[17]

To remedy this shortcoming, the Affordable Care Act (ACA) gradually closes the doughnut hole, eliminating the coverage gap altogether by the year 2020. This critical policy fix is being paid for through a combination of taxpayer dollars and discounts made available by drug manufacturers on brand name medications. Since the enactment of the ACA, 7.9 million Medicare beneficiaries have saved an average of $1,265 on prescription drug costs due to the gradual closing of the Part D doughnut hole, amounting to total beneficiary savings of $9.9 billion.[18]

In the Administration's most recent budget request, the President proposes to accelerate closure of the doughnut hole by four years—from 2020 to 2016—by increasing the proportion of pharmaceutical manufacturer discounts on brand name drugs made available for this purpose. Not only would this policy change enhance the affordability of prescription drugs for retirees and people with disabilities, it would save an estimated $16.6 billion over 10 years.[19]

Promote cost-effective prescribing for Part B prescription drugs.

While most Medicare drugs are covered through the Part D program, a small proportion of drugs are covered under Medicare's outpatient benefit, known as Part B. Prescription drugs covered under Part B are most often medicines that must be administered by a doctor. The most commonly used Part B drugs treat cancer, macular degeneration, anemia and arthritis.

In general, Part B drugs tend to be very costly both for the Medicare program and for beneficiaries—accounting for $12.8 billion in Medicare spending in 2011.[20] To determine what it will pay for Part B drugs, Medicare uses a formula based on data reported by drug manufacturers. Based on this formula, Medicare reimburses physician offices, outpatient labs and other providers who provide these drugs at 106% of the determined price.[21]

Recent data released on Medicare reimbursement to physicians reveals that the high cost of these medicines is behind some of the highest spending under Medicare Part B.[22] One analysis finds that "most of the 4,000 doctors who received at least $1 million from Medicare in 2012 billed mainly for giving patients injections, infusions and other drug treatments." Additionally, the data reveal that the Medicare program could save considerably if policies were in place that encouraged the use of less expensive—but equally effective—alternatives to the highest cost drugs. Securing lower prices for the Medicare program on Part B medications would also produce tangible savings for beneficiaries through decreased cost sharing.

Several savings options are available to help the Medicare program secure better prices on Part B-covered medicines. The most straightforward option would simply reduce the percentage at which Part B drugs are reimbursed—from 106% to 103%—saving an estimated $3.2 billion over 10 years.[23] Another option would restore the federal government's ability to set prices for Part B medicines based on the price of the "least costly alternative" among multiple drugs that treat the same condition. Other proposals include allowing the federal government to negotiate Medicare Part B prices, or requiring drug companies to provide a rebate (or discount) for these medications.

Conclusion: Congress Can Find Medicare Savings That Do No Harm

The proposals outlined above would secure significant Medicare savings without harming the health or financial wellbeing of seniors and people with disabilities. Allowing the federal government to secure the best possible prices on prescription drugs is a common-sense solution to secure Medicare savings. By enacting these proposals, Congress could make Medicare more sustainable over the long term without compromising access to or quality of care.

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