

## **The Medicare Drug Savings Act of 2013 Will Not Result in Cost-Shifting**

*Opponents warn Rx prices will soar, but experts say no data support that claim*

The *Medicare Drug Savings Act of 2013* (S.740 and H.R.1588) offers the opportunity to strengthen the Medicare program's fiscal footing while shielding beneficiaries from harmful cost-shifting. The Congressional Budget Office (CBO) estimates that restoration of Medicaid-level drug rebates for low-income Medicare beneficiaries (known as "dual eligibles") would save the federal government **\$141.2 billion** over 10 years. It is important that we find savings that rein in health care inflation without burdening families with additional health care costs. Many people with Medicare cannot afford to pay more for health care. Nearly 25 million beneficiaries—half of the Medicare population—live on annual incomes of **\$22,500** or less. Further, people with Medicare already spend a significant amount on health care. The average Medicare household spends **15%** of total income on health care, **three** times the share of non-Medicare households.<sup>1</sup>

The global pharmaceutical business is one of the most profitable industries in the history of human commerce, and this is due in great part to Congress. American consumers and health insurers pay twice as much as other wealthy countries for brand-name prescription drugs.<sup>2</sup> The drug makers achieved this by charging the highest prices the market will bear, and those include the excessive prices they are allowed by law to charge Medicare. The 11 biggest global drug companies took \$711.4 billion in profits over the 10 years ending in 2012, and their profits increased sharply in 2006, the year that Medicare Part D took effect.<sup>3</sup>

Big Pharma exerted disproportionate influence over the drafting of 2003 legislation creating the Part D drug program. The Part D law, engineered by a Republican Congress and the Bush administration, includes a provision that bars Medicare from using its unparalleled purchasing power to lower pharmaceutical prices in the same way that other countries and even other parts of the U.S. government do. As a result, Medicare pays billions of dollars more than the Veterans Administration, the Defense Department and Medicaid for the identical drugs.

In the last year pharmaceutical industry allies, including the American Action Forum, have resorted to fear mongering about the impact of applying the rebates to Medicare the proposed policy. They claim S.740 and H.R.1588 would trigger a "cost-shift" that would raise prices sharply for drugs purchased by private health plans, consumers, employers, patients and Medicare beneficiaries who are not dual eligibles. That's simply not true. Here are responses to this deeply flawed argument.

**THEY SAY: If Medicare gets the same bulk purchasing discounts on prescription drugs as state Medicaid programs it will save the government money, but drug companies will raise drug prices by as much as 40 percent for everyone else who buys prescription drugs to make up the difference. That will hurt health plans, employers, patients and the majority of Medicare patients who are not dual eligibles.**

**WE SAY: There is no evidence to suggest that rebates would trigger a cost-shift to beneficiaries or consumers, and drug makers aren't credible messengers for this concern since their primary objective is to increase profits, not protect consumers or beneficiaries.**

***Big Pharma is already charging as much as it can for its products.***

The drug industry has already maximized its prices to satisfy profit-seeking investors on Wall Street. Using sophisticated marketing and economic analytics, drug makers know exactly what price points yield the optimal

sales revenue and precisely how much health insurance plans and employers are willing and able to pay, so that's what they already charge.

***Insurance companies that run the Medicare Rx plans are unlikely to accept unjustified cost-shifting if it were to be attempted by drug companies.***

Medicare prescription drug plans, which are all operated by private health insurance companies, hold significant market share and possess powerful marketplace data, making them well equipped to defend themselves from unjustified price hikes. Industry experts agree that these insurers would not accept the cost-shift claimed by American Action Forum.

***Fear mongering about cost-shifting is not credible given the history of pharmaceutical industry price-gouging in Part D.***

That's why no data has been published to support American Action Forum's claims. Evidence suggests exactly the opposite. The biggest cause of overall drug price increases to date was the creation of the Part D program itself because the law shifted dual eligibles out of the Medicaid discount programs and into Medicare, where discounts are outlawed. Not surprisingly, this switch was made at the behest of the pharmaceutical industry. The change raised drug industry revenues by \$10 billion a year, according to estimates at the time.<sup>4</sup>

***Medicaid has been operating a drug rebate program since 1990 without cost-shifting.***

Price negotiation between Part D plans and drug companies is not affected by what Medicaid is paying or if there is a rebate paid for dual eligibles. Medicaid's drug rebate program has not had any adverse impact on prices charged to Medicare or the private sector, according to Johns Hopkins University health economist Gerard Anderson.<sup>5</sup> The Medicare Drug Savings Act of 2013 would take the Medicaid rebates that existed before the prescription drug program was established and apply them to Medicare, thereby saving taxpayers, patients and payers billions of dollars. This change is actually more likely to drive overall drug prices down, not push them up, according to Anderson.

***Experts and even CBO disagree with the American Action Forum's claims about cost-shifting.***

No data has ever been provided to support the cost-shift contentions made by drug industry allies, according to researcher Richard Frank of Harvard Medical School. In a rebuttal of the American Action Forum's cost-shift claim, Frank and Jack Hoadley of Georgetown University wrote in the policy journal Health Affairs in December 2012 price increases would be no greater than 4 percent and likely much less. This projection, they said, is consistent with an analysis performed by the CBO.<sup>6</sup> The American Action Forum says the cost-shift would be as much as 10 times that figure.

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<sup>1</sup> Kaiser Family Foundation, [Policy Options to Sustain Medicare for the Future](#) (January 2013)

<sup>2</sup> D. Baker, Center for Economic Policy Research, [Reducing Waste with an Efficient Medicare Prescription Drug Benefit](#) (January 2013)

<sup>3</sup> Health Care for America Now, [Big Pharma Pockets \\$711 Billion in Profits by Price-Gouging Taxpayers and Seniors](#) (April 2013)

<sup>4</sup> G. Anderson, Johns Hopkins Center for Hospital Finance and Management, [Letter to House Energy & Commerce Committee](#) (2011)

<sup>5</sup> Ibid.

<sup>6</sup> R. Frank and J. Hoadley, [The Medicare Part D Drug Rebate Proposal: Rebutting An Unpersuasive Critique](#) (Health Affairs Blog: December 2012)