

# Committee on Ways and Means

## Medicare Prescription Drug and Modernization Act of 2003

### *Seniors will Pay Less for Drugs Under Medicare Bill*

#### **Drug costs are increasing at rapid rates.**

- In testimony to the Ways and Means Committee in April 2003, Douglas Holtz-Eakin indicated CBO expects that over the next decade, “spending for prescription drugs by and on behalf of the Medicare population will total roughly \$1.8 trillion, or nearly 50 percent of the projected \$3.9 trillion in Medicare outlays over that same period.”
- Over that period, CBO expects Medicare beneficiaries' average spending for prescription drugs to climb at an average annual rate of about 9% – and that is without a Medicare drug benefit.

#### **How H.R. 1 helps.**

##### **Group Purchasing and Insurance Benefit**

- The Department of Health and Human Services states that H.R. 2473 would provide real relief for seniors; those who now pay full retail prices could see their prescription drug spending reduced by as much as 25 percent, and their overall out-of-pocket drug spending could fall by as much as 77 percent—in exchange for a premium of about \$35 per month.
- Group purchasing will help seniors, who are among some of the only purchasers of drugs who buy as individuals.
- Today, the 80-20 coverage offered under the initial benefit greatly reduces the price seniors will pay for prescriptions.
- Low-income seniors below 150 percent of poverty, get an even greater benefit, including help with both the premium and the initial cost-sharing.
- Even where no coverage is available, either for the \$250 deductible or before the catastrophic coverage kicks in, seniors are guaranteed they can buy drugs at the same discounted price their prescription plan has negotiated.

##### **Reform of Hatch/Waxman Drug Pricing Laws:**

- H.R. 1 would provide brand drug companies only one 30-month stay on the approval of a generic competitor.
- Generics would be forced to forego their 180-day generic exclusivity if they do not bring a product to market within a specified time period.
- These reforms would end Hatch/Waxman loopholes and are supported by the Generic Pharmaceutical Association and would save billions for all consumers, not just seniors.

## **Discount Card**

- The drug discount cards available in 2004 and 2005 may only be sold if they pass savings on to seniors, including “program discounts, rebates, and other price concessions.... (Section 105(b)(1)).”
- The Department of Health and Human Services estimates that these discount cards can save up to 15% at the pharmacy.
- The discount cards must be available within 90 days of enactment, providing immediate assistance to seniors.

## **Low Income, Transitional Drug Assistance**

- Starting in 2004 in conjunction with the drug card, is a program to provide transitional assistance to seniors with income below 150 percent of poverty.
- The bill provides \$2 billion in 2004 and \$3 billion in 2005 to assist these seniors purchase their medications prior to availability of the full drug benefit.

## **Medicaid Best Price**

- To encourage pharmaceutical companies to cut their drug prices, the bill expressly prevents them from having to match that price in the Medicaid market. When this provision was added to the 2002 Medicare drug bill, this provision produced \$18 billion in savings for seniors by knocking out a major impediment to drug companies’ offering greater discounts.

## **AWP Reform**

One of the most insidious ways seniors pay high cost for drugs is for those Medicare already covers through Part B.

- Under the current payment system, drugs delivered in a physician’s office are paid at 95% of the Average Wholesale Price, or AWP.
- AWP is a made-up number submitted by the drug companies. In many cases, the AWP vastly exceeds the actual cost paid by doctors to get these drugs.
- GAO testified last year that drugs are routinely available for far less than AWP, indicating that Medicare’s payments for these drugs “were at least \$532 million higher than providers’ acquisition costs in 2000.” And GAO thought the figure could be higher given the hidden rebates and discounts offered to doctors.
- Because seniors pay 20% co-insurance, either directly or through higher Medigap premiums, overpayments for drugs paid under the AWP schedule add hundreds of millions to seniors’ drug spending each year.