



Rx: Health Care FYI #46

Subject: *Will government “negotiations” lower drug prices?*

From: *Rep. Tim Murphy (PA-18)*

The problem: If the government can “negotiate” lower prices, one might assume it saves government money on the purchase of drugs. Such discussions must take into account: 1) If “negotiations,” will limit access to drugs and pharmacies; 2) If cost controls will negatively impact vitally important medical research; and 3) That tens of billions of dollars on prescription drug costs are the avoidable result of medical and prescribing errors.

How can the government lower prescription drug costs?

- Lower prescription drug costs are achieved through direct subsidies, rebates, price controls, and formularies.
 - Direct Subsidies: Medicare Part D, the VA and Medicaid are all subsidized by the taxpayers.
 - Rebates: Under Medicaid, manufacturers must pay states a 15.1 percent rebate on drugs. There are no federal restrictions on how this money is to be used by the states.
 - Price Controls: The 340B program provides drugs at 50% of Average Wholesale Price (set by the manufacturers) to Community Health Centers.
 - Formularies: The Veterans Administration receives lower drug costs by limiting what drugs a doctor may prescribe and offering exclusive contracts for these drugs to the lowest bid.

Will “negotiations” lead to lower drug prices?

- Medicare Part D price negotiations by hundreds of pharmaceutical benefit managers saved taxpayers \$96 billion as a direct result of competition and significantly lower Part D bids.¹
- The Congressional Budget Office (CBO) stated that government negotiations will not yield any significant savings beyond that achieved through the competitive system used by Medicare Part D.²

Shifting the cost?

- When government does get involved in “lowering costs” it always does so by shifting who pays. Either the cost is spread around to other taxpayers (such as in Medicare, Medicaid and the VA), or back on the manufacturer (through formularies and limited pharmacy access, or rebates). Yet does any of this really address the larger concerns for the overall cost of health care? The answer is “No”. This shift in “who pays” does not address the fundamental problem of “what” we are paying for.

Government Waste and Inefficiency increases drug costs:

- One study found that \$29 billion³ is wasted each year from medication errors. Instead of fixing the problems and eliminating errors, Medicare often pays for the errors. This is not saving money.

¹ CMS Fact Sheet. Projected Net Medicare Drug Costs Drop Another 10 percent. January 8, 2007.

² Maron, Donald. Letter to Honorable John Dingell. The Congressional Budget Office. January 10, 2007.

³ EHealth Initiative. Electronic Prescribing: Towards Maximum Value and Rapid Adoption. April 14, 2004.

- *Noncompliance or failure to take prescription medications properly* accounts for approximately 125,000 deaths.⁴ For example, rather than pay \$10 to monitor the patient who may not be taking their insulin or properly managing their diet to treat their diabetes, Medicare ends up paying for hospitalizations and amputations. This does not save money.
- Medicare also does not pay for less expensive over the counter (OTC) drugs that are identical to more expensive prescription drugs. Ignoring lower cost medications does not save money.
- Currently, the Medicare Part D plan will not permit the drug manufacturers discount plans to work in conjunction with the program. Thus, the 25% to 40% discounts⁵ and free drugs under a prescription assistance program are not permitted to count towards the deductible or self pay portion of Medicare D.
- \$75 billion is spent nationwide on obesity-related medical expenditures.⁶ Medicare and Medicaid finance approximately one-half of these expenditures. Ignoring prevention does not save us money.
- Medicare requires a greater co-pay (50%) for psychological treatment than it does for other medical treatments (20%). Patients with chronic illness have twice the incidence of depression. Untreated depression doubles the cost of health care. Ignoring the proper treatment of mental illness does not save money.
- Our nation wastes \$50 billion per year on the cost of treating the infections patients' contract while receiving care in clinics and hospitals. These infections contribute to over 90,000 deaths.⁷ The cost of even the most expensive antibiotics pales in comparisons to the overall costs of treating these patients, yet Medicare and Medicaid do not require hospitals to reduce or eliminate preventable infections. Paying for the medications instead of preventing the infections costs far more.
- Currently, there are no nationwide programs to allow the restocking of unopened/unused medications at nursing homes. That leads to over \$1 billion in wasted drugs⁸ that are simply thrown away. That is not a cost savings.

What should we do to reduce the costs of medication?

- Use electronic prescribing to eliminate medication errors at the moment a doctor issues a prescription;
- Use Medication Therapy Management for all Medicare patients and monitor the impact on cost and care;
- Provide Medicare Coverage for equivalent less expensive OTC drugs;
- Allow the free drug and discount plans sponsored by drug manufacturers to work in conjunction with Medicare Part D;
- Educate patients on prevention and a healthy lifestyle to prevent the need for medication;
- Eliminate preventable infections and publicly report infection rates for providers to use as benchmarks to improve care; and
- Allow unopened and unused medications at nursing homes and assisted living facilities to be restocked or donated for use by others.

These changes will save patients billions in out-of-pocket costs for prescription drugs and billions more for the taxpayer.

⁴ The Task Force for Noncompliance. *Noncompliance With Medications: An Economic Tragedy With Important Implications for Health Care Reform*. Baltimore, MD: The Task Force for Noncompliance; 1994.

⁵ About TogetherRX Access. 2006. Available online at: <http://www.togetherRXaccess.com/about.html>

⁶ Finkelstein, Eric. Et al. *State-Level Estimates of Annual Medical Expenditures Attributable to Obesity*. Centers for Disease Control. Obesity Research. 2004.

⁷ Centers for Disease Control. *CDC Advisory Committee Offers Guidance to States on Developing Systems for Public Reporting of Healthcare-Associated Infections*. February 2005.

⁸ Morgan, Thomas. *The Economic Impact of Wasted Prescription Medication in an Outpatient Population of Older Adults*. *Journal of Family Practice*. September 2001.