Allowing the Government to Negotiate Drug Prices Is an Increasingly Hot Topic

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MarketWatch Blog by Alicia H. Munnell

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Everybody thinks it's a good idea, but it's really quite complicated.

President Trump's proposal to establish an international pricing index as a benchmark to control drug spending under Medicare Part B has once again raised the issue of allowing the government to negotiate the price of prescription drugs for Medicare. Indeed, a recent **Kaiser Family Foundation study** estimates that drug prices are projected to rise 47 percent annually, and 92 percent of the public – both Republicans and Democrats – like the idea of allowing the government to negotiate drug prices. Candidly, I've always been one of those 92 percent, but it turns out life is a little more complicated.

Medicare is composed of two programs. The first program is Part A, Hospital Insurance (HI), which covers inpatient hospital services, skilled nursing facilities, home health care, and hospice care. HI is financed primarily by a 2.9-percent payroll tax, shared equally by employers and employees. The second, and larger, program is Supplementary Medical Insurance (SMI), which consists of two separate accounts: Part B, which covers physician and

outpatient services, and Part D, which was enacted in 2003 and covers prescription drugs. Most (85 percent) of the drug spending provided through Medicare SMI falls under Part D; the remaining 15 percent are prescription drugs provided in physicians' offices under Part B.

President Trump's proposal in October 2018 was aimed at the Part B portion of drug purchases. The likely reason for this focus is that the government is forbidden from negotiating with pharmaceutical companies for drugs purchased under Part D. At first, this prohibition seems crazy. But after a long debate, Congress decided to provide drugs through private plans that compete for business based on costs and coverage. That structure means that each plan separately negotiates drug prices with the pharmaceutical companies. Concerned that inserting the federal government into these negotiations would interfere with this market-oriented approach, Congress included language that prohibited the Secretary of the Department of Health and Human Services (HHS) from negotiating directly with drug manufacturers on behalf of Medicare Part D enrollees ("the non-interference clause").

Nevertheless, some lawmakers continue to press for a federal government role. Proponents of allowing the HHS secretary to negotiate drug prices under Part D have offered three approaches: 1) removing the non-interference clause to allow negotiating authority under the existing system; 2) setting up a public Part D plan to operate alongside private Part D plans; and 3) removing the non-interference clause for a limited set of high-priced drugs and those that lack therapeutic alternatives, with the fallback of using prices negotiated by the Department of Veterans Affairs.

In assessing the effectiveness of these proposals, the Congressional Budget Office concluded that they would have a negligible effect on public spending,

because the agency judged that the government would be unlikely to get a better deal than the private plans. The only way the government could have any real effect is if it stood ready to exclude some drugs if the Secretary could not achieve an acceptable negotiated price – a big change from current policy. The long and the short of it is that the law would have to change for the federal government to be able to negotiate for the bulk of Medicare drug purchases – that is purchases under Part D. Without such a change, the only place to play is Part B. This whole issue may require a little more thought!!