National Committee to Preserve Social Security and Medicare
10 G Street NE
Suite 600
Washington DC 20002-4215
202-216-0420
800-966-1935
www.ncpssm.org

Data Analysis Brief

Price Negotiation for the Medicare Drug Program: It is Time to Lower Costs for Seniors

The law that established Medicare Part D explicitly prohibits the prescription drug program from negotiating lower drug costs for beneficiaries. The major pharmaceutical companies adamantly defend this rule, contending that the higher prices are necessary to support the industry's investment in research and development. However, a comparison of the prices paid by Part D with those paid by the Department of Veterans Affairs (VA) and other agencies shows that Part D could save billions of dollars through the use of additional negotiation techniques.

Our analysis finds that the VA attains drug prices that, on average, are 48 percent lower than Part D plan prices for the top 10 drugs covered by the program. Furthermore, these savings are achieved through the application of discounts that occurs *before* the VA employs the kinds of negotiation that Part D prescription drug plans use to lower prices. If the Part D program added similar price concessions to the bargaining currently conducted by drug plans, the resulting savings would be more than adequate to close the "doughnut hole" coverage gap and address other deficiencies in Part D drug coverage

Currently, the Part D program relies solely upon negotiations conducted by private insurance plans to achieve lower drug prices. In the process, pharmaceutical companies bargain to get their medications on the list of covered drugs, or formulary, of each insurer. Government programs like Medicaid and the VA, however, are able to use negotiation techniques that go beyond establishing a formulary. The VA's multi-stage negotiation process obtains mandated discounts at the front end, which becomes a starting place for the negotiation of further price concessions as the formulary is established. Our data point to additional savings that could be achieved if the Part D program used a similar multi-stage process, allowing the Department of Health and Human Services (HHS) to require discounts up front and private insurers to demand even lower prices as they construct formularies.

Findings

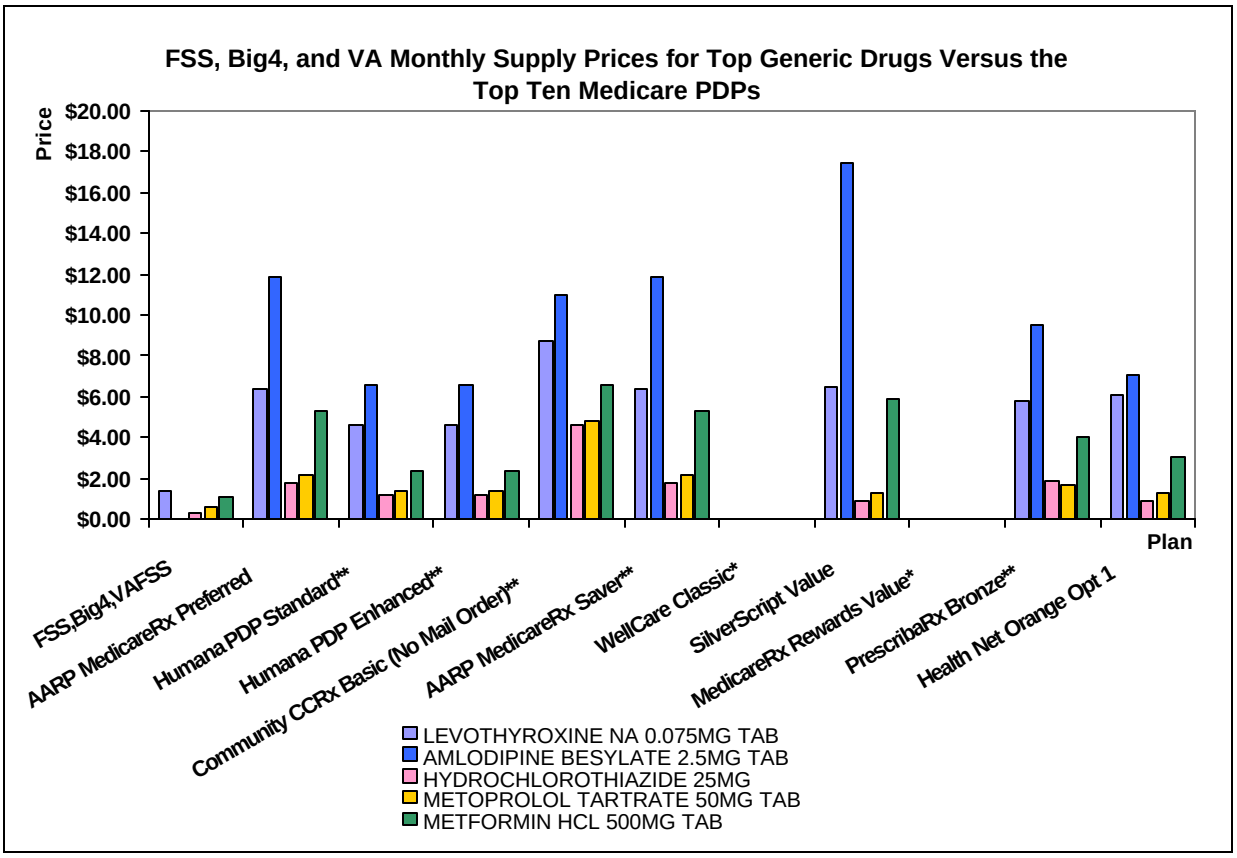
The National Committee to Preserve Social Security and Medicare compared the lowest prices obtained by private plans for the top 10 prescribed Part D drugs with prices that the VA was able to obtain with negotiation techniques that were employed *prior* to an additional level of negotiation for inclusion on government formularies. (VA achieves these prices for their own pharmacies as well as the Department of Defense, the Public Health Service, and the Coast Guard.) We found that VA's initial levels of negotiation achieved drug prices that were substantially lower than the final price attained by Part D drug plans.

- 48 percent is the average difference between the lowest prices obtained for the top 10 drugs by the largest Part D prescription drug plans (PDPs) and the lowest prices obtained by the VA through the application of a limited set of its negotiation techniques.

- Allowing the Secretary to negotiate drug prices has the potential to save billions of dollars – potentially up to $24 billion annually – assuming that the mean reduction in drug prices obtained through the limited use of VA's negotiation techniques could be applied to the Part D program's overall prescription drug cost of $49 billion. These savings are more than adequate to close the "doughnut hole" coverage gap, estimated by the Congressional Budget Office to cost $42 billion over five years. Savings in excess of $42 billion could be used to improve other Medicare benefits and reducing the deficit.

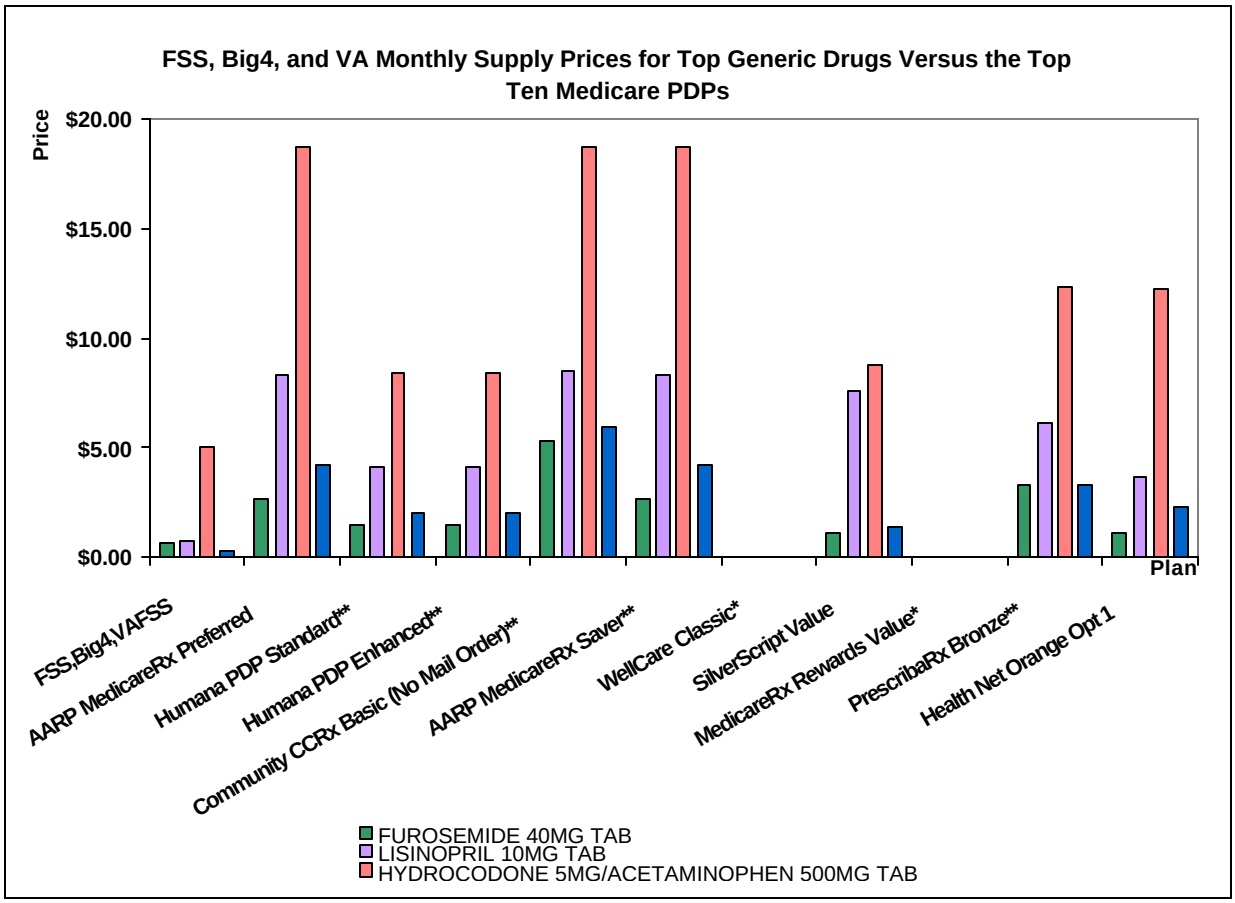
- There is a marked price difference for several drugs used by a large number of seniors:

    - For amlodipine besylate (the generic form of Norvasc and sixth most commonly filled Part D prescription), the mean difference between the lowest price obtained by the Part D PDPs and that obtained by VA in the first stages of negotiation is 99.7 percent. Amlodipine besylate is used to reduce calcium levels for people with hypertension.



    - For furosemide (the generic form of Lasix and the most commonly filled Part D prescription), the mean difference between the lowest price obtained by the Part D PDPs and that obtained by VA in the first stages of negotiation is 64.3 percent.

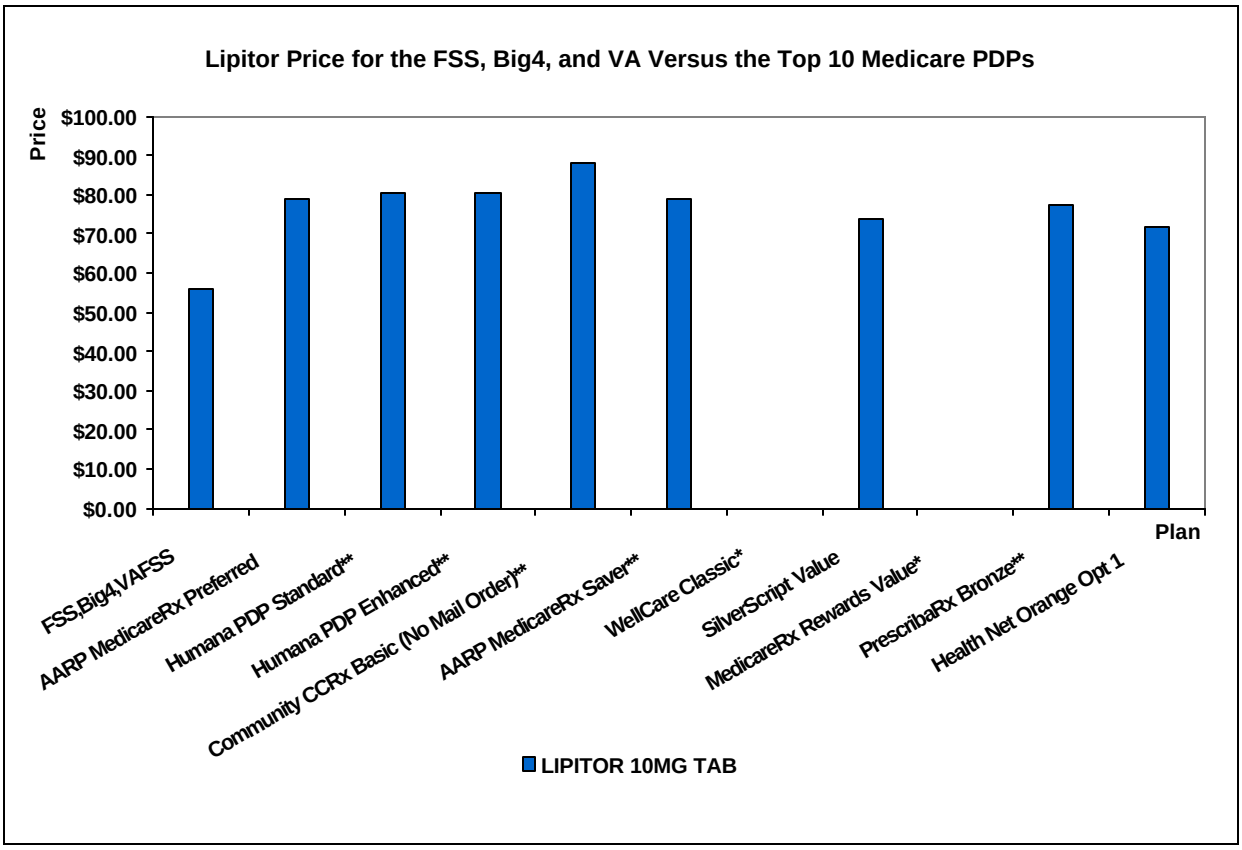
Furosemide is used in the treatment of edema associated with chronic heart and renal failure.



*No New Enrollees/ Marketing Violations

**Norvasc not on formulary

- For Lipitor, the only top 10 Part D drug without a generic competitor, the mean difference between the lowest price obtained by the Part D PDPs and that obtained by VA in the first stages of negotiation is 28.5 percent. Lipitor is used in the treatment of heart disease.



Methodology

In this analysis, the National Committee to Preserve Social Security and Medicare compared the prices that the Medicare Part D insurers reported to the Centers for Medicare and Medicaid Services (CMS) for 2007, for the top ten drugs by prescriptions filled.[i] For those same drugs, NCPSSM also compared the Part D prices with the publicly reported prices negotiated through the VA.

Avalere Health reported the top ten Medicare PDPs for 2008-2009, by enrollment. NCPSSM compared the full price of the top ten Medicare Part D drugs, by fills, in the top ten Medicare Part D PDPs for New York City (Zip Code 10022), available on the Medicare Prescription Drug Plan Finder at w.ww.medicare.gov. No drug price information was collected for two of the top ten Medicare PDPs (WellCare Classic and Medicare Rx Rewards Value) due to violations of CMS marketing rules; the Drug Plan Finder does not provide pricing or formulary information for suspended plans or plans not accepting new enrollees. For all but one of the remaining eight plans (Community CCRx Basic), we tracked mail order prices only; Community CCrx Basic does not provide a mail order option. Mail order prices were used because they provided the lowest price for each drug. We collected price data based on 30-day supplies of each drug.

NCPSSM collected Federal Supply Schedule, VA Restricted Federal Supply Schedule, and Big 4 pricing information from the Pharmacy Benefits Management Services website.[ii] The National Committee selected the lowest available price of the three for quantities of no more than 90, except in cases where quantities at or below 90 were not available. Each price was then prorated

to a 30 day supply for each pharmaceutical. Dosages were selected based on the therapeutic range.[iii]

NATIONAL COMMITTEE POSITION

- Provisions to authorize HHS to negotiate drug price concessions such as rebates and discounts should be included in health reform legislation. Allowing an initial stage of price concessions in addition to negotiation over inclusion in formularies will allow HHS to achieve the savings that the VA and other agencies now reap through the use of multi-stage price negotiation.

- Such provisions have the potential to save more than $200 billion over 10 years – savings that can be used to close the Part D "doughnut hole" coverage gap more quickly.

Government Relations and Policy, October 2009

[i] Centers for Medicare and Medicaid Services. October 30, 2008 Part D Data Symposium Presentations. Online: http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/08_PartDData.asp#TopOfPage

[ii] Department of Veterans Affairs. Pharamcy Benefits Management Services. Drug Pharmaceutical Prices. dBase III Compatible Database (.dbf) Files. FSS, Big4, VA Only, Tier, and PBA Prices (Prices2.exe). On line: http://www.pbm.va.gov/DrugPharmaceuticalPrices.aspx

[iii] Hodgson B. and Kizior R. Saunders Nursing Drug Handbook 2010. St. Louis, MO: Saunders, 2010.