

## **Background: Medicare and Drug Costs**

Prior to 2006, Medicare paid for some drugs administered during a hospital admission (under Medicare Part A), or a doctor's office (under Medicare Part B). Medicare did not cover outpatient prescription drugs until January 1, 2006, when it implemented the Medicare Part D prescription drug benefit, authorized by Congress under the "Medicare Prescription Drug, Improvement, and Modernization Act of 2003." This Act is generally known as the "MMA."

The Part D drug benefit (also known as "Medicare Rx") helps Medicare beneficiaries pay for outpatient prescription drugs purchased at retail, mail order, home infusion and long-term care pharmacies.

Unlike Parts A and B, which are administered by Medicare itself, Part D is "privatized." That is, Medicare contracts with private companies that are authorized to sell Part D insurance coverage. These companies are both regulated and subsidized by Medicare, pursuant to one-year, annually renewable contracts. In order to have Part D coverage, beneficiaries must purchase a policy (i.e., enroll in a plan) offered by one of these companies.

Within parameters established in law, plans are free to establish their own formularies. There is an appeal process for members who need drugs that are not on their plan's formularies.

Plans revise their formularies every year, adding new drugs, eliminating others, and generally charging higher co-pays and co-insurance for drugs. Beneficiaries need to re-evaluate their plan options every year to be sure their chosen plan will continue to meet their financial and medical needs.

Federal law currently prohibits the government (HHS) from negotiating prescription drug prices. Only Congress has the power to change this law.

Drug prices are negotiated by private insurers with pharmaceutical companies. This negotiation allows the pharma companies control to determine their own pricing; driving increases, especially in brand-name specialty drugs. Average annual net spending on such drugs per person roughly tripled over the 2010-2015 period.

### **Issue:**

In 2013, Part D Premiums paid for only 14% of the program cost. This mostly unfunded program needs monies from federal general revenues to support it. Shortfalls have caused the federal deficit to increase.

Program coverage is vulnerable to being cut to reduce the deficit. This could affect millions. In 2019, 45 million of the more than 60 million people covered by Medicare are enrolled in Part D plans.

[Republicans point to “entitlements” as the key cause of rising federal deficits, and blame Democrats for refusing to go along with proposals to cut spending on Medicare, Medicaid and Social Security.](#)

It's all too clear that big pharmaceutical companies are raising prices on Americans to pad their profits, not to increase funding for the [research and development](#) needed to find new cures and treatments:

- Nine out of ten big pharmaceutical companies spend more on marketing, sales, and overhead than on research, according to an [analysis by the Washington Post](#).
- In 2018, drug corporations spent \$6.5 billion in advertising—a [100 percent increase from 2012](#).

In fact, much of the research and development driving the search for new [breakthroughs isn't paid for by drug companies, it's paid for by American taxpayers through federal funding for the National Institutes of Health \(NIH\)](#) and other grants. Based on data from a survey of [PhRMA's](#) own member companies, one out of every three dollars spent on drug research comes from American taxpayers.

Democratic Views:

Although there are several bills being considered. The Democratic House of Representatives passed H.R.3 in December 2019. It enables HHS to negotiate prices of up to 250 commonly used drugs, including insulin; require pharma manufacturers to offer agreed upon pricing to private insurers, and requires them to pay rebates to Medicare if the price of their drugs increased faster than inflation. It also reinvests saving for innovations, AND using money saved in research and development. [This would counter the pharma argument that new drug research and development would be impeded if drug prices are negotiated and reduced by the government.](#)