



Government Negotiation of Medicare Part D Prescription Drug Prices¹

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA), which established the Part D drug benefit, is structured so that Part D plan sponsors negotiate prices with pharmaceutical manufacturers on behalf of Medicare beneficiaries. Section 1860D-11 (the “noninterference” provision) of MMA expressly forbids the Secretary of Health and Human Services (HHS) from negotiating on behalf of Medicare beneficiaries the price of prescription drugs with pharmaceutical manufacturers and from establishing a list of preferred drugs.

AMCP Position: The Academy of Managed Care Pharmacy (AMCP) supports the current statutory requirement that Medicare Part D drug benefit plan sponsors negotiate with pharmaceutical manufacturers to secure low drug prices and opposes legislation that would transfer that responsibility to the federal government.

- **The Medicare Part D drug benefit program is working**
Surveys show that the overwhelming majority of 27.7 million beneficiaries are satisfied with the program in terms of out-of-pocket savings and range of plans offered.
- **Authorizing the federal government to negotiate the purchase price of drugs under the Medicare Part D program would inappropriately separate price negotiation from the formulary development process**
Formularies are developed in an ongoing decision-making process in which medication experts determine which drugs meet the clinical needs of a defined patient population. Development of the formulary positions health plan sponsors in a position to apply scientific evidence relating to effectiveness and safety of medications in the price negotiation process.
- **The assertion that the federal government would secure significantly lower prices from manufacturers compared to those being secured by drug plan sponsors under the current Part D structure is open to serious question**
The nonpartisan Congressional Budget Office (CBO) has stated that repealing the noninterference provision would have a negligible effect on federal spending, because the federal government would not be able to negotiate significantly lower prices than the prices obtained by private plan sponsors.

¹ See AMCP's *The Future of Medicare Part D: Reliance on Medicare Part D Plan Sponsors to Negotiate Prices with Pharmaceutical Manufacturers*, available online at: <http://www.amcp.org/Tertiary.aspx?id=5357>.

- **Even if, in the short term, the government was able to secure prices lower than the plan sponsors have been or would be able to do in the future, there are longer term adverse consequences that must be taken into consideration.** Allowing the federal government to directly “negotiate” on behalf of 27.7 million Medicare beneficiaries would result in government setting prices, as pharmaceutical manufacturers would have little choice but to accept what the government offers (i.e., rigid pricing schedules in Medicare Parts A and B).
- **The experience of the Department of Veterans Affairs (VA) in negotiating discounted prices is often cited as an example of the types of discounts that might be available to Medicare should the Secretary of HHS negotiate on behalf of Medicare beneficiaries. However, two factors are unique to the VA:**
 - **The closed system of patient care under the VA system** - The VA is a direct provider of full health care services. There are also important differences in benefit design between the two programs. Approximately 40% of covered veterans are enrolled in Part D, attesting to some of the limitations of medications available on the VA formulary.
 - **The federal statutory ceiling price available to the VA and the statutory authority granted to the VA to purchase drugs under the Federal Supply Schedule** - Much of the VA’s comparative price advantage comes from the price control elements of the Medicaid drug rebate program and the Veterans Health Care Act of 1992, imposing statutory price ceilings for the VA.

September 2011

The Academy of Managed Care Pharmacy (AMCP) is a national professional association of pharmacists and other health care practitioners who serve society by the application of sound medication management principles and strategies to assist patients in achieving positive therapeutic outcomes. The Academy's 6,000 members develop and provide a diversified range of clinical, educational and business management services and strategies on behalf of the more than 200 million Americans covered by a managed care pharmacy benefit. More news and information about AMCP can be obtained on its website at www.amcp.org.