

# **Can Government Price Negotiation Work Better for Medicare?**

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# Overview

- Medicare Part D Experience
- Medicare/Medicaid Past Experience
- Apples to Apples Price Comparisons
- Pending Legislation
  - Negotiation
  - Price regulation
- Constructive Steps on Part D

# Part D Actual Experience

- Awareness and Participation: 90%
- Satisfaction: 80%
- Costs: 30% lower than projected for taxpayers, 40% lower premiums
  - Limited dropping/ switching of coverage
  - Beneficiaries responding to information and benefit design incentives
  - Price negotiation as in Federal employees' benefits and most private insurance benefits
  - Competition lowering cost projections further (\$100B not reflected in 2006 budget forecasts)

# Medicare/ Medicaid Past Experience

## ■ Medicare Part B

- Price regulation: higher than competitive prices

## ■ Medicaid

- Price regulation plus price negotiation (preferred drug lists)
- Price regulation approach (best price, mandatory AWP discount) leads to higher overall prices
- Less availability of “protected” classes of drugs including HIV/AIDS, cancer, mental illness (highest satisfaction rates in Part D among dual-eligibles)

# “Apples to Apples” Drug Price Comparisons

- Administrative costs
- Pharmacy service costs (especially retail)
- Price regulation not just negotiation in VA, Medicaid:
  - “Reference” price regulation (list price discount, best price discount) raises prices overall and would be especially likely to do so in Medicare because of size
  - Higher generic prices – DRA legislation limits to 250%
- Formulary breadth, timing, and access
- Pharmacy and physician networks

# Price Negotiation Proposals

- Don't get something for nothing: need to move market share
- "Bully pulpit" can be used and is being used under current law
- Price shouldn't be exclusive focus:  
Drug Costs = Prices x Quantities
- Same issues in Snowe-Wyden as HR4
- Value vs. lobbying
- Potential impact on R&D

# Constructive Steps on Part D

- Low-Income Subsidy Outreach (coordinated with other low-income programs)
- Effective support for beneficiaries and caregivers in making informed choices
- Better evidence on drug plans
- Better evidence on drug impact on health and health care costs