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Analysts Debate Impact of Health Law on Drug Prices

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Seniors in traditional Medicare will each save about \$86 next year because of provisions in the health care law President Obama signed in March. And those who fall into the prescription drug Medicare coverage gap known as the donut hole will save an average of \$553 in 2011, Department of Health and Human Services officials said on Thursday.

HHS officials estimated that over a decade, seniors would save more than \$3,500 on average because of the law (PL 111-148, PL 111-152).

"The Affordable Care Act makes Medicare stronger and reduces the burden of health care costs on some of our most vulnerable citizens," HHS Secretary Kathleen Sebelius said in a statement.

Conservative analysts did not dispute HHS's calculations. But they said that some of the savings HHS predicts would not materialize if Congress ends up watering down the reductions in Medicare spending growth called for by the law.

Cato Institute scholar Michael Cannon called the analysis a "faith-based estimate of the savings that will accrue to seniors."

The lower costs for seniors are due to three main factors.

First, HHS officials said the most significant issue is that the law is expected to gradually close the donut hole, in which seniors pay for prescription drugs out of their pockets, by 2020. So far, about 1.8 million seniors and people with disabilities have received \$250 checks reimbursing them for their prescription drug costs. The amount seniors would save depends on how much they spend on medicine. People with low drug costs would save an average of \$2,400 over 10 years, and those who have high prescription drug costs could save as much as \$12,300 over the next 10 years.

Secondly, the law called for cuts in the growth of Medicare spending for hospitals, home health care services and payments to other medical providers. Part B premiums are directly tied to spending. So if physician bills and other Part B spending goes down, so will premiums and that will save seniors money. Lower payments to hospitals and other providers also will reduce the share of payments that seniors would have to make in copayments and coinsurance.

Third, the health care law required Medicare to cover many preventive services such as screenings and check-ups, services up to now seniors have had to pay for.

"All that stems from the presumption that you can pay providers a lot less, even though you haven't done anything to control underlying health care costs," said former Congressional Budget Office Director Douglas Holtz-Eakin. "I don't believe it."

Separately, on Thursday the CBO released a letter to Rep. Paul D. Ryan, R-Wis., the likely incoming chairman of the House Budget Committee, which said that some provisions in the health care law could have the effect of raising prescription drug prices while others might hold costs down.

For instance, provisions in the law that require drug manufacturers to offer discounts to Medicare beneficiaries could encourage companies to inflate their prices by an estimated one percent. But For Medicaid, the combined effects of

several provisions "is that Medicaid would pay less for drugs, on average, than it would in the absence of those provisions."

"The various provisions of the legislation will exert competing pressures on drug prices paid by private purchasers," wrote CBO Director Doug Elmendorf. "The overall impact on those prices would be small, on average."

Source: **CQ HealthBeat**

Same-day coverage of the people and events shaping health care policy from Washington.

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