

Congress can act now to lower drug prices

Chuck Grassley and Ron Wyden

October 20, 2019

It's no secret that health care is a politically divisive issue. In the past decade, national elections have been decided on it and control of Congress has changed hands in part over it. Despite these differences, there is hope for a bipartisan agreement to lower prescription drug costs.

Drug prices have become a top issue for people of every region, demographic and ideology, polls consistently show. One in 4 seniors say it's difficult to afford their medicines, and 80% of Americans consider prescription drug costs unreasonable. Price hikes year after year exceed any justifiable metric.

While it's true the American economic system has enabled the creation of medicines that save and extend lives, the market isn't working to keep those drugs affordable. For example, the price of insulin — a century-old drug that is essential to the survival of 30 million Americans with diabetes — has risen by more than 500% in the past 10 years. It's no wonder the pharmaceutical industry has become the least popular institution in the country.

The government does have some leverage, through the operation of Medicare. This program is often called the third rail of American politics because of the high price politicians can pay for monkeying with it. But as leaders of the Senate Finance Committee, which has jurisdiction over Medicare, we've found a way to turn the conventional wisdom upside down, with legislation that would save the program more than \$100 billion without cutting off anyone's access. Indeed, our bill would increase access by lowering people's out-of-pocket costs — all without costing taxpayers a dime.

The Prescription Drug Pricing Reduction Act of 2019, passed over the summer by a bipartisan two-thirds majority of our committee, would lower beneficiaries' premiums by \$6 billion, reduce their out-of-pocket costs by \$25 billion and even lower drug prices in the commercial market, an analysis by the Congressional Budget Office has found.

It would accomplish all this by improving Medicare Part D (the drug-insurance program). Part D's complex structure currently assigns responsibility for costs in various ways across the different phases of the benefit. In the initial phase, after a deductible, insurance companies and their pharmacy-benefit managers are responsible for 75% of the drug's cost, while the beneficiary pays 25%. Once a beneficiary has spent a moderate amount and reaches the so-called doughnut-hole phase — a coverage gap — the insurance plan covers only 5%, the drugmaker is required to provide a 70% discount and the patient covers 25%. Finally, for beneficiaries with very high prescription costs, there is the catastrophic phase, in which the insurer pays 15%, the patient pays 5% and the federal government picks up the remaining 80%.

Our legislation would simplify this structure. Beneficiaries' out-of-pocket expenses would be capped at \$3,100 annually, bringing much-needed relief to those who rely on insulin, for

instance, or who are being treated with an expensive cancer drug. All Medicare beneficiaries would have peace of mind from knowing they would never need to go bankrupt paying for medicines.

The legislation would also finally eliminate the Medicare doughnut hole, a policy that has caused seniors anxiety and financial stress for more than a decade.

And it would hold insurance companies responsible for managing costs through the entire benefit. During the initial phase, which would last until the \$3,100 threshold is reached, insurers would be responsible for 75% of costs. After that, they would pay 60%, the federal government would pay 20% and pharmaceutical companies would have to provide a 20% discount. That would put drugmakers on the hook for their own prices. The more they charge patients and taxpayers, the greater the discount they would have to provide in the catastrophic phase. Insurers and drugmakers would have new incentive to negotiate lower prices.

One other major change to Part D in our bill would limit taxpayer subsidies to drug companies so that they could no longer raise prices beyond the cost of inflation and expect Medicare to foot the bill. Companies could either limit price increases to the rate of inflation or pay Medicare a rebate. This too would lower beneficiary costs and lessen Medicare's financial burden, the CBO says.

Even with these significant changes, the legislation would maintain Part D's free-market structure, allowing drug companies to recover their research-and-development costs and continue to innovate.

Our plan is leading the way toward a solution that can pass Congress and be signed by the president this year: It is the only comprehensive, bipartisan prescription drug legislation to have passed a congressional committee, and it has been endorsed by more than a dozen advocacy groups spanning the political spectrum, from the senior group AARP to the libertarian Cato Institute. We encourage our colleagues to work with us to deliver for patients and taxpayers. Americans who can't afford their prescription medicines are counting on Congress to act now.