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U.S. government to tackle Medicare drug payments to try to cut costs

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President Joe Biden's administration on Thursday unveiled its promised initiative aimed at cutting drug prices, saying it will test new ways to reduce such costs for the Medicare health insurance program including tying payments for medications to their effectiveness.

The U.S. Department of Health and Human Services (HHS), which oversees the federal medical insurance program for people age 65 and older and the disabled, announced the initiative, which will use models to gauge the clinical value of medicines to determine how much Medicare pays for them.

The department also said it will test so-called bundled payment models for Medicare and gather data from insurers to improve transparency.

The Biden administration is separately backing legislation in Congress that would seek to stem rising drug prices.

While the administration has lauded drugmakers for their efforts amid the COVID-19 pandemic, it also has highlighted the high costs of medications in the United States compared to other nations. Pharmaceutical manufacturers have raised prices on more than 500 medicines, according to an analysis by healthcare research firm 46brooklyn in January.

Pharmaceutical manufacturers have opposed efforts to regulate drug prices, calling them "misguided" and saying this would stifle innovation.

“While large companies like Merck will survive, the hundreds of thousands of small biotechs that rely on venture capital ... will just disappear,” Kenneth Frazier, executive chairman of Merck & Co (MRK.N) and its former chief executive, said during an industry panel on Wednesday.

The pharmaceutical industry supports reforming federal drug payments to reduce patient costs, but the current proposal will damage the industry more than it will help taxpayers, two other executives said on the panel.

Other drug pricing experts said the industry may be overstating the risk to drug development.

“The current model where we pay high prices without respect to value is also problematic for innovation,” said Aaron Kesselheim, a professor of medicine at Harvard Medical School.

“I think that (the proposed reforms) would actually provide incentives for the innovations that patients actually want.”

HHS Secretary Xavier Becerra defended the administration's plan. He said letting Medicare negotiate for drug prices under Part B - which, among other things, covers medications used in hospitals and other healthcare settings - would "make those prices available to other purchasers." That could help patients pay less and reduce costs not only for the federal government but also other commercial payers, he said.

The department also said it will test ways to reduce costs under Part D, which covers over-the-counter drugs, through biosimilars and generic drugs.

"By promoting negotiation, competition, and innovation in the healthcare industry, we will ensure cost fairness and protect access to care," Becerra said.

The White House's legislative agenda for reforming federal drug payments is likely to run into the same challenges that stymied similar efforts in the past, said Michael Tanner, a senior fellow at the Cato Institute, a conservative think tank.

The U.S. House of Representatives and the Senate both proposed reforms under the Trump administration but none succeeded in passing into law.

“The main reason that nothing can be done is that Medicare" cannot refuse coverage for a drug it deems too expensive, Tanner said.

“Until you are willing to tell seniors 'you can't have every drug you want,' you are not going to save money.”