

Medicare Drug Discounts A Sensible Solution for Deficit Reduction

As Congress debates reducing the deficit and demanding health savings, one area where Congress can find significant savings is drug costs. The government should use its bulk purchasing power to obtain the best possible price for pharmaceuticals under Medicare, as is currently done for veterans and low-income Medicaid beneficiaries. According to a 2008 report by the House Committee on Oversight and Government Reform, taxpayers would save \$156 billion and beneficiaries up to \$27 billion if Medicare obtained the best price.

However, the Medicare Modernization Act of 2003, which created the Part D drug program, explicitly prohibits the government from negotiating lower prices under Medicare. Furthermore, the law transferred the drug benefits of dual-eligibles – individuals who qualify for Medicare and Medicaid – to Medicare. Under Medicare, dual-eligibles no longer qualify for discounts, forcing the government to pay higher drug prices for these beneficiaries. The law produced windfalls worth billions of dollars for the pharmaceutical industry. According to the Congressional Budget Office, requiring drug companies to provide discounts (rebates) for low-income Medicare beneficiaries and for dual-eligibles, as previously done under Medicaid, would produce a savings of \$137 billion over 10 years. Congress should revert back to previous law and close this huge loophole that benefits drug companies and hurt taxpayers.

Requiring drug companies to pay rebates for dual-eligibles:

- Saves taxpayers 30% or \$137 billion over 10 years.
- Produces budget savings, without harming beneficiaries.
- Has the support of President Obama and was included in his budget proposals.
- Was included in the recommendations of Alan Simpson and Erskine Bowles, the Co-Chairs of the Commission for Fiscal Responsibility and Reform.