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Report from Families USA
January 9, 2007

No Bargain: Medicare Drug Plans Deliver High Prices

Key Findings

Full report (pdf version)

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Press Release

Introduction

When the Medicare Part D prescription drug legislation was being developed, Congress and the Bush Administration decided to specifically prohibit the Medicare program from bargaining with pharmaceutical companies to secure lower drug prices. This controversial decision took the responsibility for moderating drug prices away from the Medicare program and, instead, placed it in the hands of private drug plans. One full year after the implementation of Part D, the unfortunate consequence of this decision is clear—private plans have failed to deliver low prices.

The ability of private plans to secure low drug prices is critically important, both to America's seniors and to taxpayers. Drug prices set by private Part D plans significantly affect premiums and how much beneficiaries end up paying out of pocket overall. These drug prices also have a direct effect on the burden borne by taxpayers, who pay approximately three-fourths of the costs of the Part D program.

Proponents of the ban on Medicare negotiations make two contradictory claims in support of their position. First, they claim that direct negotiation by Medicare would not secure lower prices than those obtained by private market competition. Second, they argue that direct negotiation would reduce prices so significantly that it would force drug manufacturers to cut back on research and development (R&D), thereby jeopardizing pharmaceutical innovation. These arguments cannot both be true—and, indeed, neither is true.

To assess the merits of these two claims, Families USA analyzed the drug prices that Part D plans charge for the

20 drugs most frequently prescribed to seniors. We examined prices for each of the plans offered by the five largest Part D insurers. Combined, these five insurers serve about two-thirds of all Part D beneficiaries (Table 1). Because these companies have, by far, the largest share of the total market for Part D plans, they have the greatest ability among all the private Part D insurers to secure the best drug prices. Yet, as our analysis demonstrates, their prices are much higher than those obtained by the Department of Veterans Affairs (VA), which negotiates for low drug prices on behalf of America's veterans.

We found that for all of the top 20 drugs prescribed to seniors, VA prices are substantially lower than the lowest prices charged by the largest Part D insurers. The median difference was 58 percent. In other words, for half of the 20 drugs, the lowest price charged by the largest Part D insurers is at least 58 percent higher. What's more, when we examined the full range of Part D plan prices, we discovered that the highest plan prices are considerably higher than their lowest prices.

In addition, to assess the effect that meaningful price negotiation would have on R&D, we analyzed the most recent annual filings to the Securities and Exchange Commission (SEC) by the seven largest U.S.-based pharmaceutical manufacturers. These filings report each company's R&D expenditures and profits, as well as what each company spends on marketing, advertising, and administration. We found that, on average, these drug companies spent more than twice as much on marketing, advertising, and administration as they did on R&D. Moreover, most of these drug companies retained profits that were larger than their R&D expenditures.

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