

H.R. 2190, the Medicare Drugs Savings Act, Saves \$120 Billion While Reducing Part D Drug Costs and Premiums for Seniors

Dear Colleague:

Last month, we introduced the Medicare Drug Savings Act of 2011 (H.R. 2190), which would cut the deficit by \$120 billion by eliminating a windfall for drug manufacturers created by the 2003 Medicare Part D legislation.

Prior to 2006, the government received substantial rebates on drugs used by “dual eligible” Medicare and Medicaid enrollees. However, beginning in 2006, the Republicans’ Medicare Modernization Act moved coverage for these beneficiaries from Medicaid to Medicare. In doing so, it eliminated Medicaid rebates paid by manufacturers for the drugs used by these patients, dramatically raising drug costs for taxpayers and the government and profits for manufacturers. The *Medicare Drug Savings Act of 2011* (H.R. 2190) eliminates the windfall and requires that manufacturers pay the rebates for dual eligible and low-income Part D enrollees, ensuring that taxpayers and the Medicare program do not overpay for Part D drugs.

Critics of the legislation have made a number of false claims about its impact. In response, we want to address several important facts about the bill.

- **H.R. 2190 would reduce drug costs for all seniors enrolled in the Part D program.** The legislation is uniquely structured to create incentives for manufacturers to provide larger rebates to the private Part D plans. Under our bill, manufacturers that provide larger rebates to the private Part D plans will receive a proportional reduction in the rebates that they owe to the government. These larger rebates to the private Part D plan will save all enrollees on out-of-pocket drug costs. Dr. Gerard Anderson, Director of the Johns Hopkins Center for Hospital Finance and Management, reviewed our bill and concluded that

“[E]xpanding the rebate to include dual eligibles and low income individuals will lower the out of pocket costs and premiums for all Medicare enrollees. This is because the prices paid to the drug companies will be lower. These lower costs will be passed on to the Medicare beneficiaries.”

- **H.R. 2190 would not impact manufacturer research expenditures or the development of breakthrough drugs.** According to CBO, the proposal “would not significantly reduce the incentive to develop breakthrough drugs.”¹ Similarly, Dr.

¹ CBO, *Reducing the Deficit: Spending and Revenue Options* (2011)

Anderson concluded that “[increasing the rebate to dual eligibles will not have an impact on the research and development of drug companies. It is more likely to affect their marketing, which typically represents over 30 percent of their spending.” Our legislation would prevent taxpayers from overpaying for Part D drugs – and would do while retaining incentives for manufacturers to develop breakthrough drugs.

- **H.R. 2190 would not adversely impact dual eligible or low income subsidy enrollees.** The bill would require that drug manufacturers provide rebates to the federal government on all drugs used by these dual eligibles; it makes no changes to the current structure or function of the Part D program for these beneficiaries. They would stay in their same Part D plans, with no changes to their copays or required premiums.
- **Does not impose price controls.** Medicare is the largest single purchaser of drugs in the world. Other larger purchasers like health insurers and employers get large discounts off of list prices, and so should Medicare. This legislation merely guarantees that Medicare gets a discount appropriate to its purchasing power. Manufacturers are free to set launch prices for new drugs at levels that they deem appropriate.

The Medicare Drug Savings Act creates a win-win situation for taxpayers and seniors. It saves taxpayers \$120 billion over the next decade – savings that can be used to avert more dangerous Medicare cuts – while reducing Medicare Part D drug costs. And it creates these savings while still retaining incentives for drug manufacturers to innovate and create new breakthrough drugs. We hope you will join us in cosponsoring this important legislation.

Sincerely,

Henry A. Waxman

Pete Stark

Henry A. Waxman
Ranking Member
Committee on Energy and Commerce

Pete Stark
Ranking Member
Subcommittee on Health
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