

# MEDICARE PART D RESEARCH FACTS

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Cornell University  
College of Human Ecology  
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## CUR<sub>x</sub>ED

Cornell University Resource Education  
for Medicare Part D

### PART D FACT

According to CMS, in 2007, 8.8% of Part D enrollees reached catastrophic coverage, in which 95% of drug costs are covered..

## DRUG DEALS

Because it was believed that open market competition among private plans would result in lower overall drug prices, price negotiation for Part D was left to the individual insurers. Yet many feel that the government has the most leverage in negotiating drug prices, often referring to the Veterans Administration system.

Prior to the advent of Part D, dual eligibles received prescription drug benefits through Medicaid. Now, Medicare provides coverage for approximately 6 million 'duals' who account for at least 50% of Part D drug spending; 98% of their drug costs are covered by taxpayers through Part D.

A recent congressional committee compared drug pricing under Medicaid to pricing from the ten largest Part D insurers. Of the top 100 prescription medications used by dual beneficiaries, 97 were priced higher under the Part D plans than under Medicaid. Rebates and discounts to the Part D plans applied to only 16 of the drugs and amounted to only a 7% reduction in cost. Overall, pricing for the same medications under Part D was about 40% higher than for Medicaid.

In its report, the committee concludes that \$86 billion in savings could be realized over the next ten years just for dually eligible beneficiaries alone, if Part D insurers received drug price discounts equivalent to those of Medicaid.

While the potential for cost savings realized by government sponsored price negotiations might be enticing, several concerns must be addressed. For example, formulary choice is much more restrictive with centralized negotiation systems such as that of the VA. Formulary development can become dependent upon price negotiations.

An impediment to drug price negotiation for private insurers lies in the CMS regulations regarding plan benefit design and formulary coverage. Plans must cover a minimum of two medications in each therapeutic class and must provide access to essentially all medications in each of six identified drug categories. Such rules can create limitations on the negotiating leverage that Part D plans might have.

Additionally, federally negotiated prices might impact the ability of plans to remain competitive, reducing the variety of offerings. Other markets, especially the pricing of medications for non-Medicare patients, might bear the brunt of federal negotiations as higher costs are passed on to non-covered individuals and private plans. Lastly, there might be an indirect effect on the ability of manufacturers to continue research and development and the subsequent negotiations of government funding for those efforts.



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