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# Fact Sheet: How the New Deal To Lower Drug Prices Would Help Americans

A historic Senate proposal would rein in prescription drug prices and make drug costs more affordable for families.

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A person who has multiple sclerosis sorts his medication into a pill organizer, June 2019. (Getty/Kurt Wittman/UCG/Universal Images Group)

One in 4<sup>1</sup> Americans struggle to afford their medications, and 3 in 10<sup>2</sup> say that they haven't taken their medicines as prescribed because of high costs. At the same time, drug companies are making record profits, excessively hiking prices, and forcing taxpayers to foot the bill for drugs that are, on average, two to three times as costly as they are in peer wealthy countries. Put simply: The prescription drug system in America isn't working. That's why half of voters say passing legislation to lower prescription drugs costs should be Congress' "top priority," according to 2021 polling.<sup>3</sup>



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## Congress Can Act Now To Lower Drug Costs by Allowing Medicare To Negotiate Prices

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Nicole Rapfogel, Thomas Waldrop

Last week, after years of inaction, the Senate began the process of advancing what would be a historic proposal to lower drug prices.<sup>4</sup> Key provisions of the plan include the following reforms.

### Empowering Medicare to negotiate prescription drug prices

- Federal law currently prevents the government from negotiating, regulating, or limiting Medicare prescription drug prices. As a result, drug companies often set excessive prices, knowing that the largest payer for these drugs—taxpayers—will pay the full cost regardless of price.
- Under the Drug Price Negotiation Program (DPNP) that would be established in the Senate proposal, beginning in 2023, the secretary of health and human services would be required to negotiate lower prices for 10 of the most expensive drugs that lack market competition, with these prices going into effect in 2026. The number of drugs would increase to 20 by 2029.
- Government drug spending is driven by a small number of extremely expensive drugs. For instance, in 2019, 250 drugs with one manufacturer and no competing generic or biosimilar drug accounted for 60 percent of Medicare Part D spending.<sup>5</sup> Meanwhile the top-selling 50 drugs covered under Part B accounted for 80 percent of spending. By targeting the universe of drugs, the plan will focus on lowering costs for taxpayers and patients for the most expensive medicines while navigating the administrative challenges of standing up the DPNP.

### Cutting costs for families

- Despite Medicare beneficiaries having a median income of \$26,000, there is no limit to the amount older adults pay out of pocket for their prescriptions.<sup>6</sup> This leaves older adults exposed to high costs they cannot afford or forces them to make impossible choices between their prescriptions and other critical expenses. The new Senate plan would create a \$2,000 out-of-pocket cap for Part D beneficiaries.
- Current law provides assistance to low-income Part D beneficiaries earning up to 135 percent of the federal poverty level (FPL) to help them pay their premiums, deductibles, and other costs. Under the plan, millions more Americans would be eligible for premium and co-pay assistance by increasing eligibility to those earning up to 150 percent of the FPL.
- Right now, many drug manufacturers game the patent system or pay to keep cheaper, generic alternatives from coming to market. Under the proposal, manufacturers of brand-name drugs would be prevented from blocking lower-cost generic competition.
- While Medicare currently covers the cost of some vaccines, such as for the influenza virus, consumers are responsible for covering part of the cost of other vaccines. For example, the shingles vaccine is not covered under Medicare Part A or B, and beneficiaries not enrolled in a Part D plan pay, on average, \$190 for the

vaccine.<sup>7</sup> The Senate proposal would make all vaccines for older adults available for free.

## Penalizing drug companies that increase prices faster than inflation

- Drug companies that hike the prices of existing drugs above the rate of inflation would be required to pay rebates for the difference. Just this year, some drug companies increased prices upward of 16 percent—more than double the rate of inflation—making already expensive drugs even more unaffordable.<sup>8</sup>
- By requiring the rebate rule to apply to both private insurance and Medicare, employers and workers would also save on the cost of employer-sponsored health insurance.

## Conclusion

Politicians have considered taking on drug companies and lowering drug prices for a long time, but Big Pharma has successfully stymied previous reform efforts.<sup>9</sup> This new commonsense plan would save \$288 billion over the next decade, yield meaningful savings for families, take on some of the pharmaceutical industry's worst excesses, and incentivize manufacturers to innovate new drugs that offer meaningful clinical breakthroughs. After decades of inaction, Congress cannot let this effort for reform come and go.<sup>10</sup>

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## Endnotes

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- <sup>1</sup> Kaiser Family Foundation, “Poll: Nearly 1 in 4 Americans Taking Prescription Drugs Say It’s Difficult to Afford Their Medicines, including Larger Shares Among Those with Health Issues, with Low Incomes and Nearing Medicare Age,” March 1, 2019, available at <https://www.kff.org/health-costs/press-release/poll-nearly-1-in-4-americans-taking-prescription-drugs-say-its-difficult-to-afford-medicines-including-larger-shares-with-low-incomes/>.
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- <sup>4</sup> Senate Finance Committee, Subtitle I—Prescription Drug Pricing Reform, 117th Cong., 2nd sess., available at <https://www.finance.senate.gov/imo/media/doc/070622%20Prescription%20Drug%20Pricing%20Reform%20Leg%20Text.pdf>.
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<https://www.aarp.org/health/medicare-qa-tool/does-medicare-cover-shingles-shot/> (last accessed July 2022).

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- 9 Fraiser Kansteiner, “After Democrats unveil drug price negotiation plan, industry blasts it as ‘misguided,’” Fierce Pharma, July 11, 2022, available at <https://www.fiercepharma.com/pharma/uncertainty-and-pessimism-industry-warns-us-drug-pricing-plan-could-deprive-pharma-outfits>.
- 10 Congressional Budget Office, “Estimated Budgetary Effects of Subtitle I of Reconciliation Recommendations for Prescription Drug Legislation, as Posted by the Senate Committee on Finance on July 6, 2022” (Washington: 2022), available at [https://www.cbo.gov/system/files?file=2022-07/senSubtitle1\\_Finance.pdf](https://www.cbo.gov/system/files?file=2022-07/senSubtitle1_Finance.pdf).

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