

Explanation of Estimate of S. 812

CBO estimates approximately \$4.7 trillion in total prescription drug expenditures in the U.S. over the ten-year period (2003 through 2012).

Approximately \$320 billion (around 7 percent) of total expenditures could be saved over the ten-year period if all delays in the market entry of generics related to patent challenges were eliminated.

This legislation would reduce the delay by about 20 percent, thus reducing total drug spending by about \$60 billion (or 1.3 percent) across the country over the next ten years.

Because the proportion of pharmaceuticals purchased or provided by the federal government is quite low, reducing the delay in the entry of generics would reduce federal direct spending for prescription drugs by \$5.9 billion and increase federal revenues by \$2.2 billion. (The revenue effect occurs, because with lower drug costs, a greater proportion of employees' compensation would be in the form of taxable income.)

Preliminary CBO Estimate of S. 812 as Modified by the Edwards-Collins Amendment

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2002- 2007	2002- 2012
Change in Direct Spending													
Federal Outlays for Prescription Drugs	0	(40)	(100)	(170)	(270)	(420)	(570)	(780)	(960)	(1,190)	(1,430)	(1,000)	(5,930)
Change in Revenues													
Income Taxes and HI Payroll Taxes (on-budget)	0	10	20	40	70	100	150	190	240	310	370	240	1,500
Social Security Payroll Taxes (off-budget)	<u>0</u>	<u>5</u>	<u>10</u>	<u>20</u>	<u>30</u>	<u>50</u>	<u>70</u>	<u>90</u>	<u>120</u>	<u>140</u>	<u>160</u>	<u>115</u>	<u>695</u>
Combined	0	15	30	60	100	150	220	280	360	450	530	355	2,195
Net Effect on Surplus													
On-budget	0	50	120	210	340	520	720	970	1,200	1,500	1,800	1,240	7,430
Combined	0	55	130	230	370	570	790	1,060	1,320	1,640	1,960	1,355	8,125
Memorandum:													
Percentage Change in Total Expenditures for Prescription Drugs (all payers)	0	-0.2%	-0.3%	-0.5%	-0.8%	-1.0%	-1.3%	-1.5%	-1.7%	-1.9%	-2.0%		

Note: HI = Hospital Insurance (Part A of Medicare)