Opening Statement by Rep. Henry A. Waxman

Hearing on Medicaid Prescription Drugs: Options for Payment Reform

Subcommittee on Health

Committee on Energy and Commerce

June 22, 2005

I am pleased that the Subcommittee is holding this hearing today. Reform in Medicaid payment policies for prescription drugs is one of the legitimate areas where we potentially can achieve program savings without harming beneficiaries or undermining basic protections in this program.

In my view, however, the savings we achieve in this area should be reinvested in Medicaid to help make necessary changes in the program to better serve beneficiaries, and to help States meet the fiscal demands of the program.

Having said that, let me make just a few points that I hope will guide us as we look into appropriate drug payment policy reforms:

First, we need to be sensitive to the impact of the changes we make on the access of beneficiaries to needed drugs. To the extent we are overpaying for drugs, as in some cases we clearly are, we need to fix that. But I am concerned that the proposal included in the Administration budget does not accurately reflect the acquisition cost for pharmacies, and could in some cases result in a loss of access for recipients.

Second, we need to recognize that increased utilization of generics is one of the most effective ways to reduce drug expenditures. We must be sure that the reforms we undertake do not have the unintended effect of undermining the use of generics where they are available. Basing the payment to the pharmacist on a percent of the cost of the drug raises some serious concerns in this regard.

Third, we need to remember that most of our drug expenditures are for brand name drugs that don't have generic versions available. This is where the dollars are, and we certainly should ask the brand name companies to contribute to the savings we seek in this area. Increasing the rebate should be the first option on the table, in my view.

Fourth, transparency in drug prices would provide significant help to the States and hospitals and other member of the so-called 340b coalition that use the Medicaid discount system. If States had access to the best price information, for example, I believe they would have in place payment systems that would not result in the overpayments we see with systems based on the Average Wholesale Price, which we know is easily manipulated.

Finally, CMS needs to do a better job of administering the best price and rebate system so that we are basing our payments on accurate information. The study GAO did at my request indicated lack of clarity on the policy, and little real monitoring by CMS, all of which resulted in inaccurate information on which the payments were based. This situation allows manipulation of prices by the companies. Further, it fails to capture the effect of discounts that PBMs receive. We need to change that. Whatever reforms we put into place will only be as effective as the accuracy of the information on which they are based.

I look forward to hearing from our witnesses today.