



Highlights of [GAO-07-358T](#), a testimony before the Committee on Finance, U.S. Senate

Why GAO Did This Study

Rising prescription drug spending has led the United States and other countries to seek ways to negotiate lower prices with drug manufacturers. Currently, the Medicare Part D benefit, which offers outpatient prescription drug benefits to beneficiaries including elderly and certain disabled people, comprises competing prescription drug plans overseen by the Centers for Medicare & Medicaid Services. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 prohibits the Secretary of Health and Human Services from interfering with price negotiations between Part D plan sponsors and drug manufacturers and pharmacies. Some Members of Congress have proposed amending the statute to allow the Secretary of Health and Human Services to negotiate directly with drug manufacturers on behalf of Part D beneficiaries.

GAO was asked to describe how prescription drug prices are negotiated. This testimony provides an overview of such efforts (1) by governments in other countries; (2) by U.S. private payers, such as employer-based health plans; and (3) by federal programs other than Medicare Part D. This testimony is based on previous GAO reports from 2002 through 2006 on federal programs that purchase or cover prescription drugs and other relevant literature from congressional agencies and federal or international organizations.

www.gao.gov/cgi-bin/getrpt?GAO-07-358T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John E. Dicken at (202) 512-7119 or dickenj@gao.gov.

PRESCRIPTION DRUGS

An Overview of Approaches to Negotiate Drug Prices Used by Other Countries and U.S. Private Payers and Federal Programs

What GAO Found

Governments in other countries use a range of approaches to limit the amount they pay to acquire drugs:

- Ceiling prices establish a maximum price manufacturers may charge for their products. Purchasers may sometimes negotiate more favorable prices directly with drug manufacturers.
- Reference prices use local or international price comparisons of drugs classified in a group as therapeutically similar to determine a single or maximum price for all drugs in that group.
- Profit limits control how much profit a drug manufacturer may earn per product or within a specified period of time.

Other factors—such as scope of coverage and national formularies, which are generally lists of preferred drugs—influence drug price negotiations.

In the U.S. private health insurance market, health plans typically contract with pharmacy benefit managers (PBM) to help manage their prescription drug benefits. PBMs negotiate rebates or payments with drug manufacturers, encourage substitution of generic drugs for therapeutically similar brand drugs, and negotiate discounted prices with networks of retail and mail-order pharmacies, passing along at least some of the savings to health plans and enrollees. PBMs influence price negotiations with manufacturers through formulary development and management and through the large market share they often represent.

Approaches for negotiating drug prices vary among federal programs in the United States. In part, these approaches depend on whether the programs purchase and distribute drugs directly or reimburse retail pharmacies or other providers for dispensing or delivering drugs. While the approaches used by federal programs in the United States reflect U.S. laws, markets, and health care delivery and financing, there are also elements common to some of the approaches used by other countries and by private payers. Some federal programs set ceiling prices, others establish prices by referencing prices negotiated by private payers in the commercial market, and still others rely on negotiations with manufacturers, directly or through private health plans. For example, the Departments of Veterans Affairs's and Defense's prices for a prescription drug may be the lowest of a ceiling price, other established price, or a price negotiated with the manufacturer. State Medicaid programs, joint federal-state programs that finance medical services for certain low-income adults and children, reimburse retail pharmacies for drugs dispensed to beneficiaries at set prices. The programs receive rebates from manufacturers that are meant to take advantage of the prices for drugs in the commercial market and are required to reflect discounts and rebates negotiated by private payers with manufacturers. For health benefits offered to federal employees, retirees, and dependents, rather than negotiating with manufacturers, the government contracts with participating health plans that typically use PBMs to negotiate drug prices and offer other pharmacy benefit, administrative, and clinical services.