U.S. SENATE COMMITTEE ON
Finance
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Floor Statement of U.S. Senator Chuck Grassley, of Iowa
"Medicare Part D — What the Experts and Others Are Saying"
Senate Committee on Finance
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Mr. President, over the past few days, I have stood before you presenting information about the Medicare prescription drug benefit. On Monday, I spoke about how the benefit uses prescription drug plans and competition to keep costs down and how well it is working. I said it then and I'll say it again, "If it ain't broke, don't fix it." I presented findings from the Chief Actuary at CMS and from experts at the Congressional Budget Office explicitly rejecting opponents' claims that giving the Secretary the authority to negotiate with drug companies would produce savings. Well, today I am going to let the words of others from across the political spectrum and from the news media do the talking.

I'll begin with Secretary Michael Leavitt of the Department of Health and Human Services who said, quote, "Government negotiation of prices does not work unless you have a program completely run by the government. Federal price negotiations would unravel the whole structure of the Medicare drug benefit, which relies on competing private plans." Just today, the Secretary wrote in an op-ed for the *Washington Post* that if the government was required to negotiate that mean that, quoting the Secretary, he said, "one government official would set more than 4,400 prices for different drugs, making decisions that would be better made by millions of individual consumers." He went on to say that, again quoting, "there are many ways the administration and Congress can work together to make health care more affordable and accessible. But undermining the Medicare prescription drug benefit, which has improved the lives and health of millions of seniors and people with disabilities, is not one of them."

Next, we have Dan Mendelson, a former Clinton Administration official, who now is President of a healthcare consulting firm that tracks the Medicare prescription drug program. He says, "From a rhetorical perspective, Democrats may feel like they gain a lot with this issue, but there are many substantive hurdles that the government faces in trying to negotiate prices. If you look historically at the government's experience in trying to regulate prices, it's poor."

As supporting evidence, a *Chicago Tribune* editorial said the following, "Richard S. Foster, the chief actuary for the Centers for Medicare and Medicaid Services (CMS), studied whether direct government negotiation would yield bigger discounts. His answer: Not likely. One reason, he said, was "Medicare's unreassuring record on price negotiations before the new benefit was passed. Medicare has a history of paying for some drugs 'at rates that, in many instance, were substantially greater than the prevailing price levels.' Translation: The feds got fleeced."

In November, the *Washington Post* printed a quote from Marilyn Moon, director of the health program at the American Institutes for Research. She is a former trustee of the Social Security and Medicare trust funds, a former senior analyst at the Congressional Budget Office, and current President of the board of the Medicare Rights Center. She said, "Government price negotiation is much more of a morass than people think. It is a feel-good kind of answer, but it's not one that is easy to imagine how you put it in practice." Dr. Alain Enthoven, Professor Emeritus at Stanford University is an expert on health care financing. He wrote in an opinion piece that appeared in the *Wall Street Journal*, "When the government negotiates its hands are tied because there are few drugs it can exclude without facing political backlash from doctors and the Medicare population, a very influential group of voters. Quoting further, he said "Congressional Democrats need to be careful in making the logical leap from market share to bargaining power. Empowering the government to negotiate with pharmaceutical companies is not necessarily equivalent to achieving lower drug prices. In fact, neither economic theory nor historical experience suggests that will be the outcome."

An editorial in the *Dallas Morning News* echoed my statement from Monday that beneficiaries do not want the government in their medicine cabinets. Here's a quote from that editorial: "Giving the feds the power to negotiate drug prices for seniors would effectively cede control of the pharmaceutical industry to Washington. When congressional Democrats press for this change, remember they're pushing for much more than lower prices. They're seeking to move the line where government should stop and the marketplace should start." But let's talk about who really matters in this case, the beneficiaries and taxpayers. In 2006, premiums were 38 percent lower than originally estimated. The net cost to the federal government is lower than expected. The 10-year cost of Part D has dropped $189 billion, representing a 30 percent drop in the actual cost compared to the original projections. For the top 25 drugs used by seniors, the Medicare prescription drug plans have been able to negotiate prices that on average are 35 percent lower than the average cash price at retail pharmacies.

A poll of Medicare beneficiaries by J.D. Power & Associates, which takes consumer temperatures on all sorts of products, found that 45 percent of the beneficiaries surveyed were "delighted" with the Medicare drug benefit. They gave their own drug plan a "10" on a 10 point-scale. And another 35 percent of those surveyed gave their prescription drug plan an 8 or a 9 rating on that 10-point scale. And other polls are consistent. So that's eighty percent satisfied.

All of the program's successes have been challenged at various times by the program's opponents and each time they are proven wrong. As the plan continues to return positive results, skeptics are beginning to change their opinion as well. Dr. Robert Reischauer, a former director of the Congressional Budget Office, is a nationally known expert on Medicare. Currently, he is president of the Urban Institute and serves as Vice Chair of the Medicare Payment Advisory Commission. "Initially, people were worried no private plans would participate. Then too many plans came forward. Then people said it's going to cost a fortune. And the price came in lower than anybody thought. Then people like me said they're low-balling the prices the first year and they'll jack up the rates down the line. And, lo and behold, the prices fell again. At some point you have to ask: What are we looking for here?"

Now let me tell you what newspapers are saying.

A *Washington Post* editorial represented an insightful viewpoint, saying, quote, "A switch

to government purchasing of Medicare drugs would choke off this experiment before it had a chance to play out, and it would usher in its own problems. For the moment, the Democrats would do better to invest their health care energy elsewhere."

A *USA Today* editorial took it a step further, saying, "A deeper look, however, suggests that the Democrats' proposal was more of a campaign pander than a fully baked plan…governing is different than campaigning. The public would be best served if the new Congress conducts in-depth oversight to gather the facts, rather than rushing through legislation within 100 hours to fix something that isn't necessarily broken."

And finally, put simply by *The National Review*, government negotiation, quote, "is a solution in search of a problem and could unnecessarily disrupt a benefit that is working well for seniors."

What compounds the problem is the fact that neither I nor anyone else has heard Democrats explain how government negotiation would work.

A *The New York Times* news article from this past Sunday said, the Democrats' proposal in H.R. 4 is seen by "many economists and health policy experts…as a paradox." On the one hand, the Democrats want the government to negotiate lower drug prices for Medicare beneficiaries, but on the other hand, they insist that the government should not decide which drugs are covered. Continuing the paradox, and I'm quoting the *New York Times* article, "the bill says the secretary 'shall negotiate' lower prices. On the other hand, the drug benefit would still be delivered by private insurers. Each plan would establish its own list of covered drugs, known as a formulary, and the secretary could not 'establish or require a particular formulary.'"

In the same *New York Times* story, James R. Lang, former President of Anthem Prescription Management, a drug benefit manager said, "For this proposal to work, the government would have to take over price negotiations. It would have to take over formularies. You can't do one without the other. Drug manufacturers won't give up something for nothing. They will want a preferred position on the Medicare formulary - some way to increase the market share for their products."

The only comparison I know of is the Veterans Administration. So, when people come up to me and ask why the government negotiates for veterans and not for seniors I tell them what a Medicare system modeled after the VA would look like. Yesterday, I spent some time explaining what government negotiation looks like for the VA and other federal programs. But, again, instead of listening to my words, I will tell you what others are saying.

As explained in the *Washington Post*, and I quote, "The veterans program keeps prices down partly by maintaining a sparse network of pharmacies and delivering three-quarters of its prescriptions by mail...Moreover, the program for veterans is in a position to negotiate hard with drugmakers because it can credibly threaten not to buy from them: Its plan excludes many new medicines."

The *Los Angeles Times* continues the discussion, stating, "Applying the VA approach to Medicare may prove difficult. For one thing, Medicare is much larger and more diverse. VA officials can negotiate major price discounts because they restrict the number of drugs on their

coverage list. Instead of seven or eight drugs for a given medical problem, the VA list may contain three or four. If a drug company fails to offer a hefty discount, its product may not make the cut."

Mr. President, the final thoughts I will leave you with today come from a letter sent by the non-partisan Congressional Budget Office.

Just yesterday, after reviewing H.R. 4 at the request of Congressman Dingell, the Chairman of the Committee on Energy and Commerce, the Congressional Budget Offices concluded the following, and here I am quoting again: "H.R. 4 would have a negligible effect on federal spending because we anticipate that the Secretary would be unable to negotiate prices across the broad range of covered Part D drugs that are more favorable than those obtained by PDPs under current law." The letter continued to say, quote, "without the authority to establish a formulary, we believe that the Secretary would not be able to encourage the use of particular drugs by Part D beneficiaries, and as a result would lack the leverage to obtain significant discounts in negotiations with drug manufacturers." In conclusion, CBO's letter to Mr. Dingell said, quoting again, "the PDPs have both the incentives and the tools to negotiate drug prices that the government, under the legislation, would not have." I think that pretty much sums it up. I can think of nothing more to say that CBO did not say in its letter on H.R. 4.

And so, Mr. President, as I have said before this week, I would hope that we could put politics aside here and focus on some of the real improvements we could be making with the drug benefit. That is what we should focus on here. And I still hope that we will.

Mr. President, I yield the floor.