



CONGRESSIONAL BUDGET OFFICE  
U.S. Congress  
Washington, DC 20515

*Douglas Holtz-Eakin, Director*

January 23, 2004

Honorable William H. Frist, M.D.  
Majority Leader  
United States Senate  
Washington, DC 20510

Dear Mr. Leader:

At your request, CBO has examined the effect of striking the “noninterference” provision (section 1860D-11(i) of the Social Security Act) as added by P. L. 108-173, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. That section bars the Secretary of Health and Human Services from interfering with the negotiations between drug manufacturers and pharmacies and sponsors of prescription drug plans, or from requiring a particular formulary or price structure for covered Part D drugs.

We estimate that striking that provision would have a negligible effect on federal spending because CBO estimates that substantial savings will be obtained by the private plans and that the Secretary would not be able to negotiate prices that further reduce federal spending to a significant degree. Because they will be at substantial financial risk, private plans will have strong incentives to negotiate price discounts, both to control their own costs in providing the drug benefit and to attract enrollees with low premiums and cost-sharing requirements.

If you have any questions we would be happy to answer them. The CBO staff contact is Tom Bradley.

Sincerely,

Douglas Holtz-Eakin

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cc: Tom Daschle  
Democratic Leader

Honorable Don Nickles  
Chairman  
Committee on the Budget

Honorable Kent Conrad  
Ranking Member

Honorable Charles E. Grassley  
Chairman  
Committee on Finance

Honorable Max Baucus  
Ranking Democratic Member

Honorable Jim Nussle  
Chairman  
House Committee on the Budget

Honorable John M. Spratt Jr.  
Ranking Member

Honorable William "Bill" M. Thomas  
Chairman  
Committee on Ways and Means

Honorable Charles B. Rangel  
Ranking Member

Honorable W. J. "Billy" Tauzin  
Chairman  
Committee on Energy and Commerce

Honorable John D. Dingell  
Ranking Member