



Highlights of [GAO-09-819T](#), a testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

Millions of individuals receive prescription drugs through federal programs. The increasing cost of prescription drugs has put pressure to control drug spending on federal programs such as the Federal Employees Health Benefits Program (FEHBP), Medicare Part D, the Department of Veterans Affairs (VA), the Department of Defense (DOD), and Medicaid. Prescription drug spending within the FEHBP in particular, which provides health and drug coverage to about 8 million federal employees, retirees, and their dependents, has been a significant contributor to FEHBP cost and premium growth. The Office of Personnel Management (OPM), which administers the FEHBP, predicted that prescription drugs would continue to be a primary driver of program costs in 2009.

GAO was asked to describe approaches used by the FEHBP to control prescription drug spending and summarize approaches used by other federal programs. This testimony is based on prior GAO work, including *Prescription Drugs: Oversight of Drug Pricing in Federal Programs* ([GAO-07-481T](#)) and *Prescription Drugs: An Overview of Approaches to Negotiate Drug Prices Used by Other Countries and U.S. Private Payers and Federal Programs* ([GAO-07-358T](#)) and selected updates from relevant literature on drug spending controls prepared by other congressional and federal agencies.

View [GAO-09-819T](#) or key components. For more information, contact John E. Dicken at (202) 512-7114 or dickenj@gao.gov.

PRESCRIPTION DRUGS

Overview of Approaches to Control Prescription Drug Spending in Federal Programs

What GAO Found

FEHBP uses competition among health plans to control prescription drug spending, giving plans an incentive to rein in costs and leverage their market share to obtain favorable drug prices. Most FEHBP plans contract with pharmacy benefit managers (PBMs) to help administer the prescription drug benefit. In a 2003 report, GAO found that the PBMs reduced drug spending by: negotiating rebates with drug manufacturers and passing some of the savings to the plans; obtaining drug price discounts from retail pharmacies and dispensing drugs at lower costs through mail-order pharmacies operated by the PBMs; and using other techniques that reduce utilization of certain drugs or substitute other, less costly drugs. While OPM does not negotiate drug prices or discounts for FEHBP, it attempts to limit spending through annual premium and benefit negotiations with plans, including the encouragement of spending controls such as generic substitution.

Other federal programs use a range of approaches to control prescription drug spending.

- Medicare—the federal health insurance program for the elderly and disabled—offers an outpatient prescription drug benefit known as Medicare Part D that uses competition between plan sponsors and their PBMs to limit drug spending, in part through the ability to negotiate prices and price concessions with drug manufacturers and pharmacies. Plans are required to report these negotiated price concessions to the Centers for Medicare & Medicaid Services (CMS), to help CMS determine the extent to which they are passed on to beneficiaries.
- VA and DOD pharmacy benefit programs for veterans, active duty military personnel, and others may use statutorily mandated discounts as well as negotiations with drug suppliers to limit drug spending. VA and DOD have access to a number of prices to consider when purchasing drugs—including the Federal Supply Schedule prices that VA negotiates with drug manufacturers—paying the lowest of all available prices.
- The Medicaid program for low-income adults and children is subject to aggregate payment limits and drug payment guidelines set by CMS. Medicaid does not negotiate drug prices with manufacturers, but reimburses retail pharmacies for drugs dispensed to beneficiaries at set prices. An important element of controlling Medicaid drug spending is the Medicaid drug rebate program, under which drug manufacturers are required by law to provide rebates for certain drugs covered by Medicaid. Under the rebate program, states take advantage of prices manufacturers receive for drugs in the commercial market that reflect discounts and rebates negotiated by private payers.

In addition, Part D, VA and DOD, and Medicaid use techniques similar to FEHBP to limit drug spending, such as generic substitution, prior authorization, utilization review programs, or cost-sharing requirements.