

October xx, 2011

The Honorable Jeb Hensarling
129 Cannon House Office Building
Washington, DC 20515

The Honorable Patty Murray
448 Russell Senate Office Building
Washington, DC 20510

Dear Congressman Hensarling and Senator Murray:

The rapid increase in the deficit and debt has led to scrutiny of entitlement spending and the consideration of proposals to curb Medicare spending. One policy of great concern, however, would apply Medicaid's rebate structure to Medicare Part D dual eligible and low-income subsidy (LIS) populations.

Part D has performed well above expectations due largely to the benefits of competition. Since its implementation, Part D has cost taxpayers 41 percent less than originally projected. Beneficiary premiums are 46 percent less than projected, and have been stable from year to year—a degree of restraint unheard of in this era of health cost growth. Most or all of these gains would be at risk under the rebate proposal, with some estimates pegging the premium increase for seniors at 20 to 40 percent. This is a population who can least afford such an increase.

Experts estimate that such a proposal could reduce access to medicines and increase out of pocket costs for many seniors and disabled people. Many in this population already survive on a limited income, and some must choose between prescriptions and food or utility bills. Studies suggest that reliance on mandated rebates will push up drug prices for privately insured individuals and families and discourage investment in new drug development. Most importantly, it could seriously reduce drug choices for patients and prescribing options for health care providers.

Specifically, we are concerned that the proposal would:

1. ***Shift costs onto Part D beneficiaries, state Medicaid programs and private payers.*** The proposal would expand Medicaid-style rebates to roughly 40 percent of Medicare Part D beneficiaries who account for more than half of Part D spending. At the same time, Medicaid populations will also grow dramatically as the result of the Affordable Care Act; 18 million is the forecast. The combination of \$112 billion in estimated savings from the proposal, and the growing rebates created by an expanded Medicaid population will constrain the ability of manufacturers to absorb costs without passing them on to consumers. Economic studies clearly suggest that drug prices will be higher as a result. According to one study, Part D premiums for most Medicare beneficiaries are likely to increase 20-40 percent. Another study by the non-partisan CBO found that Medicaid rebates have reduced the negotiated discounts currently available to private payers. Under the proposal, consumers, seniors, and state governments would be forced to spend significantly more on drugs at a time when our economy is weak and millions of Americans are unemployed.
2. ***Constrain formularies in ways that make it harder for beneficiaries to get the prescriptions they need.*** In attempting to limit premium increases, prescription drug plans may opt to adjust their formularies, giving seniors and disabled Americans fewer preferred options, and forcing many to pay higher out-of-pocket costs – costs which many cannot afford and will cause some to forego treatment. Higher costs will cause a breakdown in treatment plan adherence, as seniors opt out of Part D coverage or fail to purchase the drugs they need to maintain their health. This in turn could lead to higher costs in Medicare for hospitalizations and nursing home care. The availability of drug coverage is achieving savings of up to \$13 billion a year by keeping more seniors healthier and out of

institutional settings, according to recent estimates by Harvard researchers. The rebate plan jeopardizes these savings and the lives they represent.

3. ***Undercut incentives to compete.*** Thanks to competition, costs under the Part D program have come in forty percent lower than contemplated in the original budget estimates. The rebate proposal undermines incentives that promote robust competition. CBO failed to fully account for the cost saving benefits of competition when Part D was originally enacted, and may well now be over-estimating the budget savings associated with undoing this positive dynamic.
4. ***Reduce the funding available for research and development.*** Imposing \$112 billion in mandatory government rebates will reduce funds available to invest in the development of new prescription drugs. Treatments designed for the elderly cannot help but be especially affected.

Part D is working well for limited income seniors and low-income beneficiaries. While Medicare costs have been soaring, Part D premiums have held steady annually. Far from being a source of inefficiency and waste, Part D sets the standard for delivering better value at lower cost. We strongly believe that the Committee should reject any proposals that put these savings at risk. Clearly such a move would adversely impact the health and well being of millions of seniors and persons with disabilities.

Thank you for your consideration. We look forward to working with the Committee to help strengthen Medicare and to ensure that the program is stable, efficient and effective, and that it continues to maintain and improve the health of the beneficiaries.

Sincerely,