Coalition Opposes Inflationary Rebate Penalty in Medicare Part D

July 22, 2019

Dear Members of the Senate Finance Committee:

We write in opposition to creating an inflationary rebate penalty in Medicare Part D.

Under this proposal, a monetary penalty would be imposed on a manufacturer if the price increase of a medicine is greater than inflation.

We are concerned that this proposal institutes a new price control on Part D that will do nothing to directly help seniors and will instead create distortions that will undermine the free market and the success of Medicare Part D.

Part D works because it facilitates negotiation between different stakeholders. The system puts downward pressure on costs through competition between pharmacy benefit managers (PBMs), pharmaceutical manufacturers, plans, and pharmacies. At the core of this program is the non-interference clause which prevents the Secretary of Health and Human Services (HHS) from interfering with the robust private-sector negotiations. The Congressional Budget Office has even said that there would be a "negligible effect" on Medicare drug spending from ending non-interference.

An inflationary rebate penalty will undermine this by instituting a price fixing mechanism. Conservatives have long opposed price controls because they utilize government power to forcefully lower costs in a way that distorts the economically-efficient behavior and natural incentives created by the free market. When imposed on medicines, price controls suppress innovation and can severely limit access to new medicine. Over the long term, price controls deter the development and supply of new life saving and life improving medicines to the detriment of consumers, patients, and doctors.

Existing Part D negotiation already protects against price increases. Almost 100 percent of medicines are subject to "price protection rebates" negotiated by PBMs which effectively establishes a private sector ceiling or cap on the amount by which the price of a medication can increase.

An inflationary rebate penalty would do nothing to directly help seniors as there would be no tangible benefit in terms of bringing their own costs down. The federal government is the only direct beneficiary of these financial penalties. The revenue generated from this penalty would likely be used for other spending purposes rather than offsetting individuals' drug costs. Undermining Part D with an inflationary rebate may also crowd out existing rebates and discounts which flow through to patients.

The fact is, the market-based structure of Part D is popular and successful. Since it was first created, federal spending has come in 45 percent below projections - the CBO **estimated** in 2005 that Part D would cost $172 billion in 2015, but it has cost less than half that – just $75 billion. Monthly premiums are also just half the originally projected amount, while 9 in 10 seniors are **satisfied** with the Part D drug coverage.

As you continue your efforts to lower healthcare costs, we urge you to reject any proposal that institutes an inflationary rebate penalty in Medicare Part D. A new price control will undermine the successful system that has served seniors well.

Sincerely,

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President, Americans for Tax Reform

James L. Martin
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