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Health

Cutting Drug Prices Would Fix Medicare Flaw: Analysis

By [Karen Pallarito](#)
HealthDay Reporter

WEDNESDAY, July 21 (HealthDayNews) -- America's seniors would have better access to medicines if U.S. drug prices were slashed to the level paid in other industrialized nations, a new analysis suggests.

A 45 percent price cut would let Congress eliminate a gap in coverage that will occur when Medicare's outpatient prescription drug benefit takes effect in 2006, the authors conclude. Lower prices, they add, would make it possible to enhance drug coverage for seniors at no additional cost to the federal government.

But there's a tradeoff. Price cuts could stifle the pipeline of pharmaceutical innovation, leading to fewer new drugs coming to market, according to the research, which appears in the July 21 online issue of *Health Affairs*.

Study author Gerald Anderson, a professor of health policy and management at the Johns Hopkins Bloomberg School of Public Health in Baltimore, said Congress faces a clear-cut decision.

"The clear choice," he said, "is better access to drugs for Medicare beneficiaries or higher prices for drugs that may lead to more research and development [R&D]."

But Richard P. Rozak, a senior vice president with NERA Economic Consulting in Washington, said the proposed tradeoff is not so simple. To begin with, many products have higher prices in the United States than in other countries.

Pharmaceutical manufacturers face higher product liability costs in the United States, for one, a consequence of America's litigious environment. "Should the U.S. undertake reform of the tort system to lower product liability costs?" Rozak asks.

Anderson's study, funded by the Commonwealth Fund and the Robert Wood Johnson Foundation, comes amid relentless criticism of the Medicare prescription drug benefit that President Bush signed into law last December.

Health policy experts cite two major flaws with the legislation. The first is a gap in coverage commonly known as the "doughnut hole." Under the law, when seniors' drug expenses reach \$2,250, Medicare coverage ceases. Seniors must cover 100 percent of the costs until their prescription bills total \$5,100. After that, Medicare will pay 95 percent of their drug costs. Lawmakers purposely wrote the gap into law to hold down Medicare drug spending to \$400 billion over a 10-year period.

The law also contains a controversial provision that bars the federal government from directly negotiating with drug manufacturers over price.

What if Medicare could regulate drug prices? Would it bridge the gap in coverage? To find out, Anderson and colleagues compared the average wholesale prices of 30 drugs sold in the United States and in Canada, France and the United Kingdom.

One of those drugs is Lipitor, America's top-selling prescription medicine. At \$1.81 per 10-milligram tablet in 2003, the cholesterol-lowering medication is nearly twice as expensive in the United States as in Canada, France and the United Kingdom, where the authors say the same pills were priced at 99 cents, 67 cents and 90 cents, respectively.

They also compared drug prices after a 20 percent discount, roughly equivalent to the price break that private insurers in the United States are able to negotiate with pharmaceutical manufacturers.

Then researchers created two models: one simulating drug spending under the current Medicare prescription drug legislation and a second that assumes a 45 percent price cut.

With a 20 percent discount, total drug spending is projected to reach \$101.9 billion in 2006 under the current legislation. Of that amount, Medicare will pay \$44.5 billion, beneficiaries will pick up \$31 billion and third-party payers will spend \$26.4 billion.

As an alternative, Medicare could negotiate or set prices comparable to those of the selected countries and eliminate the doughnut hole, at no additional cost to the government, the study shows. Under this option, which assumes a 45 percent price cut, there would be no gap in coverage. Beneficiaries would pay \$19.1 billion and third-party payers would spend \$9.9 billion. /p>

Clearly, a price cut of that magnitude would impact the pharmaceutical industry.

"It's going to reduce the amount of research and development that they would be able to undertake," Anderson said.

Exactly how that would play out, though, is pure speculation. Would they protect investments in research that leads to new cures for diseases? Would they curb investment in developing "copycat" drugs that mimic products already on the market?

"If by changing prices we're going to lose some of the 'me-too' R&D, then I don't think that's such a bad thing," said Vicki Gottlich, an attorney in the Washington, D.C., office of the Center for Medicare Advocacy.

More information

Visit Medicare to learn more about the [upcoming drug benefit](#).
