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Eliminating Prescription Drug Price Discrimination Would Lead to Greater Savings for Seniors than the Republican Medicare Proposal

The Republican Medicare drug benefit would provide seniors with a minimal drug benefit at a cost of \$400 billion to the taxpayer. The benefits of the proposal are meager and the costs are high because the proposal allows the drug industry to continue to charge seniors higher prices than consumers in other countries. Legislation that stopped this prescription drug price discrimination by providing seniors with access to international drug prices would save most seniors more money than the Republican proposal — and it would do so at no cost to the taxpayer.

Congressional Budget Office data indicates that over the next ten years, the Republican proposal would pay an estimated 22% of all prescription drug costs for seniors. In contrast, eliminating price discrimination would reduce brand-name drug costs for seniors by an average of 45%.

The Republican Medicare Proposal Provides Meager Benefits for Most Seniors

The Republican Medicare proposal would charge seniors a monthly premium of \$35, with a \$250 deductible. Seniors would then pay 25% of all costs for the first \$2,250 worth of drugs used. Coverage would then end, until the covered senior spent \$3,600 out-of-pocket. The insurance coverage would then cover 95% of the cost of additional drugs.

Because of the structure of the program, savings for many seniors would be very small. A senior with drug expenses of \$1,000 annually would pay out-of-pocket costs of \$858, saving just 14%. A senior with drug expenses of \$5,000 annually would pay out-of-pocket costs of \$3,920, saving just 22%. In fact, seniors with annual drug costs of less than \$1,450 or between \$3,300 and \$6,100 are likely to save less than 33% annually. An estimated three-fifths of seniors fall into these spending categories

The Congressional Budget Office estimates that over the next ten years, seniors will use a total of \$1.8 trillion worth of prescription drugs.¹ The Republican proposal is estimated to pay for

¹ Congressional Budget Office, Statement of Douglas Holtz Eakin, *Prescription Drug Coverage and Medicare's Fiscal Challenges*, before the Committee on Ways and Means, U.S. House of Representatives (Apr. 9, 2003).

\$400 billion of prescription drugs. This is just 22% of total drug expenditures by Medicare beneficiaries over the next ten years.

The Impact of Price Discrimination by Drug Manufacturers

One of the leading causes of the high drug prices paid by seniors is price discrimination by the drug manufacturers. Manufacturers of brand-name prescription drugs routinely require seniors in the United States to pay far more for prescription drugs than consumers in other developed nations such as Canada and the countries of the European Union. The Republican proposal does nothing to end this prescription drug price discrimination.

Prescription drug price discrimination has a major impact on U.S. drug prices. Average prices for patented drugs in Europe and Canada are usually well below U.S. prices. For example, prices in Italy are 53% lower than U.S. prices.² French prices are 50% lower, German prices are 43% lower, Canadian prices are 40% lower, and British prices are 38% lower.³ Average brand-name drug prices in these five countries are 45% lower than U.S. prices.

Ending Prescription Drug Price Discrimination Would Save Seniors More than the Republican Proposal

Democrats have repeatedly supported legislative efforts to end prescription drug price discrimination by requiring drug manufacturers to provide seniors with access to drugs at their low international prices. If seniors had access to these low prices, most seniors would save as much as or more than they would save under the coverage offered by the Republican proposal.

For example, a senior with \$1,000 of annual brand-name drug expenses would pay an average of \$550 annually if prescription drug price discrimination were eliminated, compared with \$858 under the Republican proposal. A senior with \$3,000 of annual brand-name drug expenses would pay an average of only \$1,650 if he or she had access to international prices, compared to \$1,920 under the Republican proposal. Similarly, seniors with annual brand-name drug expenses of \$4,000 and \$5,000 would all save more if they had access to international drug prices than they would under the Republican proposal. Table 1.

In some specific cases, the average savings can be even higher. For example, a monthly supply of the popular heartburn medication Prevacid costs approximately \$116 in the United States, but has an average foreign price of only \$57, a savings of over 50%. A monthly supply of the heartburn medication Nexium costs approximately \$130 in the United States, but has an average foreign price of only \$65. And a monthly supply of the popular blood pressure medication Lipitor costs approximately \$140 in the United States, but has an average foreign price of only \$70.

² *Patented Medicines Prices Review Board, 2002 Annual Report (2003).*

³ *Id.*

<i>Table 1: Eliminating Price Discrimination Would Lead to Greater Savings for Seniors than the Republican Medicare Proposal</i>				
Current Average Annual Brand Name Drug Spending	Cost if Price Discrimination Were Eliminated	Cost under Republican Proposal	% Savings with Elimination of Price Discrimination	% Savings under Republican Medicare Proposal
\$1,000	\$550	\$858	45%	14%
\$2,000	\$1,100	\$1,108	45%	45%
\$3,000	\$1,650	\$1,920	45%	36%
\$4,000	\$2,200	\$2,920	45%	28%
\$5,000	\$2,750	\$3,920	45%	22%

Prescription drug price discrimination occurs primarily in the pricing of patented drugs because drug manufacturers lose much of their ability to price discriminate once a patent expires. Brand-name medications account for over 90% of all U.S. prescription drug sales in dollar terms.⁴ Taking into account both patented and generic medicines, the effect of ending prescription drug price discrimination would be to save seniors approximately 40% of their annual drug expenditures over the next ten years. This is significantly more than the 22% saving that can be achieved under the Republican proposal. Even if pharmaceutical benefits managers provide seniors with additional negotiated savings under the Republican proposal, these savings are likely to be lower for most seniors than the savings from eliminating price discrimination.

The Costs to the Taxpayer of Ending Prescription Drug Price Discrimination

The Republican Medicare proposal is estimated to cost taxpayers \$400 billion over the next ten years. In contrast, a requirement that drug manufacturers cease prescription drug price discrimination has no direct cost to the taxpayer.

⁴ Generic Pharmaceutical Association, *Generic Pharmaceuticals: Facts At A Glance* (2003).