



The Daily Dish

Part D “Negotiation” Goes Live

DOUGLAS HOLTZ-EAKIN | AUGUST 16, 2024

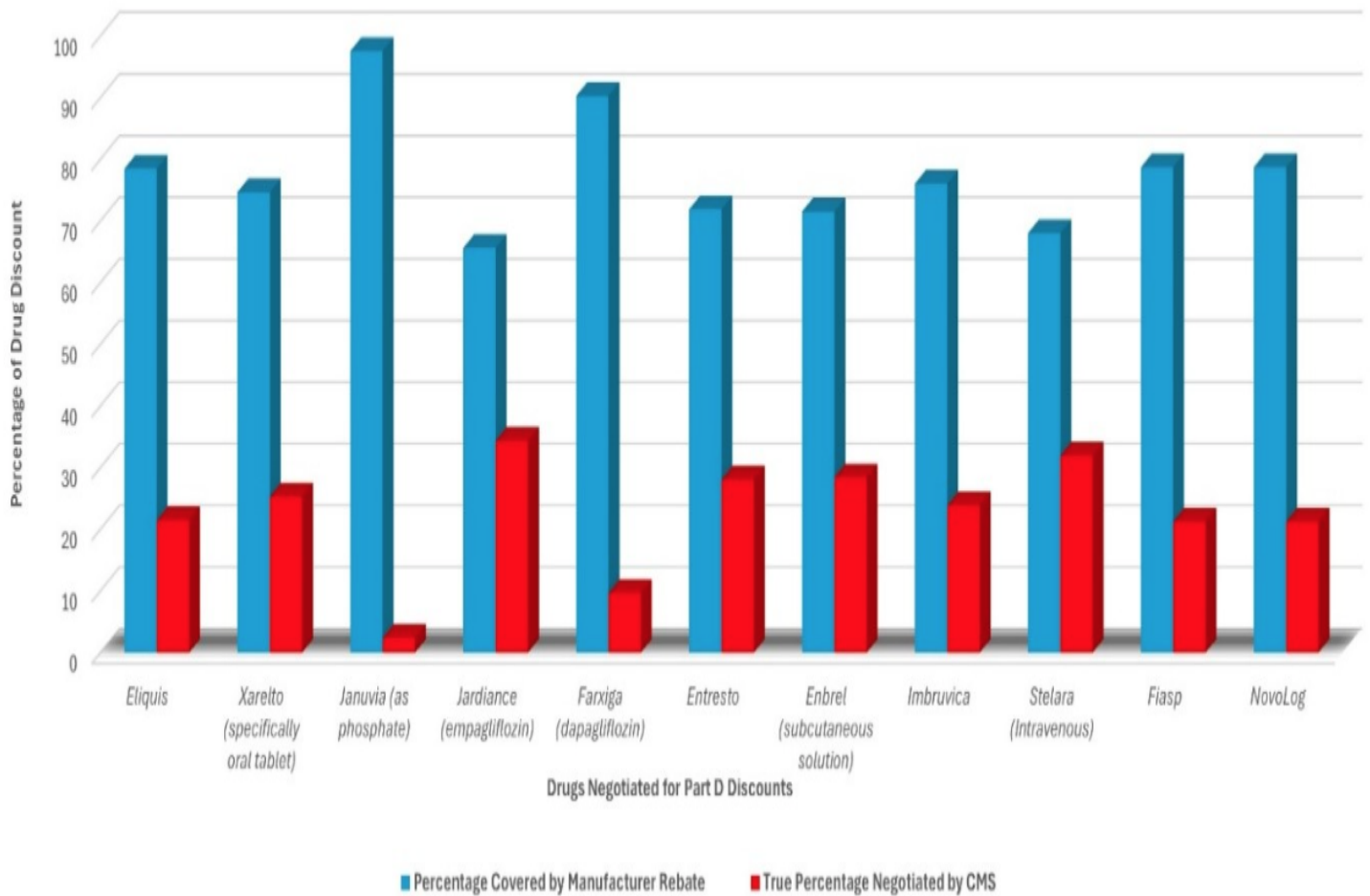
Yesterday morning the Centers for Medicare and Medicaid Services (CMS) [announced](#) the so-called Maximum Fair Prices (MFP) for the first 10 drugs to enter the “negotiation” regime under the [Inflation Reduction Act](#) (IRA). (Author’s note: Any time a politician uses the word “fair,” watch your wallet.)

This small sample of data is the first genuine head-to-head comparison of what reliance on private negotiation – the original *raison d’etre* of the Medicare Part D program – yields versus government intervention into prices. The results speak poorly for the IRA. The graph below compares the discount from list price negotiated in the private sector (blue bars) compared with the additional discount (red bars) achieved by IRA assault team to set MFPs (data comes from Health and Human Services). It looks like there are two basic takeaways:

- Despite being armed with enormous artillery (confiscatory taxes, the possibility of banning sales of all a company’s drugs in Medicare, negotiations conducted in secret isolation chambers with no sunshine of public scrutiny, etc.), the Biden Administration didn’t do much. Perhaps the moral is that it’s time to stop giving the government so much artillery to misuse.
- Or perhaps the raid accomplished all that it could. Put differently, maybe, just maybe, it is really expensive to invent, develop, test, and market drugs – so expensive that there was little left to extract from the manufacturers.

Either way, the Biden Administration has a problem with its messaging. Either the pharmaceutical makers are not fat cats awash in cash or the government is not your highly efficient ally, or both.

Comparison of Drug Discounts - Manufacturer Rebates vs CMS Negotiation



This did not stop CMS and the White House from holding a self-congratulatory event, lauding the fact that “American taxpayers are expected to save \$6 billion on prescription drug costs, and people enrolled in Medicare are expected to save \$1.5 billion in out-of-pocket costs *in 2026* alone” (emphasis added). That’s right, seniors, this blessed relief will arrive more than 18 months from now.

And the numbers are a lot smaller than advertised (see chart below). The White House is comparing the MFP to the list price (pink), which is a clear overstatement because private negotiations have already yielded rebates (white) that lower the net price (blue) prior to the IRA regime (orange). The right comparison is net price versus list price for the private sector and MFP versus net price for the IRA. On that front, the median manufacture rebate is about \$315 versus the median IRA reduction of \$101.

Drug 2023 LIST	MANUFACTURER REBATE	REBATED MANUFACTURE PRICE B4 IRA NEG.	NEW CMS NEGOTIATED PRICE	TRUE \$ AMOUNT GOVERMENT NEGOTIATED
\$521	\$203	\$318	\$231	\$87
\$573	\$275	\$298	\$197	\$101
\$517	\$315	\$202	\$197	\$5
\$527	\$290	\$237	\$113	\$124
\$556	\$356	\$200	\$178.50	\$22
\$628	\$144	\$484	\$295	\$189
\$7,106	\$3,198	\$3,908	\$2,355	\$1,553
\$14,934	\$1344.06	\$13,590	\$9,319	\$4,271
\$13,836	\$4980.96	\$8,855	\$4,695	\$4,160
\$495	\$332	\$163	\$119	\$44
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The administration knows better, of course. As explained in a [Health Affairs study](#) on list versus net prices, “It has been abundantly clear for some time that the list price of a drug greatly differs from the net price, which incorporates discounts and rebates, and that the use of list price leads to misleading results.”

A better route for Part D would be to junk the negotiation regime and focus on gradually instituting the Part D redesign that was intended to return the program to its private-sector roots. Unfortunately, the administration has already turned that potential silver lining of the IRA into its own [tragedy](#).