**CONGRESSIONAL BUDGET OFFICE**
***U.S. Congress***
***Washington, DC 20515***

***Keith Hall, Director***

May 17, 2019

Honorable Chuck Grassley
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

RE: Negotiation Over Drug Prices in Medicare

Dear Mr. Chairman:

You asked for updated answers to two questions that CBO addressed in a letter to Senator Wyden in 2007.[1] Those questions relate to the Medicare Part D prescription drug benefit and options for allowing the Secretary of Health and Human Services to negotiate over the prices paid for drugs under that benefit. Under current law, the Secretary is prohibited both from interfering in the negotiations between drug manufacturers and the prescription drug plans (PDPs) that deliver the Medicare benefit and from requiring a particular formulary or instituting a price structure for the reimbursement of covered drugs.

The questions and the key conclusions from CBO's response in 2007 are below. CBO continues to stand by those conclusions.

**If the Secretary was given authority to negotiate by Congress and used that authority, would it be possible to obtain savings in Medicare?**

> The key factor in determining whether negotiations would lead to price reductions is the leverage that the Secretary would have to secure larger price concessions from drug manufacturers than competing PDPs currently obtain. Negotiation is likely to be effective only if it is accompanied by some source of pressure on drug manufacturers to secure price concessions. For example, authority to establish a

1. Congressional Budget Office, letter to the Honorable Ron Wyden regarding drug price negotiation in Medicare (April 10, 2007), www.cbo.gov/publication/18550.

> formulary could be a source of pressure. In the absence of such pressure, the Secretary's ability to issue credible threats or take other actions in an effort to obtain significant discounts would be limited. Thus, CBO concluded that providing broad negotiating authority by itself would likely have a negligible effect on federal spending.

**Could negotiating by the Secretary over drug prices obtain savings for the Medicare program if those negotiations were limited to selective instances?**

> The authority to engage in negotiations limited to a few selected drugs or types of drugs under exceptional circumstances could potentially generate cost savings. For example, negotiations could be focused on drugs with no close substitutes or those with relatively high prices under Medicare that are needed to address a public health emergency.
>
> In such cases, CBO expects that the effect of the Secretary's actions—if he or she took advantage of the new authority—would primarily reflect the use of the "bully pulpit" to pressure drug manufacturers into reducing prices. Thus, CBO concluded that the overall impact on federal spending from negotiations targeted at selected drugs would be modest. Beyond that general conclusion, the precise effect of any specific proposal would depend importantly on its details.

If you would like further information on this subject, we would be happy to provide it. The CBO staff contact is Tom Bradley.

Sincerely,

Keith Hall
Director

cc: Honorable Ron Wyden
Ranking Member