

Government Report Shows Medicare Part D Cost Overruns, Proves Seniors are Not Seeing the Savings

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Contact: Kristen Bossi
(202) 225-4476

WASHINGTON, D.C. - Today, Congressman Chris Murphy (CT-5) released a new report on the Medicare Part D drug program, revealing that the high administrative costs of the private Part D insurers, combined with their inability to negotiate significant drug savings, will cost taxpayers and seniors almost \$15 billion this year.

"This drug benefit is economically inefficient and failing our seniors. We must make changes to this program to save money for seniors and taxpayers, and we have to do it before we lose billions more by not allowing the government to negotiate for lower drug prices," said Murphy.

The investigation was conducted at the request of Murphy by the staff of the House Oversight and Government Reform Committee, on which Murphy serves. It is the first independent analysis to have access to proprietary data about drug plan costs and drug prices. Key findings include:

- High administrative expenses. The private Part D insurers report administrative expenses, sales costs, and profits of almost \$5 billion in 2007 -- including \$1 billion in profits alone. The administrative costs of the privatized Part D program are almost six times higher than the administrative costs of the traditional Medicare program.
- Small drug rebates. The drug price rebates negotiated by the Part D insurers reduce Medicare drug spending by just 8.1%. In contrast, rebates in the Medicaid program reduce drug spending by 26%, over three times as much. Because of the difference in the size of the rebates, the transfer of low-income seniors from Medicaid drug coverage to Medicare drug coverage will result in a \$2.8 billion windfall for drug manufacturers in 2007. The Part D insurers receive no rebates or other manufacturer discounts for three-quarters of the drugs used by seniors.
- Failure to pass rebates to seniors. When the insurers do obtain drug price rebates, they do not use the rebates to reduce pharmacy drug prices. This year alone, the private insurers will receive \$1 billion in rebates on purchases that seniors in coverage gaps, such as the donut hole, pay for out of their own pockets.

"The donut hole doesn't have to exist and this report proves it. The only thing the donut hole does is pad the drug industry's profits. Seniors deserve a better Medicare drug prescription program, and I am hopeful that this Congress will be able to make the necessary reforms to do better for those who need it," said Murphy.

Attached is the report.
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