The Daily Dish

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**DOUGLAS HOLTZ-EAKIN | JANUARY 22, 2015**

Another morning, another veto threat from the administration. The Regulatory Accountability Act easily passed the House in a bipartisan vote. According to the Washington Examiner, the rule "…would force agencies to base all new regulations on hard evidence, weighing potential costs of the rule and those of any 'reasonable alternatives.'" With the pace at which the administration is issuing regulations, maybe they could use a speedbump.

A new Gallup poll shows health care costs and low wages are a major concern for Americans. The two issues topped the annual survey asking the "most important financial problem" the nation faces. During the State of the Union, the president boasted of rising wages (they're not) and a health care law that is driving up costs.

***Eakinomics: Medicare Drug Follies***

After a brief interlude to hear the president's assertions that all is good in America — except that not everything is free, yet— and safe abroad, Congress has gotten back to business. Among the important near-term issues is the need to develop adequate reimbursement plans for doctors who see Medicare patients. The current system, known as the Sustainable Growth Rate (SGR), is a formula for doc reimbursement that yields an answer that is out of touch with reality — a cut of 21.5 percent. This pattern has been repeated for years and will likely continue as far as the eye can see. Accordingly, a top priority is to replace the SGR with another method of reimbursement. Of course, this means that under the new approach spending will be higher than under the SGR and Congress will need to find budgetary offsets to this new spending. The House Committee on Energy and Commerce is in the midst of two days of hearings to explore alternatives to the SGR.

Enter AARP, whose testimony offers up two tried, true, and *failed* ideas for budget offsets that hinge on damaging the Part D prescription drug program that has served seniors well since its passage in 2003. These proposals would compromise the competitive heart of the program that has yielded a cheaper program than anticipated and high rates of satisfaction for seniors.

The first idea is to have the Secretary of Health and Human Services negotiate drug prices with pharmaceutical firms. Technically, the Part D law precludes this because of the "noninterference" provision, that prevents the Secretary of Health and Human Services from interfering with the negotiations between drug manufacturers and pharmacies and sponsors of prescription drug plans. As the Congressional Budget Office pointed out numerous times, there is already such vigorous competitive pressure that the Secretary would not be able to negotiate prices that further reduce federal spending to a significant degree. In short, no savings. Congress should take a pass.

The second idea is to force drug manufacturers to send rebates to the federal government based on sales to the Part D program. (Medicaid has rebates for drugs running from 13 to 23 percent of sales.) Unfortunately, the key impacts of such rebates is to raise premiums for seniors and destroy jobs in the pharmaceutical sector. Why? The answer is simple. In a highly competitive setting, the drug manufacturers have few options for raising the money necessary to meet the mandated rebates; they can (1) raise prices, and thus premiums for seniors, (2) cut

labor costs, and thus employment, or (3) reduce research and development at the cost of innovation. Congress should also pass on higher premiums, lower employment and less innovation.

Interestingly, the Center for Medicare and Medicaid Services (CMS) attempted versions of both these policies by regulatory fiat in 2014. The policy underpinnings were so weak and the public outcry so great, that the rule was withdrawn. It is a folly to even suggest it again.

Medicare Part D is the best functioning entitlement program on the federal books. There is no reason to draw it into the legitimate debate over eliminating the SGR and moving to a payment system with better incentives for the care of seniors.

***From the Forum***

Weekly Checkup: The Cycle of Health Expenditure Growth by Conor Ryan, AAF Health Care Data Analyst

Primer: Medicare Part B Drug Payment System by Angela Boothe, AAF Health Care Policy Analyst