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ONE HUNDRED EIGHTH CONGRESS

U.S. House of Representatives
Committee on Energy and Commerce
Washington, DC 20515-6115

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June 11, 2004

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The Honorable Mark McClellan, M.D., Ph.D.
Administrator
Centers for Medicare and Medicaid Services
200 Independence Avenue, S.W., #314-G
Washington, D.C. 20201

Dear Administrator McClellan:

On May 20, 2004, you testified before the Subcommittee on Health in a hearing entitled "Medicare Prescription Drug Discount Cards: Immediate Savings for Seniors." I have sent you letters dated June 3, 2004 and June 10, 2004 on different aspects of the program. I now ask for your help on questions as to the level of rebates (attached).

Because we wish to include the questions and responses in the printed record of this hearing, please respond no later than Friday, June 25, 2004. Please fax and e-mail the response. The faxed response should be directed to Eugenia Edwards, Committee on Energy and Commerce, Majority staff, at 202-226-2447, and Voncille Hines, Committee on Energy and Commerce, Minority staff, at 202-225-5288. The e-mail copy of the response should be directed to (Eugenia.Edwards@mail.house.gov) and Voncille Hines (Voncille.Hines@mail.house.gov). Due to the uncertainties of postal deliveries on Capitol Hill, we ask that your response not be sent through the postal service.

If you have any questions, please have your staff contact Amy Hall, minority professional staff, Committee on Energy and Commerce, at 202-226-3400.

Sincerely,



JOHN D. DINGELL
RANKING MEMBER

Attachment

cc: The Honorable Joe Barton, Chairman
Committee on Energy and Commerce

The Honorable Mark McClellan
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The Honorable Michael Bilirakis, Chairman
Subcommittee on Health

The Honorable Sherrod Brown, Ranking Member
Subcommittee on Health

Questions for the Honorable Mark B. McClellan, M.D., Ph.D.
Administrator, Centers for Medicare and Medicaid Services
from the Honorable John D. Dingell
Committee on Energy and Commerce
regarding the May 20, 2004, hearing entitled
“Medicare Prescription Drug Discount Cards: Immediate Savings for Seniors”

1. Pharmaceutical discounts or rebates come from two different areas: (1) volume -- having a lot of people who will buy your particular drug, and (2) moving market share -- that is the ability to move people to a certain drug or brand. The more people a card has enrolled, the better discounts or rebates for beneficiaries. Let me cite two examples:
 - a. A CMS document dated September 25, 2003, states “If a PPO can anticipate a large number of enrollees, and therefore a large VOLUME of services, it can negotiate favorable prices . . .”. The document also notes, “The cost per beneficiary would be . . . lowest with three plans.” CMS advocated for fewer PPOs in order to get better prices and lower costs per beneficiary.
 - b. The State of Michigan expects to realize \$8 million in savings on their Medicaid program this year by banding together with Vermont to purchase drugs. They expect to get even greater savings next year when they aggregate their purchasing power with other states -- they will have \$2 billion in purchasing power -- the VA system is \$3 billion and they are getting some of the lowest prices around even lower than Canada. Again, greater numbers of people give better leverage in negotiating discounts.

CMS, however, set up the drug discount card program to have 73 different cards, greatly diffusing any negotiating leverage that seniors and individuals with disabilities disabled could expect to achieve by banding together.

When CMS implemented the drug discount cards, why did you set up a program that ran counter to your own recognition that the smaller number of entities providing the service the better the prices for seniors? How does protecting drug manufacturers from stronger negotiation help seniors?

Will CMS limit the number of private prescription drug plans in order to help seniors get better discounts? Or will you again allow so many choices that seniors are paralyzed, and discounts are diffused?

2. What level of rebate are drug cards getting from the drug manufacturers? (Not the discount at the register but the actual amount of rebate that manufacturers are providing)? How do the rebates compare with what people would get under the Medicaid best price rule? How do the rebates under the drug card program compare to prices under the VA system? According to representatives of the Pennsylvania PACE program drug card, that program is only receiving a four percent discount from manufacturers. Are there any cards that are getting manufacturer rebates of less than four percent? Are there any cards getting manufacturer rebates that are greater than 15 percent?