The Medicare Prescription Drug Gap Reduction Act of 2009

The Medicare Prescription Drug "Doughnut Hole"

The Medicare drug benefit contains a large gap in coverage during which beneficiaries continue to pay premiums but get no drug coverage at all. Medicare will pay 75% of initial drug costs up to $2,700 after a $295 deductible. Then the program pays *nothing* until the beneficiary has spent $4,350 out of pocket. After this point, coverage resumes and the beneficiary pays a small copayment for each drug until the end of the year.

The lack of coverage for drug spending is often called Medicare's "doughnut hole." Millions of beneficiaries will pay premiums yet receive no coverage during this time.

The Medicare Prescription Drug Gap Reduction Act of 2009

The *Medicare Prescription Drug Gap Reduction Act of 2009* would reduce the impact of the doughnut hole on Medicare beneficiaries. The bill allows the Secretary of Health and Human Services (HHS) to negotiate on behalf of Medicare beneficiaries for lower drug prices and applies these savings to diminish the size of the doughnut hole.

The Medicare Modernization Act (MMA) actually prohibits the Secretary from using the purchasing power of over 40 million Medicare beneficiaries to negotiate for lower prescription drug prices. This bill would:

- Give the Secretary of HHS the authority, similar to that of other Federal entities that purchase prescription drugs in bulk, to negotiate contracts with manufacturers of drugs and obtain the lowest possible price for Medicare beneficiaries.
- Require the Secretary to also negotiate for the fallback plans and upon the request of a plan for any covered drug.
- Require that savings from this provision be applied towards expanding coverage in the Medicare doughnut hole.

<u>Implementation</u>

The Centers for Medicare and Medicaid Services (CMS) Office of the Actuary (OACT) would be responsible for:

- Estimating the savings derived from allowing the Secretary of HHS to negotiate for lower drug prices.
- Calculating the size of the doughnut hole every year.

CMS would then be responsible for implementation and would apply the savings to reduce the size of the doughnut hole.