Part D Price Competition Has Outperformed Proposed Price Caps

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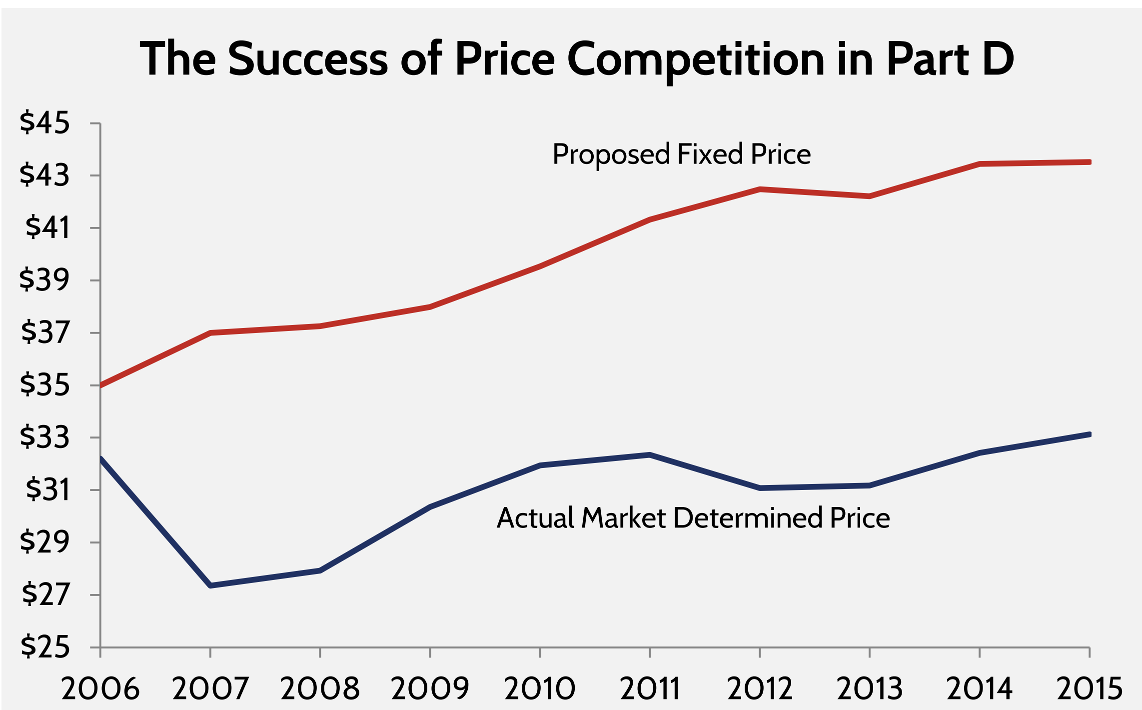
Since its implementation, the Medicare Prescription Drug Program—known as Part D—has cost the federal government less and saved beneficiaries more than expected.[1] The success of the program is in part a result of new prescription drugs keeping other health care costs down, as well as the general slowdown of health care spending. But in addition to the favorable environment, the competitive design has played a significant role in creating a federal program responsive to market innovations and capable of reducing costs. In order to demonstrate the magnitude of the competitive model's success, the chart below compares actual base premiums in Part D to a method of price indexing proposed during Senate consideration of the program.[2] Rather than allowing insurers to compete on price, an amendment was offered to institute a fixed price, indexed by cost-increases and capped at annual maximums.[3] Proponents argued this would be more effective at ensuring affordable coverage. In this comparison, we assume that Part D costs would have grown similarly slowly in both scenarios. And yet, the competitive price has still been an average of 22 percent cheaper than a fixed price alternative.



[1] Competition and the Cost of Medicare's Prescription Drug Program, The Congressional Budget Office, July 2014, available at: http://www.cbo.gov/publication/45552
[2] The Part D premiums displayed in the chart are base beneficiary premiums. Actual premiums vary according to specific plans and beneficiary income.
[3] SA 994, Proposed Amendment to Bill S.1, 108th Congress, available at: http://thomas.loc.gov/cgi-bin/query/C?r108:./temp/~r1080RpU9z