



## How Medicare Rx Price Negotiations Will Work

Which drugs may be targeted first and when beneficiaries could see savings

by Dena Bunis, **AARP** (<http://www.aarp.org>), August 15, 2022



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When Congress added a prescription drug benefit to Medicare nearly two decades ago, the bill explicitly prohibited the program from negotiating with pharmaceutical companies for the prices of the life-sustaining drugs that millions of enrollees take every day. AARP has made the argument for

many years that with more than 50 million Americans getting their medications through Medicare, if the program was allowed to negotiate prices, the power of those numbers would yield a much better deal for Medicare beneficiaries and for taxpayers, who ultimately foot the bill for the lion's share of the medication costs.

"When we talk about the [Inflation Reduction Act of 2022 \(/politics-society/advocacy/info-2022/medicare-budget-proposal.html\)](https://politics-society/advocacy/info-2022/medicare-budget-proposal.html), the core component is the Medicare negotiation," says Bill Sweeney, AARP senior vice president for government affairs. "That is the long-term solution to the problem that we've been seeing for decades, which is out-of-control prescription drug prices."

## ABCs of price negotiations

To start, the U.S. Department of Health and Human Services (HHS) will identify the 100 medicines that Medicare spends the most on and then decide which qualify to be in the first group of 10 drugs whose prices will be negotiated. Those qualifications are:

- **The drugs can't have any direct competitors.** That means there is no generic equivalent, and if it's a biologic drug, there can't be a biosimilar product. A biologic drug is a complex medication typically used to treat cancers and other serious illnesses.
- **The medications must have been on the U.S. Food and Drug Administration's approved list for many years.** That threshold is nine years for what are called small molecule drugs — medicines you typically get at the pharmacy and take in pill form. Biologics must have been approved for 11 years to be eligible for negotiation.

These two rules are the reason why some of the costliest drugs may not be among the first to have their price negotiated.

Here's a look at some of the medications that as of now could qualify for the first batch:

- **Eliquis, used to treat atrial fibrillation.** Medicare spent more on this medicine in 2020 (\$9.9 billion) than on any other single drug, and more than 2.6 million beneficiaries took the medicine.
- **Januvia, used to treat diabetes.** Medicare spent \$3.9 billion on this in 2020, and nearly 935,000 enrollees took this drug.
- **Xtandi, a cancer medicine.** Medicare spent \$2 billion on this in 2020, and 26,490 people took it.
- **Myrbetriq, which treats overactive bladder.** Medicare spent \$1.7 billion on this in 2020, and about 600,000 people took the drug.
- **Orencia, used for rheumatoid arthritis.** Medicare spent \$1 billion to treat 29,764 enrollees.



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# When will drug prices go down?

The first negotiated prices will take effect in 2026 for drugs covered under [Medicare Part D plans](https://www.aarp.org/politics-society/advocacy/info-2022/medicare-drug-price-negotiations.html) ([/politics-society/advocacy/info-2022/medicare-drug-price-negotiations.html](https://www.aarp.org/politics-society/advocacy/info-2022/medicare-drug-price-negotiations.html)). These are the prescriptions you typically fill at your pharmacy. For medications covered under Part B — which pays for doctor visits, diagnostic tests and other outpatient services, such as chemotherapy and other drug infusions at a hospital or doctor's office — negotiated prices will take effect in 2028. Here's the full roll-out schedule:

- **2026:** A maximum of 10 drugs will be negotiated.
- **2027:** Another maximum of 15 drugs will be negotiated.
- **2028:** Another maximum of 15 drugs will be negotiated.
- **2029:** Another maximum of 20 drugs will be negotiated this year and every year after that.

## What if the drugmakers don't play ball?

Under the new law, if the maker of a drug that was selected for negotiation walks away from the table, the government could levy a tax of up to 95 percent of their sales from the previous year. The idea behind that tax is to give the pharmaceutical companies a strong incentive to participate in the negotiation process .

The stakes are high. An analysis by the nonpartisan Congressional Budget Office (CBO) estimates that the provision allowing for drug price negotiations alone could save Medicare nearly \$102 billion over 10 years. The analysis also debunked claims that drug negotiation would stifle pharmaceutical innovation and lead to far fewer new drugs being developed. According to CBO's forecast, of the 1,300 new drugs expected to be approved over the next 30 years, just 15 wouldn't come to market as a result of the new law.

*Dena Bunis covers Medicare, health care, health policy and Congress. She also writes the Medicare Made Easy column for the AARP Bulletin. An award-winning journalist, Bunis spent decades working for metropolitan daily newspapers, including as Washington bureau chief for the Orange County Register and as a health policy and workplace writer for Newsday.*

