July 30, 2019

James E. Mathews, Ph.D.
Medicare Payment Advisory Commission
425 I Street NW, Suite 701
Washington, DC 20001

Dear Dr. Mathews:

Thank you for appearing before the Subcommittee on Health on Tuesday, April 30, 2019 at the hearing entitled "Prescription Drug Coverage in the Medicare Program." We appreciate the time and effort you gave as a witness before the Subcommittee.

Pursuant to Rule 3 of the Committee on Energy and Commerce, members are permitted to submit additional questions to the witnesses for their responses, which will be included in the hearing record. Attached are questions directed to you from me and certain members of the Committee. In preparing your answers to these questions, please address your responses to the member who has submitted the questions using the Word document provided with this letter.

To facilitate the publication of the hearing record, please submit your responses to these questions by no later than the close of business on Friday, August 9, 2019. As previously noted, this transmittal letter and your responses will be included in the hearing record. Your written response should be transmitted by e-mail in the Word document provided with this letter to Josh Krantz, Policy Analyst with the Committee, at josh.krantz@mail.house.gov. You do not need to send a paper copy of your responses to the Committee. Using the Word document provided for submitting your responses will also help maintain the proper format for incorporating your answers into the hearing record.

Thank you for your prompt attention to this request. If you need additional information or have other questions, please have your staff contact Mr. Krantz at (202) 225-5056.

Sincerely,

Frank Pallone, Jr.
Chairman

Attachments

cc: Hon. Greg Walden, Ranking Member
Committee on Energy and Commerce

Hon. Anna G. Eshoo, Chairwoman
Subcommittee on Health

Hon. Michael C. Burgess, Ranking Member
Subcommittee on Health

Attachments—Additional Questions for the Record

Subcommittee on Health
Hearing on
"Prescription Drug Coverage in the Medicare Program"
April 30, 2019

James E. Mathews, Ph.D.
Medicare Payment Advisory Commission

The Honorable Gus M. Bilirakis

1. Dr. Mathews - With Florida's traditionally higher senior population, lowering prescription drug prices in Medicare is very important to me. As noted in MedPAC comments on the International Pricing Index (or IPI for short) last year, the "Drug Value Program" recommended previously by MedPAC would give vendors tools to negotiate lower prices. Under the Administration's IPI proposal, they don't include these tools, so it seems like instead the government is just setting the price directly.

    - Can you talk more about these differences, and—in particular—how your proposal would spur lower prices without direct government price-setting?

Answer:

The Commission shares your concern about the prices Medicare and its beneficiaries pay for prescription drugs. To address concerns about the prices for drugs covered under Medicare Part B, in 2017 the Commission recommended reforming Medicare's payment system. One part of that recommendation would establish a drug value program (DVP) in which private vendors –not physicians– negotiate prices for Part B drugs from manufacturers. The DVP seeks to use increased competition and market forces to lower Medicare spending and beneficiaries' cost sharing liability. The Administration's international pricing index (IPI) model also uses a vendor-based approach, but in contrast to the DVP, seeks to reduce Medicare spending for those drugs by aligning Medicare payments with international prices.

While the Commission appreciates the IPI's goal of reducing Medicare's payments for Part B drugs, we believe that the DVP model has several components that make it more likely to succeed than the IPI model. First, the DVP would give several important tools to private vendors to use in negotiating lower prices from manufacturers, including authority to establish a formulary, apply utilization management tools like prior authorization and step therapy, and the ability to use binding arbitration under certain circumstances. Second, vendors in the DVP

would not take ownership of the drug, and so the supply channels that providers use for procuring drugs would not be interrupted. Third, the DVP could offer shared savings to providers that chose to participate, which would give incentives for more providers to participate and give the DVP vendors greater negotiating leverage to get lower prices. The IPI does not contain these types of elements, and we believe that it would be difficult for a private vendor to succeed in lowering drug prices under Medicare Part B without them.

The Commission staff would be happy to assist your office with any additional questions you have about how the DVP model can lower Medicare's spending and beneficiaries' cost sharing liability for Part B drugs.

2. I'm a baseball fan. I know there are examples in the market where arbitration is used, like baseball. But developing breakthrough medicines is a lot different from developing starting pitchers and legislating a government-defined arbitration process is a lot different from negotiating one through a players' union.

    - Do any of these examples involve setting prices at a national level, or just resolving disputes at an individual level?

Answer:

Arbitration is a process by which two parties agree to accept the decision of a neutral third party in a dispute. Arbitration is used to settle disputes in a range of areas such as labor, communications, health care, and international taxes. In the United States, it is used to establish payment rates within health care in limited circumstances. For example, the states of New York and New Jersey use baseball-style arbitration to settle disputes about surprise medical bills between providers and payers at the individual claim level.

Germany provides the primary example of using arbitration to establish prices for new drugs and biologics at a national level. Beginning in 2011, Germany instituted a new system of establishing payment rates for drugs across insurers. Under that system, when new innovative products enter the market, the manufacturer and an organization representing health insurers have 6 months to negotiate a price, and if negotiations fail, they enter arbitration. The arbitration board includes five members, three neutral parties (including the chairman), one representative of insurers, and one representative of the manufacturer. When a product enters arbitration, the manufacturer and health insurers each offer a price, and the arbitration board chooses a price in the range between the two offers. (This differs from final offer (or "baseball") arbitration, where each side must present its single, best offer and the arbitrator selects one or the other.) In Germany, the arbitration price goes into effect the 13th month the product is on the market.

The Commission staff would be happy to assist your office with any additional questions you have about arbitration.