Will Medicare's Negotiated Prices for 10 Prescription Drugs Go Down Easy?

David Burda:

Welcome to the 4sight Health Roundup podcast, 4sight Health's podcast series for healthcare revolutionaries, outcomes matter customers count and value rules. Hello again, everyone. This is Dave Burda, news editor at 4sight Health. It is Thursday, August 22nd. Today is the fourth and final day of the Democratic National Convention in Chicago. I'll be watching and hoping a lot of people are watching and hoping that the recently announced Medicare negotiated prices for 10 prescription drugs will lower drug costs for seniors and everyone else. To tell us what happens next are Dave Johnson, founder and CEO 4sight Health, and Julie Murchinson, partner at Transformation Capital. Hi Dave. Hi, Julie. How you two doing this morning, Dave?

David W. Johnson:

Well, I'm a little bleary-eyed. We stayed up to watch Coach Waltz's acceptance speech on time delay last night. And I really liked the pep talk at the end of his speech. You can sleep when you're dead, right, <laugh>. But at the same time, I think the Dems should give Coach Waltz responsibility for clock management so they don't run so long. He'd whip those speakers, even Bill Clinton into shape.<laugh>.

Burda:

Yep. Yep. Those coaching traits can come in handy. Thanks Dave. Julie, how are you?

Julie Murchinson:

We too have been on the couch all week watching the DNC and I have to say, my kids are much more into it than I ever thought they'd be. And this is really the first one we've watched more with them than without. It's been a good week. It's very interesting. The energy is, I'm still amazed, to be honest.

Burda:

Yeah. Are your kids getting close to voting age, Julie?

Murchinson:

So I have a voter, so it's been a lot of discussion in the house. About his first voting experience. Yeah.

Burda:

Yeah, yeah. Yeah. We have one away at school and every day I am like, you you have your mail-in ballot, right? <Laugh>. He's just dad. Yes, dad. So <laugh>. Now before we talk about negotiated drug prices by Medicare, let's keep talking about the DNC in Chicago. Dave, you live in the city. Have you felt any effects logistically this week? Or have you been outta town most of the week?

Johnson:

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I've been outta town. I got home yesterday afternoon, haven't seen anything. The police and the city seem to have it under control. The focus is inside the hall where it should be not outside on the streets. And just like with nascar, the city is showing very well. I I, I think in fact, given it's been so peaceful we can even chuckle about mayor Daley's Malapropism during the 1968 convention, which of course resulted in, in riots and in Daley's famous words, he said, the police are not here to create disorder. They're here to preserve disorder. <Laugh> <laugh>.

Burda:

Just classic. Just classic. Thanks Dave. [00:22:00] Julie, how about you? What's your perspective from where you are? Did we pull this off?

Murchinson:

Well, I'll use the orange theory test. When I went to Orange Theory during the RNC, no one was talking about anything. And I was at Orange Theory this week and everybody was talking about the DNC. So I live in a, I live in a bubble. Not surprising. But yeah, people are watching.

Burda:

Yeah, no, that's good. I wasn't downtown at all this week, so I didn't feel any effects. My wife did go meet friends for lunch, and she said there were lots of people at the train station helping visitors get from the station to the United Center, and it seemed to be going okay. So fingers crossed. One more day. Well, a lot of people have their fingers crossed about Medicare negotiating prices for Part D drugs with the companies that make them. A week ago today, HHS announced the results of its year long negotiations with drug companies to agree on prices Medicare will pay for 10 commonly prescribed drugs. The negotiated prices go into effect on January 1st, 2026. So about 16 months from now. The discounts range from 38% to 79% off the list prices. Of the 10 drugs, HHS said Medicare would've saved $6 billion last year. If those prices were in effect in 2023, HHS said, Medicare beneficiaries will save $1.5 billion in out-of-pocket costs for those drugs in 2026 when the prices take effect. Almost exactly a year ago, we did a show predicting the short and long-term market impact of Medicare's first stab at negotiating Part D drug prices with manufacturers. We're gonna revisit those comments and see if you still stand by them. Dave, you said government intervention was warranted given the dysfunction in the drug market. The 10 drugs HHS selected were good ones to start with. HHS and drug companies would negotiate in good faith. The results will speak for themselves and we should adjust as necessary. But you didn't think it would lead to price controls a year later with last week's announcement, tell me how you feel now.

Johnson:

Well, this is kind of a fun exercise, Dave. Good idea for, for going back. As we went through the list you, you have the five items why don't we tick 'em off one by one. Government intervention was warranted given the dysfunction in the drug market. And if I said that with enthusiasm last year, I'm saying it with gusto this year. I mean, just look at the results. The discounts range from 38% to 79%. And obviously

the list prices have very little correlation to the actual prices. When you looked at the numbers the government and consumers are saving about 10% 6 billion in savings on 60 billion in spend. I can't think of any industries that could give you 10% off the top and still walk away very profitable. So you know, is government intervention warranted given how little price transparency there is in the marketplace, and how much market manipulation there is in drug prices? Absolutely, yes. Second point, the 10 drugs, HHS selected were good ones to start with. Well, it would've been hard for them not to pick big ticket items, right? So the 10 drugs, they have represent 20% of the spending for Medicare. So, you know, they did pick big impactful drugs. So good for them. HHS and drug companies would negotiate in good faith. I'm chuckling a little bit on this one because I read the press release from HHS and if based on their response, they were the epitome of a good faith negotiator. They talked about their good faith negotiations. They said how many times they they got counter offers and went through this. But you know what, it, it reminded me a little bit of a boss I had one time who would tell us what to do and we would do it. And that was his idea of teamwork. <Laugh>. I wonder if we get <laugh>.Yeah. I wonder if we'd get the same response from the drug companies on how really productive the negotiating process was. 'Cause at the end of the day, they're giving back money to the government and to the people, which they should be doing. But whether or not it was as angelic as HHS is painting it, you know, we'll see. Particularly, you know, when you got that feature where they negotiate and the government can finally say, here's our final offer, take it or leave it. And it's very difficult not to have the government in your purchasing network almost impossible. So they always have that hammer in the back. The re results will speak for themselves, and we should adjust as necessary. Well, the results were pretty damn good, right? I mean, 10% off the top and they'll look at these same 10 drugs next year and they'll pick 10 more. And this is how markets should work. It should be an iterative process. And finally, I didn't think it would lead to price controls and still don't. That pharma lobby is really, really powerful. And Americans just generally don't like price controls and the, you know, unintended consequences of when you put them in would, would probably create some significant dislocation in the marketplace. So I don't think we're gonna get absolute price controls and besides when the government has the ability to give a, take it or leave it price maybe just, maybe that's that's in the same neighborhood as price controls. So overall I'd say, you know, good for HHS, they're saving some money. Still a long way to go. I'm still willing to live with what I said a year ago.

Burda:

<Laugh>. Good, good for you. Thanks, Dave. Julie, any questions for Dave?

Murchinson:

Dave, great analysis, again, updated. I noticed the absence of comment from a HA and a MA, why do you think they've sat silently on this? Do they not have a dog in the fight? Do they not wanna stand up for consumer good? I mean, why deliberately miss this opportunity?

Johnson:

<Laugh> That is such a great question. And the cynical part of me goes immediately to the conclusion that there's absolutely no honor among thieves, right? So why aren't the a HA and the a MA speaking

up, they don't want big pharma to get pissed off and turn the spotlight back on them, particularly given all the, the current emphasis on pricing transparency and 6 billion in savings on drugs compared to what we could save on the provider side of the equation, where half the spending is between hospitals and doctors, just a drop in the bucket. So I, I think it's it's largely outta self preservation. Do you agree? That's, that's kind of where I come down on it.

Murchinson:

Yeah, I think I do. I just, yeah, it's so, so noticeable. Yeah, there's, there's something that could be done here that I think they could actually take a win for, but I think you're right.

Burda:

They do point their fingers a lot at each other. So in, in a way I'm surprised, but yet the threat of price controls and price negotiations is just too scary to point a finger, I guess, because it'll get snapped off and thrown back at you.

Johnson:

There's a lot of wink wink that goes on between these cartels right there. Yeah.

Burda:

Yeah. Exactly. Well, thank you. Julie, let me summarize your thoughts on Medicare Part D drug negotiations from last year's podcast. You said negotiated prices could affect what drugs companies will develop in the future. Negotiated prices could limit testing of drugs for off-label uses research into drugs for rare diseases or for small patient populations may slow yet negotiated prices could end up saving a lot of money for seniors a year later with the release of the negotiated prices as your thinking changed?

Murchinson:

Well, you know, on the first point, will this affect what drugs companies will develop in the future? And frankly, where investors will put their money, you know, well, I still believe this in the long run, the question is why. You know, is CMS going after big cost buckets? Yes. Today, true there, but they're also, you know, really weighting heavily Medicare recipient usage volume so they can claim, you know, the big win for Medicare recipients. Are they looking at specific disease categories? I mean, Dave, when you looked at this list, a lot of diabetes, a lot of blood thinners, CHF, you know, almost seems like a disease specific list, even though there's such a correlation, right? And does clinical evidence play any role in this today? I don't know, but, you know, I still believe this can ultimately affect drug investment and production in the future as the program evolves, but not likely a tipping point today. To my second point. Could it limit testing for off-label uses? I don't know about this. It seems like they're going after drugs again for that are close to their market exclusivity point. So it, I'm not even sure that the off-label kind of thinking is really one that's relevant as much as I maybe thought it once was at least for where they're looking at patent cliff drugs at this point, you know, research into rare diseases maybe slowing. I

actually don't think this is gonna be as big an issue. Those disease, those drugs that are really focused on rare diseases are such small population, although they're not potentially small spend due to new pricing models today, it's, but the way this program's being executed today is really, really big buckets. So it actually could shift a lot more investment into rare diseases just as a business model shift for pharma. I can imagine that for sure. And my last point, how negotiated prices could save a lot of money for seniors. I mean, this what's built for, in many ways, they're saying it all over the DNC 6 billion in savings. If these changes for this year were applied in 2023 they talk some about how they're looking at the commercial population and impact on the commercial population as well. While there is some impact there, it's not as large. But I anticipate, you know, as this program evolves, we're gonna see those commercial impact numbers rise because they're gonna work their way through a lot of drugs that are used more in senior populations. One thing I will say is that, we're seeing the impacts on Wall Street. Now, this timeline is known, right, the February and September timeline. So the gaming will happen on Wall Street. That is, and the question is whether CMS is taking enough of a bite out of any one drug or any one drug company to materially impact stock price. It looks like today they're really walking a fine line, especially because these drugs are almost, you know, at their patent cliff and they're taking note of how they're affecting public companies. So this is really a dance.

Burda:

Yeah. The truth will be in the earnings reports, right? So no. Interesting.. And, I'm not taking any of those top 10 drugs yet, so <laugh>

Murchinson:

Not saving you any money.

Burda:

Yeah. What about me? Alright,

Murchinson:

<Laugh>.

Burda:

Thanks Julie. Dave, any questions for Julie?

Johnson:

The way the current drug negotiation process works is that when the FDA approves a drug and grants patents, they essentially are also granting by default monopoly pricing power on the new drugs. I don't know any economist who thinks that monopoly pricing power is beneficial to high functioning markets. So here's my question. In addition to what HHS is already doing on drug pricing for for high use drugs, as

you mentioned, that are near their patent cliff should, should they negotiate initial prices on drugs as they, as they get approved by the FDA to restrain the level of monopoly pricing power that comes into the marketplace for those new drugs?

Murchinson:

<Laugh> the most important word in your question is, should, should they or will they <laugh> <laugh>? Sure, they should <laugh>, but I mean, nip in the bud, let's go. But from what I can tell, I mean, given the rubric they're using, I don't even think they're gonna touch the high cost drugs in this program. They're going to, that's a different business model. It's a different beast. And CMS is gonna have to find other tools to tam that in the short term. And I mean, there's definitely, I think there's a big long term play coming on those drugs. I, I'm not sure what CMS can do about that with this program.

Burda:

Yeah, no, interesting. Yeah, it'd be hard to set prices right out of the gate too. We Right. I don't know.

Murchinson:

Yeah. Although I fully anticipate that we're gonna get an email from Jan Berger telling us what they should do. So Jan, bring it on. <Laugh>.

Burda:

Yeah,

Johnson:

<Laugh> and Dave why would it be hard to set prices out of the gate? I mean, you're, you're granting a company monopoly, pricing power and they have their projections of what the costs and all that, that, I mean, that, that could easily be…

Murchinson:

You're also setting the market for NME 2s, right?

Johnson:

Yeah,

Burda:

That's true. Well, let's see. Let's say you made a new car, right? Would I want the government telling me how much I could charge for it, you know, as it rolls off the assembly line?

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Johnson:

Well, if there were only one kind of car, I might want the government to do that. <Laugh>.

Murchinson:

Like the cyber truck? Should we regulate the cyber truck? <Laugh> <laugh>? Have you seen one of those yet, Dave?

Johnson:

I have, I have. They're, they're weird. In fact, I saw, I saw the the new Tesla truck when I was out to see u in Seattle a couple times, and honestly, it looked right outta Wall-E; You know, the Disney, futuristic movie dystopian in nature. It, it, it looked very strange.

Burda:

Well, the 14 year, 14-year-old in me wanted to throw an egg at it and see if it stuck or, you know, and cooked, but I didn't. So there you go. Well, you don't,

Johnson:

You don't have the, you don't have the arm. You once did, David.

Burda:

That is true. I would have to be right next to it. Good point, Dave <laugh>. Well, you guys know I have a paper monthly planner, right? So I've penciled in a podcast for next year at this time when Medicare is scheduled to announce negotiated prices for 15 more drugs. So we'll have more evidence on how negotiations are affecting consumers in the market in good and bad ways. Now let's talk about other big healthcare news that happened this past week. It wasn't all bad, was it, Julie? What else happened that we should know about?

Murchinson:

Well this is not a political comment, but I did see an article yesterday about how Trump vows to punish doctors and hospitals that provide gender affirming care to transgender minors. And I just we are getting to levels of hate that are, you know, impacting care delivery in ways that are just obscene.

Burda:

Yeah. Yeah. No one wants to go back to 1940. Least we don't. Thanks, Dave. What what other news is worth mentioning?

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Johnson:

Well, I'm gonna go internal rather than external. And this week we're making our final, final, final edits on the new book. I know <laugh>, you've been both been hearing about this forever. We only have one thing left, which is Zeke Emmanuel's forward, which should come in by the end of the month. Then as they say at the start of the fourth quarter of Chicago Bulls basketball games, the real work begins.

Burda:

<Laugh>. Yeah, the last inch is the hardest. Good luck, Dave. Thank you. And thank you, Julie. That is all the time we have for today. If you'd like to learn more about the topics we discussed on today's show, please visit our website at 4sighthealth.com. You also can subscribe to the roundup on Spotify, Apple Podcasts, YouTube, or wherever you listen to your favorite podcasts. Don't miss another segment of the best 20 minutes in healthcare. Thanks for listening. I'm Dave Burda for 4sight Health.