

[Transcript] The Daily / A Major Overhaul of Prescription Drug Prices

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From the New York Times, I'm Sabrina Tavernisi and this is The Daily.

A year ago, Congress overhauled the way drugs for older Americans get paid for by giving Medicare the power to bargain with drug makers over prices. It was the biggest change in healthcare in more than a decade. This week, the Biden administration began to implement it.

My colleagues Cheryl Stolberg, on the decades-long battle to get that power, and Rebecca Robbins, on its potential to reshape the business of drugs in America.

It's Thursday, August 31st.

So Cheryl, there's a very big change underway with Medicare, which is of course the government health insurance program for older Americans. And I immediately thought of you, my former DC colleague, and longtime healthcare policy reporter. Tell me what's going on.

So the administration announced its plans to have Medicare negotiate directly with drug makers for the first time ever over the price of medicines to basically bargain them down.

So it's going to start kind of small. The White House announced 10 drugs. These are drugs for diabetes and stroke and heart disease and arthritis and cancer, whose prices will be subject to Medicare

negotiations. It's really a paradigm shift, and it opens the door toward more and more drugs being subject to price negotiations. And it's a huge deal. It's the biggest change to the healthcare system in this country since the passage of the Affordable Care Act in 2010.

And what's the goal here? So the goal is pretty simple. It's to lower drug prices.

Americans pay the highest drug prices of anywhere in the developed world. There was a study by the RAND Corporation that found that drug prices in the United States are two and a half times those of comparable countries. Okay, so help us understand why this is such a shift, Cheryl.

Like, how had Medicare functioned up until now when it comes to prescription drugs?

So it might be hard to remember, but for much of Medicare's history, there was no coverage of prescription drugs. Older people would go broke paying for their medicine. There were these horror stories of people choosing between food and drugs. And I actually asked my own mom yesterday, what did you do before Medicare covered drugs? And she said, we just paid for them out of pocket. She said, my dad had been on chemotherapy, and they were paying \$300 a pill.

Wow. And they were on cholesterol drugs, and they had figured out a way to get them from Canada, where it was cheaper. So this was how Medicare functioned for decades.

When did it become part of the political debate? So it really became a big part of the political debate in 2000, when Al Gore was running against George Bush for the presidency. And Gore, who was vice president, was just railing against the drug companies and making a big push.

It's embarrassing that we have senior citizens getting on buses and going to Canada in order to get more affordable prescription drugs.

Gore wanted the government to do something about this. He wanted to expand Medicare to cover drugs.

It is long past time to take on the big drug companies and say it is time for a prescription

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drug benefit for all seniors under the Medicare program. All seniors. So on the campaign trail, Gore was just hammering Bush about this. My opponent is supported by the HMOs and the insurance companies and the big drug companies, and he has taken their position opposing these measures. And Bush was coming back and saying, well, wait a minute, you know, we've got a plan too. I mean, we need to have a modern system to help seniors. But our plan isn't a government plan. Our plan is a private plan. We want to rely on private insurance companies to sell drug coverage policies to older people. And the idea of supporting a federally controlled 132,000 page document bureaucracy as being a compassionate way for seniors is just not my vision. I believe we ought to give seniors more options. I believe we ought to make the system work better. And it would be backed by kind of government subsidies and incentives. So both parties really agreed that something had to be done. Let me ask you both this. We'll move on on this subject. As a practical matter, both of you want to bring prescription drugs to seniors, correct? Correct. But they were just fighting over how to do it. The difference is I want to bring it to a hundred percent. All right. And he brings it only to five percent. All right. That's just totally false. Wait a minute. It's just totally false. Okay. So Bush, of course, gets elected. What does he do with his campaign promise? So I was covering this at the time. And what Bush did was he decided that he was going to kind of leave it up to Congress to come up with the details. And then we suddenly had a political alignment not seen since the 1950s. Republicans were in charge of the White House, the House, and the Senate. And this issue, drug prices, was pending before them at the request of the president. Got it. So Republicans had total control of all branches of government. So effectively, the go-ahead for this potential policy that Bush had in mind. Well, Republicans might have had control of everything, but they didn't have the votes to pass the private kind of plan that most of them would have wanted. So there were a lot of negotiations, a lot of back and forth. And one of the key drivers of this debate was this Louisiana congressman named Billy Towson. The gentleman from Louisiana, Mr. Towson. Thank you, Mr. Chairman. Let me first acknowledge that this is an historic meeting of the House and Senate on what has become an issue to so many senior citizens across the country. He was kind of a point man, if you will. He was chairman of the House Energy and Commerce Committee, and he had a huge role in drafting this legislation. And if we miss that opportunity because we failed to come together in agreement and give the president a chance to sign a bill, shame on us. But there was a big stumbling block. President Bush is urging Congress to pass a Medicare prescription drug bill, but deep divisions remain on Capitol Hill. The House bill relies much more heavily on private insurance plans that would compete directly with traditional Medicare. Democrats opposed it vehemently.

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Boy, do they have a prescription for you. Further weakening the foundation of Medicare for the seniors who need it most. You know, GOP used to stand for grand old party.

Now it stands for get old people.

I'm offended that anyone would come to this floor and accuse anyone in this House of wanting to get old people.

Do you think for a second you love your moms and dads any more than we love ours?

That's a sort of unstate. So what happens is through negotiations back and forth, they come up with this plan for Medicare to actually expand to cover prescription drugs. But there's a catch and the catch is that there is what they call the non-interference clause. What's that mean?

The non-interference clause, which the drug companies desperately wanted, explicitly barred the federal government from directly negotiating drug prices with the pharmaceutical manufacturers.

So it means effectively that the government is providing this benefit with one hand tied behind its back because it can't use its bargaining power to drive down prices. So you've got this kind of sprawling system of individual insurers who could bargain with the companies, but Medicare as a whole couldn't do it.

This big giant agency that was responsible for ensuring millions and millions of Americans, they couldn't get together and bargain as one.

Yeah, and the drug industry wanted nothing to do with having the government negotiate their prices.

The drug industry has a lot of lobbyists.

Some people will tell you they have three lobbyists for every member of Congress.

The members of Congress are elected, but the lobbyists have a certain degree of power.

So essentially, the plan they came up with ended up being all carrot and no stick, effectively, right? I mean, the government is saying to drug makers, here you go, here's a massive new pool of customers, but we can't use any of our clout as this giant drug buyer, right? This 800-pound gorilla that is Medicare to demand lower prices.

So American taxpayers end up footing this really big new bill.

That's exactly right. So it seems like a big giveaway to the drug industry.

Okay, so this was the proposal that Towson landed on. What did his colleagues in Congress think of it?

Well, it satisfied some Republicans, but not enough. There was a lot of pushback within the party.

This would be the biggest new federal entitlement since 1965 when Medicare was created.

Conservative Republicans didn't like the idea of a major expansion of a government program, much less an entitlement program like Medicare.

Let us not in this Congress today sow the seeds to destroy the foundation of a free market system. Nonetheless, the bill comes to a vote.

And in the wee hours of the morning in November 2003, they actually started the roll call vote at 3 a.m. after a lot of back-and-forth debate and nervousness about whether or not this thing was going to pass. The court vote is ordered. The A's and A's are ordered. This will be a 15-minute vote. It was supposed to be a 15-minute vote. Instead, it took hours. Wow. You're watching live coverage of the U.S. House of Representatives on C-SPAN. This vote started at 3 a.m. Eastern, about an hour and 20 minutes ago. You know, Bush was calling Republicans from Air Force One.

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Any other members with the chains their votes? Dick Cheney came to twist arms on the House floor. His took Franks of Arizona and Otto. It went on so long that some members of Congress actually fell asleep. I mean, it was 3 a.m. after all. Right. And the vote didn't close until six in the morning. On this vote, the A's are 220. The A's are 215. The conference work is agreed to. Without objection, the motion will be reached again later on in the game. Morning. Thanks for the warm welcome. And then, in a few moments, I will have the honor shortly thereafter on December 8th, 2003, of signing an historic act of Congress into law. President Bush signs this landmark legislation into law. I'm pleased that all of you are here to witness the greatest advance in health care coverage for America's seniors since the founding of Medicare. And he said that this bill is, quote, the greatest advance in health care coverage for America's seniors since the founding of Medicare. So what does it look like for Medicare patients once this program is fully launched? So it's a huge relief, a big win for Medicare patients. But it wasn't perfect. They still had to pay premiums and out-of-pocket copays and prices continued to go up. From 2009 to 2018, the average price of brand name drugs for Medicare more than doubled. Wow. So people were really still feeling the pinch. And this just added to the public perception that Pharma had a lock on Washington. And there was this feeling, I remember Cheryl, I was covering public health at the time of, you know, why isn't the government doing something about this? These prices are crazy, you know? How can this be possible? So what changes? Bring me to the next moment. So in 2016, Donald Trump, of all people, was talking about this. We're the largest purchaser of drugs in the world, the United States, by far. We don't bid. He was really taking on the drug industry, and he was making it a campaign issue. He was saying that it was crazy, that the government couldn't make a deal. Because the politicians that I'm running against and others are getting tremendous campaign contributions from the pharmaceutical industry, the drug industry. And they don't want to have bidding. And then he continued talking about this once he got into office. Therefore, today I'm signing four sweeping executive orders that will lead to massive reduction in drug costs, massive. And in fact, toward the end of his presidency, he issued an executive order that would tie prescription drug prices in the United States to those in other developed countries. And the pharmaceutical industry was apoplectic, but, you know, it was an executive order, which is basically an order that the president issues, unlike legislation, it doesn't have the authority of Congress. And it didn't really change much, but it certainly put the issue back on the table. So, in some way, Trump kind of takes away Republicans' cover on this issue, right? I mean, Trump, the populist, showed that the traditional Republican position on this was not actually a view held by a large part of the Republican base. Like, people wanted the government to take action on prices. Right. And polling showed a vast majority of Americans wanted the government to take some kind of action. And so this opened a conversation among Republicans, but more importantly, Biden gets elected and the House and the Senate are in Democratic hands. So now he's got the climate to do something about this. Right. And he and the Democrats in Congress put this change, this provision to allow Medicare to negotiate drug prices. They put it in the sprawling bill, the Inflation Reduction Act, which tackled climate change and a lot of other things. And it said that by September 1, 2023, the government shall announce the first 10 drugs to be subject to Medicare price negotiations. So that's exactly what the Biden administration did.

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It is my greatest honor to introduce the man responsible for all these incredible changes, President Joe Biden. Biden comes to the White House.

Unless you needed the drugs yourself or knew someone who did, it wasn't as real. But boy, we've been fighting Big Pharma for a long time. And he says, this has been a long time coming. Today is the start of a new deal for patients where Big Pharma doesn't just get a blank check at your expense and the expense of the American people. And, you know, we've finally taken on Big Pharma and we're not going to back down. On my watch, healthcare should be right, not a privilege in this country.

But I have to say, Sabrina, the drug industry is not going down without a fight. And the actual mechanics of how this will affect the pocketbooks of ordinary Americans is a lot more complicated than the President suggested at the White House on Tuesday. We'll be right back.

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When you move into your new place, it's not a priority to have everything to make a beef Wellington for your first night. But you are going to want a knife to make a peanut butter and jelly sandwich, probably? What do you recommend? Buy a mattress bag. You can carry a mattress more

easily because the handles are built in, and it's going to protect your mattress from the truck and the street. Let's talk safety essentials. When you're first moving into your home, make sure that you change the batteries in your smoke detector. It just gives you a peace of mind, and you won't have to worry about the chirping sound. It happens every minute or so. I've gone to the grocery store

for used empty boxes. That's no good. Invest in good boxes. It will save you so much time and money.

Make sure you have towels on hand. You don't want to end up taking a shower and using a dirty sock to dry off. Yeah. Whether you're prepping, moving, or settling into your new place, let Wirecutter help you make a plan. Come visit us at [nytimes.com slash moving](https://www.nytimes.com/moving).

So, Rebecca, I just talked to our colleague Cheryl Stolberg, and she told me the whole backstory of how this new change to Medicare came to be, where the government will start to now negotiate the prices of some drugs. Because you cover the pharmaceutical industry, I wanted to talk to you about how this is all going to play out in terms of dollars and cents, and really what this will mean for consumers and for the industry. To start with, can you tell us what drugs the government is targeting? Yeah. So, the government put out a list of 10 drugs that are going to be subject to negotiation. And these are products that are made by some of the biggest pharmaceutical companies in the world, Bristol Myers Squibb, Johnson & Johnson, Pfizer, all household names. And the Biden administration devised the list based on a very specific set of criteria. They weren't making arbitrary choices about which products they wanted to be on the

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list. It was really based on a process that took into account a number of different factors. And what factors were they taking into account? For one, the products had to be widely used drugs that account for a lot of Medicare spending. So, we're talking drugs that target conditions that affect older people predominantly. One example is the blood thinner eliquance, which prevents strokes and blood clots that was taken in the past year by 3.7 million people on Medicare. So, really, they're targeting drugs that are in heavy rotation in the American population. And that makes sense in terms of bang for the buck, right? It's a way to lessen the cost for the government. Are there other criteria that they're considering? So, the drugs to be eligible for negotiation have to have been on the market for a number of years. They're trying to target drugs at a very specific moment. They're trying to hit the sweet spot when they've been on the market long enough for the drugmaker to make a tidy profit, but not so late that there's already generic competition. So, it's kind of a Goldilocks phenomenon, not too early, not too late. And the idea behind that is that they want to give drugmakers the opportunity to make money off of their innovation, to encourage risk-taking, to encourage investment in expensive clinical trials. But they don't want to wait so long that the drug has already started facing generic competition because, in theory, that competition would drive down the price. So, there wouldn't be as much of a point of having Medicare negotiate lower prices. So, Rebecca, how do you think this is going to affect Medicare patients? I mean, are they going to start paying less for their medications? So, the government is the big winner here in terms of savings because the government carries most of the burden of paying for the drugs that are taken by Medicare patients. The Congressional Budget Office estimates that the government will save nearly \$100 billion over a decade. But if the government's paying less, that can ultimately have trickle-down effects for patients. And patients pay for their drugs in the form of paying insurance premiums and paying out-of-pocket costs when they pick up a prescription at the pharmacy. And the idea is that if Medicare is saving money on these drugs, premiums will go down and patients will pay less out-of-pocket. Premiums will go down because premium is a portion of the drug cost, right? And the portion will be lower because the cost is lower. That's right. And there's also another part of the Biden administration's effort to tackle drug prices. And that's a cap on the money that Medicare patients have to pay out-of-pocket when they pick up prescriptions at the pharmacy counter. Starting in 2025, the yearly spending will be capped at \$2,000 per patient. Wow. That's presumably much lower than many patients had been spending. That's right. That can make a huge difference financially for many patients. And experts are saying that the Medicare negotiation savings may ultimately help fund that cap on out-of-pocket costs. Interesting. So, in a way, it could be actually quite direct, but through the savings that comes from the marketing. That's right. And remember, it's still really early days in this process. The negotiated prices under the program won't take effect until 2026. So, that's the first year that the government would be seeing savings. And it's also the very first step in what's going to turn out to be an annual process. Each year, the government will add new drugs to the list while some drugs will fall off the list because generic competition has reached the market.

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Okay. So, that's Medicare. But how do we expect this to affect the rest of the healthcare system, like everybody else? Say, I'm not on Medicare. Will this affect me?

So, in theory, this program has no impact on the prices paid for medications taken by privately insured people. That said, in practice, it may open the door for lower prices in the private market, too. And that's because of a peculiarity in the way that drug prices are negotiated. So, the way that drug pricing works is it's kept secret. The prices that different customers pay when you account for discounts and rebates are ultimately kept confidential. So, let's walk through a hypothetical. If I'm a drug manufacturer making, say, an arthritis drug, I am ultimately charging different prices to different customers. And my different customers don't know how much the others are paying. Okay. And when Medicare's lower prices are made public,

that adds a new lever for the buyers. They'll be in a position where they can say, I want this same discount. And if not, I will just withdraw my business, especially in a class like arthritis drugs. There are a lot of other options. And that's something that these buyers can use to their advantage. So, it basically gives buyers a kind of baseline for a negotiating position, right? Something to point to and ask for. Suddenly, they have these x-ray glasses, if you will. And now that they have that power, you know, if I'm the buyer, I can go to some other drug on the market that fills the same need because there are a lot of them.

That's right. Even though we're talking about drugs that are under patent and don't have near competition, there are other options, other drugs available, that fill the same need.

Okay. So, this could lead to savings for Medicare and for private insurance.

But obviously, this money is coming from somewhere, right? So, what do we expect is going to happen to the pharma industry as a result?

So, the drug industry has been fighting the Medicare negotiation program.

The pharmaceutical company known as Merck has filed a lawsuit against the federal government following the... They've filed lawsuits trying to block the Biden administration from implementing it. Saying that being forced to negotiate drug prices with Medicare is, quote, tantamount to extortion. Arguing that, quote, the program takes property for public use without just compensation. And they've warned that if it's implemented, it will have unintended consequences that could really harm patients.

Drug manufacturers say it will result in loss of profits that will force them to pull back on developing groundbreaking new treatments. They're saying it will lead to fewer cures.

It will lead to delays in patients getting certain medications.

It will discourage companies from developing the kinds of medications that are important and widely used by seniors. And Rebecca, what do you make of those claims?

The things the industries are arguing. How much water do they actually hold?

So, I think one thing we know from health policy is that new laws will create new incentives.

And for-profit companies are going to act accordingly to try to preserve their profits.

And I do think the devil's in the details in terms of how this legislation was written.

So, notably, it discourages companies from developing the old school synthetic drugs, the traditional pill you're most familiar with, and encourages them to develop the more expensive living cell drugs that dominate the list of most expensive medications today.

So, in a way, in a kind of unexpected way, this could lead to more development of more expensive drugs. That's certainly possible. I think the way in which the drug industry responds to this

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new marketplace will dictate whether the goals of the program will ultimately be realized. But I think beyond just the dollars and cents involved, there's something bigger happening here. And this is, I think, why this is such an important news story, because there's a really fundamental shift taking place here in how prices are set in the United States. It's opening a door that until now had ultimately been shut. We're starting with just this list of 10 initial products. But the introduction of negotiation in this very limited slice of the market could ultimately lead to other huge changes. It could open the door for the government to start negotiating drugs earlier in the life cycle of these products. When manufacturers have had fewer years enjoying a monopoly, it might ultimately lead to legislation that would mandate the same process in the private

market. So, I think this is a really fundamental shift in the way that drug pricing works in the United States, and we're in really uncharted waters. Right. It's not just a list of 10 drugs. It's the beginning of a whole new process. The government actually changing its relationship to the pharmaceutical industry, in a way, opening, from a pharmaceutical perspective, this Pandora's box. That's right. And this is a big part of the reason the drug industry has fought this program so hard. It's a real existential threat to their core of their business model, which really hinges on extremely high prices relative to the rest of the world in the United States. I think another point that's important here is that the Medicare negotiation program is really an experiment. And it's shaping up to be a test of the argument that the drug industry is making, that the sky will fall if Medicare has the ability to negotiate the prices of drugs. If we see that the sky does not fall, that the drug industry continues to remain profitable and produce cures, and the lower prices take effect, well, then we'll have our answer. And that's an answer that will ripple throughout the American healthcare system. Rebecca, thank you. Thank you for having me.

We'll be right back.

Imagine if past tech choices didn't hold you back. If no single IT vendor told you no, if you knew that you could harness complexity, not be overcome by it, what would you do if you could? See what's possible at [redhat.com slash options](https://www.redhat.com/en/options). Red Hat's objective experts, flexible technologies, and dedicated partners provide the options you need today to go wherever tomorrow leads. No matter the cloud, environment, app, or vendor, visit [redhat.com slash options](https://www.redhat.com/en/options) to keep your options open. Here's what else you should know today. This is the thick of it. We are in the middle of it right now. You can hear that roar. Here we go. Oh, my gosh. The whole roof just came off the house, Mike. Idalia, the first storm to pummel Florida this season, made landfall as a category three hurricane at 7.45 a.m. in Taylor County, southeast of Tallahassee. It inundated coastal villages, carrying rain and storm surge with winds near 125 miles per hour. But by late Wednesday afternoon, it had weakened to a tropical storm and moved to Georgia and then into South Carolina. Authorities in Florida reported two deaths from car crashes that were attributed to weather conditions, but said that across the state, the damage was less severe than expected. And a wave of drones exploded in six separate regions of Russia overnight on Wednesday in an apparent sign that Ukraine was increasingly capable of striking deep inside Moscow's territory. Around the same time, Russia unleashed an aerial assault on at least three regions of Ukraine, including one of the most significant barrages the key of region has experienced in months. Today's episode was produced by Rob Zipko, Muzh Zaidi, Shannon Lin, and Ricky Nevetsky.

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It was edited by Lisa Chow and John Katcham.

Fact-checked by Susan Lee and Caitlyn Love, contains original music by Marion Lozano and Diane Wong, and was engineered by Chris Wood. Our theme music is by Jim Brunberg and Ben Lansverk of Wunderlea.

That's it for the Daily. I'm Sabrina Tavernese. See you tomorrow.

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