

What You Need to Know about President Trump Cutting Down on Foreign Freeloading

“When foreign governments extort unreasonably low prices from U.S. drug makers, Americans have to pay more to subsidize the enormous cost of research and development. . . . It’s unfair and it’s ridiculous, and it’s not going to happen any longer.” — President Donald J. Trump

The President is proposing a new Medicare model, the International Pricing Index (IPI) model, that fulfills his promise to bring down drug prices and cut down on foreign freeriding.

- On average, Medicare currently pays 180 percent of what other wealthy countries pay for the most costly physician-administered drugs.
- The current system lets other countries reap the benefits of American pharmaceutical investment and innovation, while the costs fall on American patients and taxpayers.

The IPI model will ensure that American patients get a more fair deal on the discounts drug companies voluntarily give to other countries, saving patients and the Medicare program billions.

- Here is how the model will work:
 - **Today’s system:** Medicare sets payments for physician-administered drugs at the average sales price in the U.S. market—plus a price-based add-on fee.
 - **New model:** Medicare sets the payment for these drugs at a Target Price, based on the discounts drug companies give other countries.
 - With the model fully implemented, total payment for these drugs will drop by 30 percent.
 - The Target Price is 126 percent of the average price other countries pay for the drug.
 - The model incorporates a new, larger add-on fee for hospitals and doctors that is independent of prices.
- The model would be phased in over five years, with overall savings for American taxpayers and patients projected to total **\$17.2 billion**, with out-of-pocket savings potentially totaling **\$3.4 billion**.
- The model would begin in 50 percent of the country, with the opportunity to scale up over time.
- Medicare beneficiaries not covered by the model may also see drug costs go down, because the average price used to calculate traditional Medicare reimbursement will drop.

This model delivers on the President's promise to lower drug prices—without any restrictions on patient access.

- We propose no changes to the Medicare benefit, just more discounts from drug companies.
- The Trump Administration will only pursue drug pricing solutions that will protect the incentives for inventing new cures and protect patient access.
- This free-market approach seeks the same type of discounts that drug makers already voluntarily negotiate with economically-similar countries.

The proposal would keep compensation for doctors steady, while ending a perverse incentive where they are paid more for prescribing the most expensive drugs.

- Today, doctors and hospitals' add-on fee is calculated as a percentage share of the drug's price, so the provider's revenue increases when the price of the drug rises.
- This proposal would hold compensation steady while removing perverse incentives that drive increased cost.

What the IPI Model Means for Americans

American Patients will see lower drug prices in Medicare, lower cost-sharing for those drugs, and a more secure Medicare program.

- A senior who receives an eye medicine that currently costs Medicare \$1,800 a month but other countries just \$300, would **see their co-insurance drop from \$4,400 a year to \$900 a year** after full implementation of the proposal.
- Some Medicare beneficiaries use a drug to fight infection that currently costs Medicare \$4,700 every time they receive chemotherapy. On average it costs other countries \$1,100. These beneficiaries would **see their co-insurance drop from over \$900 every time they use the drug to under \$300** after full implementation of the proposal.

American Doctors will receive steady or higher compensation from the Medicare program, and no longer have a perverse incentive to prescribe drugs with higher prices. Doctors will also be able to get out of the business of bearing the risk of buying and billing for drugs.

- Doctors are currently paid a 4.3 percent add-on fee for drugs due to budget sequestration. This would be increased, and then held as a constant fee, independent of prices.

American Hospitals will be able to get out of the business of buying and billing for drugs, freeing up capital and attention to invest in patient care.

American Drug Distributors and Wholesalers will have new business opportunities to negotiate with drug companies and offer doctors and hospitals a wide range of convenient options.

American and Foreign Drug Companies will have to reform their business models. However, the impact to their revenue would not be enough to substantially reduce current levels of research and development, and their impact would be reduced if foreign prices were more in line with U.S. prices.

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