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Washington, DC - Rep. Peter Welch, an early advocate for reforming the Medicare Part D drug benefit program, released a new report today revealing that the high administrative costs of the private Part D insurers, combined with their inability to negotiate significant drug savings, will cost taxpayers and seniors almost $15 billion this year alone.

The report by the House Oversight and Government Reform Committee, on which Welch serves, is the first independent analysis to have access to proprietary data about drug plan costs and drug prices.

"This program is failing to deliver potential savings to our seniors and all taxpayers are paying the price," said Welch.

Welch added, "Extending prescription drug benefits to seniors on Medicare was the right thing to do. However, when the previous Congress prohibited the federal government from negotiating fair drug prices, they sold out our seniors and they sold out the taxpayers. We must right this program to ensure it effectively delivers the benefits seniors need."

On January 12 the U.S. House passed H.R. 4, legislation that will *require* the federal government to negotiate prescription drug prices for the Part D program. The legislation is being considered in the Senate.

Key findings of the investigation include:

- **High administrative expenses.** The private Part D insurers report administrative expenses, sales costs, and profits of almost $5 billion in 2007- including $1 billion in profits alone. The administrative costs of the privatized Part D program are almost six times higher than the administrative costs of the traditional Medicare program.

- **Small drug rebates.** The drug price rebates negotiated by the Part D insurers reduce Medicare drug spending by just 8.1 percent. In contrast, rebates in the Medicaid program reduce drug spending by 26 percent, over three times as much. Because of the difference in the size of the rebates, the transfer of low-income seniors from Medicaid drug coverage to Medicare drug coverage will result in a $2.8 billion windfall for drug manufacturers in 2007. The Part D insurers receive no rebates or other manufacturer discounts for three-quarters of the drugs used by seniors.
- **Failure to pass through rebates to seniors.** When the insurers do obtain drug price rebates, they do not use the rebates to reduce pharmacy drug prices. This year alone, the private insurers will receive $1 billion in rebates on purchases that seniors in coverage gaps, such as the donut hole, pay for out of their own pockets.

Since late 2005 as Vermont Senate President Pro Tem, Welch has argued that the federal government should use the purchasing power of more than 42 million seniors in the Medicare program to negotiate lower drug prices, delivering lower premiums to seniors and delivering savings to all taxpayers. For example, a November 2005 study by the Oversight Committee found that the drug prices offered by Medicare drug plans are over 80 percent higher than prices negotiated by the federal government for the Department of Veterans Affairs.

"This is the type of critical oversight that was nonexistent from the previous Congress. We're changing that," added Welch.

Click here to read the attached report.

It can also be found at the following address: http://oversight.house.gov/story.asp?ID=1536