January 23, 2004

Honorable William H. Frist, M.D.
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

At your request, CBO has examined the effect of striking the “noninterference” provision (section 1860D-11(i) of the Social Security Act) as added by P.L. 108-173, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. That section bars the Secretary of Health and Human Services from interfering with the negotiations between drug manufacturers and pharmacies and sponsors of prescription drug plans, or from requiring a particular formulary or price structure for covered Part D drugs.

We estimate that striking that provision would have a negligible effect on federal spending because CBO estimates that substantial savings will be obtained by the private plans and that the Secretary would not be able to negotiate prices that further reduce federal spending to a significant degree. Because they will be at substantial financial risk, private plans will have strong incentives to negotiate price discounts, both to control their own costs in providing the drug benefit and to attract enrollees with low premiums and cost-sharing requirements.

If you have any questions we would be happy to answer them. The CBO staff contact is Tom Bradley.

Sincerely,

Douglas Holtz-Eakin
cc: Tom Daschle
    Democratic Leader

    Honorable Don Nickles
    Chairman
    Committee on the Budget

    Honorable Kent Conrad
    Ranking Member

    Honorable Charles E. Grassley
    Chairman
    Committee on Finance

    Honorable Max Baucus
    Ranking Democratic Member

    Honorable Jim Nussle
    Chairman
    House Committee on the Budget

    Honorable John M. Spratt Jr.
    Ranking Member

    Honorable William "Bill" M. Thomas
    Chairman
    Committee on Ways and Means

    Honorable Charles B. Rangel
    Ranking Member

    Honorable W. J. "Billy" Tauzin
    Chairman
    Committee on Energy and Commerce

    Honorable John D. Dingell
    Ranking Member