

Committee on Ways and Means

Veteran's Model for Drugs is Not a Model for Medicare

- **How Does VA Model Work?** The VA pharmacy benefit is based on a federal procurement model. The VA Department enters into agreements with drug manufacturers to reduce prices. Manufacturers that sell brand name drugs listed on the Federal Supply Schedule (FSS) must offer the VA a price that is at least 24-percent lower than AWP (average wholesale price).
- **What Did GAO Conclude About Using VA Model for Medicare?** The General Accounting Office looked at expanding the VA model to Medicare and concluded doing so would raise drug prices in both the commercial market and ultimately in Medicare.
- **Comparing VA to Medicare: Apples and Oranges** – The VA represents approximately 3.5 million veterans which accounts for just 1 percent of total drug spending nationwide. But the Medicare program currently covers 41 million seniors and disabled individuals. This group represents 14 percent of the total population but 40 percent of total drug consumption.
 - That's why the GAO concluded that using the VA's model for Medicare would result in manufacturers immediately increasing prices throughout the private sector to make up for losses on Medicare.
 - These price increases in the private sector would ultimately increase the cost of drugs under Medicare since the VA FSS rates are based on the average drug price paid by wholesalers taking into account any discounts or rebates.
- **VA Model Limits Drug Choices** – In addition, the VA formulary is restrictive and limits a patient's options to choose their own medicines (according to the VA, 61 percent of drugs listed on their formulary are generic). Limited choices partially explain why prices for drugs in the VA are so low.
- **Seniors Like Their Own Doctors and Pharmacists** – In the VA system, only VA doctors prescribe VA approved drugs, which are dispensed at VA facilities. This type of closed system would prevent Medicare seniors from convenient access to local pharmacies and trusted doctors.

- **Barriers to the Best Drug in VA Model** – Physicians would have difficulty prescribing non-formulary drugs for Medicare seniors under the VA’s model. Non-formulary prescriptions are approved by the VA only when the patient is believed to meet one of six narrow tests, such as:
 - Contradiction to formulary drugs.
 - Adverse reaction to formulary drugs.
 - Therapeutic failure of all formulary alternatives.
 - No formulary alternative exists.
 - The patient has previously responded to a non-formulary drug and serious risk is associated with a change to a formulary drug.
 - Other circumstances having compelling evidence-based clinical reasons.