To amend title XVIII of the Social Security Act to provide for the negotiation of lower covered part D drug prices on behalf of Medicare beneficiaries and the establishment and application of a formulary by the Secretary of Health and Human Services under Medicare part D, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Medicare Drug Price Negotiation Act”.
SEC. 2. NEGOTIATION OF LOWER COVERED PART D DRUG PRICES ON BEHALF OF MEDICARE BENEFICIARIES AND ESTABLISHMENT AND APPLICATION OF FORMULARY BY THE SECRETARY OF HEALTH AND HUMAN SERVICES UNDER MEDICARE PART D.

(a) In General.—Section 1860D–11 of the Social Security Act (42 U.S.C. 1395w–111) is amended by striking subsection (i) (relating to noninterference) and inserting the following:

“(i) Negotiation of Lower Drug Prices; Establishment and Application of Formulary.—

“(1) Negotiation.—

“(A) In General.—Notwithstanding any other provision of law, subject to subparagraph (B), the Secretary shall during a negotiation year and with respect to the negotiation drug grouping identified under subparagraph (C) with respect to such negotiation year—

“(i) negotiate with pharmaceutical manufacturers the prices (including discounts, rebates, and all other price concessions) that may be charged for each plan year during the negotiated price period, with respect to such negotiation year, to PDP sponsors and MA organizations for
covered part D drugs identified as included within such negotiation drug grouping for part D eligible individuals who are enrolled under a prescription drug plan or under an MA–PD plan; and

“(ii) complete such negotiations 30 days before the first day of the application review process for the first plan year during such negotiated price period for new contracts or expanding existing contracts with PDP sponsors and MA organizations to offer prescription drug plans or MA–PD plans, respectively.

“(B) USE OF FALBACK IF NEGOTIATIONS FAIL.—If, after attempting to negotiate the price during a negotiation year for a covered part D drug that is identified as included within the negotiation drug grouping for such negotiation year, the Secretary is not successful in obtaining an appropriate price (as determined by the Secretary in accordance with guidance described in subparagraph (E)), the price that may be charged during each plan year during the negotiated price period, with respect to such negotiation year, to PDP sponsors and MA or-
ganizations for such covered part D drugs for
part D eligible individuals who are enrolled
under a prescription drug plan or under an
MA–PD plan shall be the lowest of—

“(i) the contract price applied pursuant to section 8126 of title 38, United
States Code, for such drug for the contract
year (as defined in such section 8126) be-
beginning during the first plan year of such
negotiated price period;

“(ii) the average of the prices avail-
able, during the most recent 12-month pe-
period for which data is available prior to the
beginning of such negotiated price period,
from the manufacturer to any wholesaler,
retailer, provider, health maintenance orga-
nization, nonprofit entity, or governmental
entity in the ten OECD (Organization for
Economic Cooperation and Development)
countries that have the largest gross do-
mestic product with a per capita income
that is not less than half the per capita in-
come of the United States, as reported by
the manufacturer to the Secretary; and
“(iii) the best price determined under section 1927(e)(1)(C) for such drug for the most recent rebate period (as defined in section 1927(k)(8)) applicable to such first plan year of such negotiated price period.

“(C) IDENTIFICATION OF NEGOTIATION DRUG GROUPINGS.—

“(i) IN GENERAL.—For each negotiation year, the Secretary shall, during the previous year, in accordance with the subsequent clauses of this subparagraph, and pursuant to rulemaking, identify covered part D drugs for which negotiations under subparagraph (A) shall be conducted during such negotiation year. In this subsection, all such covered part D drugs so identified for a negotiation year are collectively referred to as the negotiation drug grouping, with respect to such year.

“(ii) IDENTIFICATION OF PRIORITIZED DRUGS.—In carrying out clause (i), except as provided under clause (iii), the Secretary may not identify for inclusion within the negotiation drug grouping with respect to a negotiation year, a covered part D
drug that is not a drug prioritized pursuant to subparagraph (D) before all covered part D drugs that are so prioritized have been identified for inclusion in such grouping or in a negotiation drug grouping with respect to a previous negotiation year for which the negotiated price period has not expired.

“(iii) DRUG INCLUSIONS FOR PRICE RENEGOTIATIONS.—In the case of a covered part D drug that is identified as included in a negotiation drug grouping under this subparagraph, with respect to a negotiation year, such covered part D drug shall be identified as included within the negotiation drug grouping for each subsequent third negotiation year.

“(iv) REASONABLE NOTIFICATION.—The Secretary shall carry out this subparagraph in such manner as to provide for public notification of the negotiation drug grouping identified with respect to a negotiation year within a reasonable period before the beginning of such negotiation year.
“(D) PRIORITIZATION.—For purposes of subparagraph (C)(ii), for a negotiation drug grouping, with respect to a negotiation year, the Secretary shall prioritize covered part D drugs—

“(i) with respect to which the cost of such a drug to the part D eligible individual involved would exceed the annual out-of-pocket threshold applicable under section 1860D–2(b)(4)(B) for such negotiation year, if the drug were prescribed to the individual for the period of the year or with respect to which a single treatment regimen is priced above such annual out-of-pocket threshold applicable under such section 1860D–2(b)(4)(B) for the year;

“(ii) that are among—

“(I) the 40 covered part D drugs that are utilized by at least 1,000 Medicare part D beneficiaries and with respect to which there were the highest total expenditures under this part during the most recent 12-month period prior to the beginning of such
negotiation year for which data is available;

“(II) the 40 covered part D drugs that are utilized by at least 1,000 Medicare part D beneficiaries with respect to whom the total annual spending per such a beneficiary under this part for coverage of such a drug is at least $10,000; or

“(III) the 20 covered part D drugs that are utilized by at least 1,000 Medicare part D beneficiaries and with respect to which there are unit cost increases at or above the 95th percentile of overall covered part D drug unit cost increases during the most recent 12-month period prior to the beginning of such negotiation year for which data is available; or

“(iii) that are single-source drugs or biologicals (as defined in section 1847A(c)(6)(D)) and that satisfy at least one other criterion described in a previous clause of this subparagraph.
“(E) GUIDANCE.—Not later than 6 months before the Secretary begins negotiations under subparagraph (A) for the first negotiation year, the Secretary shall issue guidance on criteria to be considered for purposes of determining under subparagraph (B) whether or not the Secretary is successful in obtaining an appropriate price for a covered part D drug. Such criteria shall include at least the following:

“(i) The comparative clinical effectiveness and cost effectiveness, if available, of such covered part D drug.

“(ii) The budgetary impact of providing coverage under this part for such covered part D drug.

“(iii) The number of similarly effective drug or alternative treatment regimens for each approved use of such covered part D drug.

“(iv) Associated unmet need or severity of illness.

“(F) PUBLIC EXPLANATION ON NEGOTIATIONS OUTCOMES.—Not later than 30 days after the date on which the Secretary completes negotiations under this section during a nego-
tiation year with a pharmaceutical manufac-
turer, with respect to the price for a covered
part D drug for a negotiated price period, with
respect to such year, the Secretary shall make
publicly available an explanation of the outcome
of such negotiations, based on the criteria in-
cluded in the guidance issued pursuant to sub-
paragraph (E).

“(G) MedPAC Report.—

“(i) Study.—The Medicare Payment
Advisory Commission shall conduct a study
on the price negotiations conducted by the
Secretary under this paragraph, including
an analysis of—

“(I) the extent to which such
price negotiations are achieving lower
prices for covered part D drugs for
part D eligible individuals who are en-
rolled under a prescription drug plan
or under an MA–PD plan;

“(II) the parties benefitting from
such lower prices, such as part D eli-
gible individuals described in sub-
clause (I), the Federal government,
States, prescription drug plans and 
MA–PD plans, or other entities;

“(III) how such price negotia-
tions are affecting drug prices in the 
private market; and

“(IV) how such price negotiations 
are affecting the list price of covered 
part D drugs.

“(ii) REPORT.—Not later than Janu-
ary 1, 2022, the Medicare Payment Advi-
sory Commission shall submit to Congress 
a report on the study conducted under 
clause (i), including recommendations for 
improving price negotiations described in 
clause (i).

“(H) DEFINITIONS.—For purposes of this 
paragraph:

“(i) NEGOTIATION YEAR.—The term 
‘negotiation year’ means a year beginning 
with 2019.

“(ii) NEGOTIATED PRICE PERIOD.— 
The term ‘negotiated price period’ means, 
with respect to a negotiation year and ne-
gotiation drug grouping, the 3-plan year 
period beginning with the first plan year
beginning after the negotiation year for
such grouping.

“(2) Establishment and application of
formulary by the Secretary or changes in
formulaires to be required by Secretary.—

“(A) In general.—The Secretary shall,
for plan years beginning with plan year 2019—

“(i) subject to subparagraphs (B) and
(C), establish and apply a formulary for
required use by sponsors of prescription
drug plans and organizations offering MA–
PD plans under this part; or

“(ii) require changes, as necessary, in
the covered part D drugs included on
formulaires of PDP sponsors of prescrip-
tion drug plans (including changes, as nec-
essary, in the preferred or tiered cost-shar-
ing status of such a drug) to take into ac-
count negotiations carried out by the Sec-
retary pursuant to paragraph (1), regard-
less of whether such a covered part D drug
is the subject of such negotiations.

“(B) Required inclusion of drugs in
all therapeutic categories.—A formulary
established and applied under subparagraph
(A)(i) shall include at least two covered part D drugs in each category and class of covered part D drugs as described in section 423.120(b)(2)(i) of title 42, Code of Federal Regulations (as in effect on January 1, 2017).

“(C) Application of development and revision requirements and required inclusion of all drugs in certain categories and classes.—The requirements described in subparagraphs (A) and (B) of section 1860D–4(b)(3) (relating to development and revision requirements of the formulary) and subparagraph (G) of such section (relating to required inclusion of all drugs in certain categories and classes) shall apply to a formulary established and applied under subparagraph (A)(i) of this paragraph.

“(3) Plan flexibility to negotiate greater discounts.—Nothing in this subsection shall be construed as preventing the sponsor of a prescription drug plan, or an organization offering an MA–PD plan, from obtaining a discount or reduction of the price for a covered part D drug below the price negotiated under paragraph (1), if applicable, in-
cluding through the use of preferred or tiered cost-sharing status.

“(4) Ensuring beneficiary access to needed drugs.—Beginning with plan year 2019, each PDP sponsor of a prescription drug plan and organization offering an MA–PD plan shall have in place a process under which an enrollee in the plan may request coverage under the plan for a covered part D drug that is not on the formulary, or is subject to utilization management controls, such as tiered pricing, prior authorization, or step therapy.”.

(b) Conforming Amendments.—Section 1860D–4 of the Social Security Act (42 U.S.C. 1395w–104) is amended—

(1) in subsection (b)(3), in the matter preceding subparagraph (A), by striking “If a PDP” and inserting “Subject to section 1860D–11(i)(2), if a PDP”;

(2) in subsection (g)—

(A) in paragraph (1), by inserting before the period at the end the following: “, except that the PDP sponsor of a prescription drug plan shall treat the presentation of a prescription to a participating pharmacy, which is transmitted to the plan by the pharmacy, as a
request for a coverage determination (including
with respect to prior authorization, step ther-
apy, or quantity limits) and, in applying such
paragraphs of section 1852(g), the response to
such transmittal shall be treated as a deter-
mination by the sponsor”; and

(B) in paragraph (2), in the first sentence,
by inserting “(or a participating pharmacy, on
behalf of such individual, through transmission
of a prescription as described in paragraph
(1))” after “a part D eligible individual who is
enrolled in the plan”; and

(3) in subsection (h)—

(A) in paragraph (1), in the second sen-
tence, by inserting “(or a participating phar-
macy, on behalf of such individual)” after “the
part D eligible individual”; and

(B) in paragraph (2), by inserting “(or a
participating pharmacy, on behalf of such indi-
vidual)” after “A part D eligible individual who
is enrolled in a prescription drug plan offered
by a PDP sponsor”.

(4) EFFECTIVE DATE.—The amendments made
by paragraphs (2) and (3) shall apply to plans years
beginning on or after January 1, 2019.
SEC. 3. REQUIRING DRUG MANUFACTURERS TO PROVIDE
DRUG REBATES FOR DRUGS DISPENSED TO
LOW-INCOME INDIVIDUALS.

(a) IN GENERAL.—Section 1860D–2 of the Social Security Act (42 U.S.C. 1395w–102) is amended—

(1) in subsection (e)(1), in the matter preceding subparagraph (A), by inserting “and subsection (f)” after “this subsection”; and

(2) by adding at the end the following new subsection:

“(f) PRESCRIPTION DRUG REBATE AGREEMENT FOR REBATE ELIGIBLE INDIVIDUALS.—

“(1) REQUIREMENT.—

“(A) IN GENERAL.—For plan years beginning on or after January 1, 2019, in this part, the term ‘covered part D drug’ does not include any drug or biological product that is manufactured by a manufacturer that has not entered into and have in effect a rebate agreement described in paragraph (2).

“(B) 2019 PLAN YEAR REQUIREMENT.— Any drug or biological product manufactured by a manufacturer that declines to enter into a rebate agreement described in paragraph (2) for the period beginning on January 1, 2019, and ending on December 31, 2019, shall not be in-
cluded as a ‘covered part D drug’ for the subse-
quent plan year.

“(2) Rebate agreement.—A rebate agree-
ment under this subsection shall require the manu-
facturer to provide to the Secretary a rebate for
each rebate period (as defined in paragraph (6)(B))
ending after December 31, 2018, in the amount
specified in paragraph (3) for any covered part D
drug of the manufacturer dispensed after December
31, 2018, to any rebate eligible individual (as de-
defined in paragraph (6)(A)) for which payment was
made by a PDP sponsor or MA organization under
this part for such period, including payments passed
through the low-income and reinsurance subsidies
under sections 1860D–14 and 1860D–15(b), respec-
tively. Such rebate shall be paid by the manufac-
turer to the Secretary not later than 30 days after
the date of receipt of the information described in
section 1860D–12(b)(7), including as such section is
applied under section 1857(f)(3), or 30 days after
the receipt of information under subparagraph (D)
of paragraph (3), as determined by the Secretary.
Insofar as not inconsistent with this subsection, the
Secretary shall establish terms and conditions of
such agreement relating to compliance, penalties,
and program evaluations, investigations, and audits that are similar to the terms and conditions for rebate agreements under paragraphs (3) and (4) of section 1927(b).

“(3) Rebate for rebate eligible medicare drug plan enrollees.—

“(A) In general.—The amount of the rebate specified under this paragraph for a manufacturer for a rebate period, with respect to each dosage form and strength of any covered part D drug provided by such manufacturer and dispensed to a rebate eligible individual, shall be equal to the product of—

“(i) the total number of units of such dosage form and strength of the drug so provided and dispensed for which payment was made by a PDP sponsor or an MA organization under this part for the rebate period, including payments passed through the low-income and reinsurance subsidies under sections 1860D–14 and 1860D–15(b), respectively; and

“(ii) the amount (if any) by which—

“(I) the Medicaid rebate amount (as defined in subparagraph (B)) for
such form, strength, and period, exceeds

“(II) the average Medicare drug program rebate eligible rebate amount (as defined in subparagraph (C)) for such form, strength, and period.

“(B) MEDICAID REBATE AMOUNT.—For purposes of this paragraph, the term ‘Medicaid rebate amount’ means, with respect to each dosage form and strength of a covered part D drug provided by the manufacturer for a rebate period—

“(i) in the case of a single source drug or an innovator multiple source drug, the amount specified in paragraph (1)(A)(ii)(II) or (2)(C) of section 1927(c) plus the amount, if any, specified in subparagraph (A)(ii) of paragraph (2) of such section, for such form, strength, and period; or

“(ii) in the case of any other covered outpatient drug, the amount specified in paragraph (3)(A)(i) of such section for such form, strength, and period.
“(C) Average Medicare drug program rebate eligible rebate amount.—For purposes of this subsection, the term ‘average Medicare drug program rebate eligible rebate amount’ means, with respect to each dosage form and strength of a covered part D drug provided by a manufacturer for a rebate period, the sum, for all PDP sponsors under part D and MA organizations administering an MA–PD plan under part C, of—

“(i) the product, for each such sponsor or organization, of—

“(I) the sum of all rebates, discounts, or other price concessions (not taking into account any rebate provided under paragraph (2) or any discounts under the program under section 1860D–14A) for such dosage form and strength of the drug dispensed, calculated on a per-unit basis, but only to the extent that any such rebate, discount, or other price concession applies equally to drugs dispensed to rebate eligible Medicare drug plan enrollees and drugs disp-
pensed to PDP and MA–PD enrollees who are not rebate eligible individuals; and

“(II) the number of the units of such dosage and strength of the drug dispensed during the rebate period to rebate eligible individuals enrolled in the prescription drug plans administered by the PDP sponsor or the MA–PD plans administered by the MA organization; divided by

“(ii) the total number of units of such dosage and strength of the drug dispensed during the rebate period to rebate eligible individuals enrolled in all prescription drug plans administered by PDP sponsors and all MA–PD plans administered by MA organizations.

“(D) USE OF ESTIMATES.—The Secretary may establish a methodology for estimating the average Medicare drug program rebate eligible rebate amounts for each rebate period based on bid and utilization information under this part and may use these estimates as the basis for determining the rebates under this section. If
the Secretary elects to estimate the average Medicare drug program rebate eligible rebate amounts, the Secretary shall establish a reconciliation process for adjusting manufacturer rebate payments not later than 3 months after the date that manufacturers receive the information collected under section 1860D–12(b)(7)(B).

“(4) LENGTH OF AGREEMENT.—The provisions of paragraph (4) of section 1927(b) (other than clauses (iv) and (v) of subparagraph (B)) shall apply to rebate agreements under this subsection in the same manner as such paragraph applies to a rebate agreement under such section.

“(5) OTHER TERMS AND CONDITIONS.—The Secretary shall establish other terms and conditions of the rebate agreement under this subsection, including terms and conditions related to compliance, that are consistent with this subsection.

“(6) DEFINITIONS.—In this subsection and section 1860D–12(b)(7):

“(A) REBATE ELIGIBLE INDIVIDUAL.—The term ‘rebate eligible individual’ means—

“(i) a subsidy eligible individual (as defined in section 1860D–14(a)(3)(A));
“(ii) a Medicaid beneficiary treated as
a subsidy eligible individual under clause
(v) of section 1860D–14(a)(3)(B); and
“(iii) any part D eligible individual
not described in clause (i) or (ii) who is de-
determined for purposes of the State plan
under title XIX to be eligible for medical
assistance under clause (i), (iii), or (iv) of
section 1902(a)(10)(E).
“(B) REBATE PERIOD.—The term ‘rebate
period’ has the meaning given such term in sec-
tion 1927(k)(8).”.
(b) REPORTING REQUIREMENT FOR THE DETER-
MINATION AND PAYMENT OF REBATES BY MANUFACTUR-
ERS RELATED TO REBATE FOR REBATE ELIGIBLE MEDI-
CARE DRUG PLAN ENROLLEES.—
(1) REQUIREMENTS FOR PDP SPONSORS.—Sec-
tion 1860D–12(b) of the Social Security Act (42
U.S.C. 1395w–112(b)) is amended by adding at the
end the following new paragraph:
“(7) REPORTING REQUIREMENT FOR THE DE-
TERMINATION AND PAYMENT OF REBATES BY MANU-
FACTURERS RELATED TO REBATE FOR REBATE ELI-
GIBLE MEDICARE DRUG PLAN ENROLLEES.—
“(A) IN GENERAL.—For purposes of the rebate under section 1860D–2(f) for contract years beginning on or after January 1, 2019, each contract entered into with a PDP sponsor under this part with respect to a prescription drug plan shall require that the sponsor comply with subparagraphs (B) and (C).

“(B) REPORT FORM AND CONTENTS.—Not later than a date specified by the Secretary, a PDP sponsor of a prescription drug plan under this part shall report to each manufacturer—

“(i) information (by National Drug Code number) on the total number of units of each dosage, form, and strength of each drug of such manufacturer dispensed to rebate eligible Medicare drug plan enrollees under any prescription drug plan operated by the PDP sponsor during the rebate period;

“(ii) information on the price discounts, price concessions, and rebates for such drugs for such form, strength, and period;

“(iii) information on the extent to which such price discounts, price conces-
sions, and rebates apply equally to rebate eligible Medicare drug plan enrollees and PDP enrollees who are not rebate eligible Medicare drug plan enrollees; and

“(iv) any additional information that the Secretary determines is necessary to enable the Secretary to calculate the average Medicare drug program rebate eligible rebate amount (as defined in paragraph (3)(C) of such section), and to determine the amount of the rebate required under this section, for such form, strength, and period.

Such report shall be in a form consistent with a standard reporting format established by the Secretary.

“(C) SUBMISSION TO SECRETARY.—Each PDP sponsor shall promptly transmit a copy of the information reported under subparagraph (B) to the Secretary for the purpose of audit oversight and evaluation.

“(D) CONFIDENTIALITY OF INFORMATION.—The provisions of subparagraph (D) of section 1927(b)(3), relating to confidentiality of information, shall apply to information reported
by PDP sponsors under this paragraph in the same manner that such provisions apply to information disclosed by manufacturers or wholesalers under such section, except—

“(i) that any reference to ‘this section’ in clause (i) of such subparagraph shall be treated as being a reference to this section;

“(ii) the reference to the Director of the Congressional Budget Office in clause (iii) of such subparagraph shall be treated as including a reference to the Medicare Payment Advisory Commission; and

“(iii) clause (iv) of such subparagraph shall not apply.

“(E) OVERSIGHT.—Information reported under this paragraph may be used by the Inspector General of the Department of Health and Human Services for the statutorily authorized purposes of audit, investigation, and evaluations.

“(F) PENALTIES FOR FAILURE TO PROVIDE TIMELY INFORMATION AND PROVISION OF FALSE INFORMATION.—In the case of a PDP sponsor—
“(i) that fails to provide information required under subparagraph (B) on a timely basis, the sponsor is subject to a civil money penalty in the amount of $10,000 for each day in which such information has not been provided; or

“(ii) that knowingly (as defined in section 1128A(i)) provides false information under such subparagraph, the sponsor is subject to a civil money penalty in an amount not to exceed $100,000 for each item of false information.

Such civil money penalties are in addition to other penalties as may be prescribed by law. The provisions of section 1128A (other than subsections (a) and (b)) shall apply to a civil money penalty under this subparagraph in the same manner as such provisions apply to a penalty or proceeding under section 1128A(a).”.

(2) Application to MA Organizations.—Section 1857(f)(3) of the Social Security Act (42 U.S.C. 1395w–27(f)(3)) is amended by adding at the end the following:

“(D) Reporting requirement related to rebate for rebate eligible Medicare
DRUG PLAN ENROLLEES.—Section 1860D–12(b)(7).”.

(c) DEPOSIT OF REBATES INTO MEDICARE PRESCRIPTION DRUG ACCOUNT.—Section 1860D–16(e) of the Social Security Act (42 U.S.C. 1395w–116(e)) is amended by adding at the end the following new paragraph:

“(6) REBATE FOR REBATE ELIGIBLE MEDICARE DRUG PLAN ENROLLEES.—Amounts paid under a rebate agreement under section 1860D–2(f) shall be deposited into the Account.”.

(d) EXCLUSION FROM DETERMINATION OF BEST PRICE AND AVERAGE MANUFACTURER PRICE UNDER MEDICAID.—

(1) EXCLUSION FROM BEST PRICE DETERMINATION.—Section 1927(c)(1)(C)(ii)(I) of the Social Security Act (42 U.S.C. 1396r–8(c)(1)(C)(ii)(I)) is amended by inserting “and amounts paid under a rebate agreement under section 1860D–2(f)” after “this section”.

(2) EXCLUSION FROM AVERAGE MANUFACTURER PRICE DETERMINATION.—Section 1927(k)(1)(B)(i) of the Social Security Act (42 U.S.C. 1396r–8(k)(1)(B)(i)) is amended—

(A) in subclause (IV), by striking “and” after the semicolon;
(B) in subclause (V), by striking the period at the end and inserting “; and”; and

(C) by adding at the end the following:

“(VI) amounts paid under a rebate agreement under section 1860D–2(f).”.

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