The Daily Dish

The IRA and Prescription Drug Plans

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If you are a loyal reader of Eakinomics, you are doubtless familiar with the hilariously named Inflation Reduction Act (IRA), which will do no such thing to inflation, throws hundreds of billions of dollars at clean energy in an inefficient fashion that mixes well with its costly pro-union requirements and protectionist domestic content requirements, and features price controls and draconian taxes labeled “negotiations.” But, at least so far, you might not be aware of the forthcoming impact on Medicare Part D prescription drug plans and seniors.

If so, take a gander at my new piece, or just keep reading. Here’s the gist of it.

The IRA changes the environment in which Part D plans operate. First, under the maximum out-of-pocket cap, plans will be responsible for?65 percent of all beneficiary costs after the deductible in 2025. Second, in the catastrophic phase, plan liability will grow from 15 percent in 2023 to 60 percent for all beneficiaries in 2025. Finally, plans will be responsible for?additional liability for Low-Income-Subsidy (LIS) beneficiaries, as they previously had no liability for LIS during the coverage gap. Collectively, these provisions will mean that if plans do nothing, their costs will rise by a collective $48 billion annually.

Since they collectively *make* only $4.6 billion, doing nothing is not an option if they want to survive. What will they do? To be honest, I have no idea. But in the spirit of Casablanca, let’s round up the usual suspects:

- *Premium Increases*. Plans could simply adjust their bids and increase premiums. The law provides that beginning January 1, 2024, the average premium increase must be limited to 6 percent over the previous year, but there will be upward pressure nevertheless. Still, the study anticipates that plans will view premium increases only as a last resort.
- *Negotiate Lower Drug Prices with Manufacturers*. The original insight embedded in the Part D design was that plans would have an incentive to bargain with manufacturers for lower drug prices. The IRA provisions sharpen this incentive considerably. One can anticipate that collectively, Part D plans will seek to reduce their acquisition costs considerably. Their ability to be successful is unclear.
- *New Plan Offerings*. Medicare Advantage (MA) has seen a dramatic rise as a popular platform for delivering medical services to seniors, with a majority of beneficiaries likely to be covered by MA in the next few years. Since it is easier to manage costs with more tools, MA plans offering Part D will have an advantage over stand-alone plans.
- *Changes in Formularies*. Plans will rely on formularies that are adjusted to reduce likely drug spending. While plans do have some mandatory formulary coverage requirements in Part D, such as at least two drugs per class and all or substantially all drugs in the six protected classes, plan formularies today typically exceed the minimum requirement of two drugs per class. To minimize drug spending, plans could opt to reduce the number of medicines covered, resulting in narrower formularies.
- *Utilization Management*. A final avenue for plans to respond to the IRA is to control spending on unnecessary prescriptions or unnecessarily expensive prescriptions through tools such as prior

authorization or step therapy.

One way to look at this is that the IRA is about to dramatically change the beneficiary experience under Part D. Of course, any good news will be claimed by the authors of the IRA, while any less-desirable changes will be blamed on evil insurers and their drug plans. But the reality is that the IRA, and its authors, gave them no choice.