Press Release

The Inflation Reduction Act and Prescription Drug Plans: Incentives and Potential Responses

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As a result of the Inflation Reduction Act's (IRA) sweeping changes to Medicare Part D, stand-alone drug plans and Medicare Advantage prescription drug plans will face substantial new costs for both seniors' catastrophic drug expenses and the Low-Income-Subsidy population. In a new insight, AAF President Douglas Holtz-Eakin reviews the IRA's key changes to Part D drug benefits and considers what plans may do in response.

Key points:

- This study estimates that in the absence of a behavioral response by plans to compensate for these costs, the IRA's provisions will increase the costs of Part D plans by roughly $47.8 billion per year; this is a dramatic increase as the combined profits of Part D plans are only about $4.6 billion annually.
- In response to these new costs, plans are likely to adjust their annual bids and raise premiums and/or to negotiate more fiercely for lower drug acquisition costs, yet plans are typically loath to do the former and face practical limitations to the latter.
- Accordingly, beneficiaries may see changes in the number and types of plans they are offered, changes in the design of Part D plan formularies, and attempts to increase utilization management.

Read the analysis