Inflation Reduction Act Provisions That Will Lower Health Care Costs
Aug. 16, 2022

Signed by President Biden on Aug. 16, 2022, the Inflation Reduction Act (IRA) contains major changes that will lower health care costs, especially for seniors and others on Medicare and people who buy individual health insurance coverage. This new law also makes major investments to reduce carbon emissions and jumpstart the economy-wide transition to green energy while ensuring corporations and the wealthy pay their fair share of taxes. This fact sheet describes the parts of the IRA that lower health care costs.

How does the IRA lower drug prices in Medicare?

The IRA includes two big changes in how Medicare deals with prescription drug corporations over the prices of drugs. First, the new law directs Medicare to negotiate with drug companies over the price of certain drugs. Second, the IRA penalizes prescription drug corporations that increase their prices faster than the inflation rate in the overall economy.

Negotiating Drug Prices - For the first time, the federal government is granted authority and directed to negotiate drug prices within the Medicare program. Up until now, a 2003 law signed by Pres. George W. Bush prohibited Medicare from negotiating with prescription drug companies. Negotiations will be phased in and are limited to products without generic competitors. Traditional, small molecule drugs (i.e., drugs that are chemically derived and easier to manufacture) generally would only be eligible for negotiations after nine years of being on the market with patent protection, also referred to as exclusivity. Biologics (i.e., drugs composed of living cells and comparatively difficult to manufacture, like insulin) generally would be eligible for negotiation after 13 years of exclusivity.

Beginning in 2026, 10 negotiation-eligible drugs covered under the Part D (retail drugs) benefit would be subject to a "maximum fair price" determined by a newly established process, with the number of drugs increasing to 15 in 2027 and 2028. In 2029, and years thereafter, 20 drugs across the Part D and Part B (typically physician-administered, such as some drugs given to cancer patients) benefits would be negotiated.

Limiting Drug Company Price Increases - Beginning this October, the IRA institutes an annual inflation cap on Medicare Part D prescription drugs. Prescription drug corporations that raise their Medicare drug prices faster than the overall rate of inflation in the US are required to pay a rebate to the Medicare program. The rebate equals the entire amount of the price increase that exceeds the inflation rate. For physician-administered drugs paid through Medicare Part B, such as some cancer treatments, the inflation cap applies beginning in April 2023.

> **Impact on AFSCME Members:** Drug price negotiation and inflation caps will reduce out-of-pocket spending on drugs and result in overall lower Part B and Part D premiums for AFSCME retirees enrolled in Medicare. They will benefit regardless of whether they are in traditional Medicare or a Medicare Advantage plan. Note that neither of these provisions applies to drug prices paid by private insurance plans, including group health plans that cover AFSCME members and other workers.

How else does the IRA reduce what Medicare beneficiaries have to pay for prescription drugs?

The IRA includes several major changes to Medicare's Part D drug benefit that will lower out-of-pocket spending for enrollees:

$2,000 Limit on Part D Out-of-Pocket Spending - For the first time, beginning in 2025, beneficiaries will have the protection of an annual out-of-pocket maximum spending limit of $2,000 within the Part D standard benefit. Previously, there was no out-of-pocket limit. Individuals who needed many drugs, or particularly expensive drugs, faced several thousand dollars or more in out-of-pocket costs. Even after incurring about $10,000 in overall drug spending in a year — the so-called "catastrophic" spending level — an individual owed a 5% co-payment on everything above that catastrophic level for the rest of the year. The IRA eliminates that open-ended 5% catastrophic co-payment a year before the $2,000 limit goes into effect, beginning in 2024. An important note: Part D premiums remain an additional expense outside of the $2,000 limit.

$35 Monthly Limit on Insulin Out-of-Pocket Spending – Beginning in 2023, Medicare Part D beneficiaries who need insulin will not have to pay more than $35 per month out-of-pocket for an insulin drug. In 2026 and later, the maximum price could be lower if the insulin product has been selected for Medicare drug price negotiation. Also, the Part D plan's deductible will not apply to insulin, so the $35 limit applies immediately. (A deductible is the amount someone generally must pay 100% out of pocket before the plan covers any costs. In 2022, it is $480 in the standard Part D plan.)

For beneficiaries who use insulin products covered under Medicare's Part B benefit, such as insulin delivered through external pumps, the deductible will be waived for that product beginning July 1, 2023, and monthly cost sharing will be limited to the lesser of $35 or 20% of the product's price.

More People Eligible for Reduced Part D Costs – Beginning in 2024, the IRA extends full eligibility for the Part D low-income subsidy program to more than 400,000 seniors. This program makes Part D premiums, deductibles and co-pays significantly more affordable. According to the Social Security Administration, this benefit is valued at $5,100 per year. People who are newly eligible for the full extra help under this program include those with:

- Incomes greater than 135% and not more than 150% of the federal poverty level (FPL) (equivalent to income greater than $18,587 and not more than $20,625 in 2022 for someone who is single and greater than $24,959 and not more than $27,705 for a couple) and assets not more than $15,510 for singles and $30,950 for couples.
- Incomes not more than 135% of the FPL with assets between $9,900 and $15,510 for singles and $15,600 and $30,950 for couple.

No Out-of-Pocket for Vaccines – Beginning in 2023, IRA requires Medicare to pay for 100% of the cost of approved adult vaccines. Beneficiaries cannot be required to pay anything out of pocket toward the cost. For example, people on Medicare could get the shingles vaccine without having to pay anything.

Limit on Part D Premium Increases – To protect against big premium increases in the near term, the IRA limits how much Part D premiums can increase each year to no more than 6% in 2024-2030.

> **Impact on AFSCME Members:** The IRA makes major improvements to the design of the Part D benefit. These changes will benefit all AFSCME retirees who get their drug coverage through Medicare. Those who use expensive drugs or many medications, insulin users and some low-income beneficiaries will see the biggest impact.

How does the IRA reduce premiums for those who purchase health insurance on their own?

The IRA extends for three years (2023-2025) the extra help paying for Affordable Care Act (ACA) individual market premiums that Pres. Biden first signed into law in the 2021 American Rescue Plan Act (ARPA). This extra health insurance help was due to expire at the end of this year.

How much extra help this provides depends partly on someone's income level. According to the US Department of Health and Human Services, more than 10 million people who have individual coverage today will benefit from this part of the IRA. For 8.9 million people, the extra help averages $406 a year. About 1.5 million people getting coverage today would not be eligible for any premium help without the ARPA and IRA. Under the original terms of the ACA, only those earning up to 400% FPL ($51,040 for a single person in 2022) were eligible for premium help. This made coverage expensive for middle income people, especially those nearing retirement but not yet Medicare eligible. The IRA keeps people in this group from losing an estimated $3,277 in premium help.

> **Impact on AFSCME Members:** Although most AFSCME members (and their dependent family members) get health coverage through their jobs, some buy individual coverage through the ACA marketplaces. Almost all of them will benefit from the lower premiums owed because of the IRA. Examples of AFSMCE members who are more likely to be buying individual coverage, and therefore to benefit from this change, include child care workers who provide care in their own homes, part-time workers generally and pre-Medicare retirees who do not have retiree health coverage from their former employers.