

Prescription Drug Provisions of the Inflation Reduction Act

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Maryland Prescription Drug Affordability Board



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Prescription Drug Affordability Board

Agenda

- Overview of the Prescription Drug Provisions of the Inflation Reduction Act (IRA)
 - Inflation Penalty
 - Medicare Part D Reform
 - Medicare Prescription Drug Negotiation
- Relationship to State Action



Overview of IRA

- Passed: August 16, 2022
- Implementation Date: January 1, 2023
- The Inflation Reduction Act will lower costs for families, combat the climate crisis, and reduce the deficit.
- Protect Medicare recipients from catastrophic drug costs by phasing in a cap for out-of-pocket costs and establishing a \$35 copay cap for a month's supply of insulin.
- Enable Medicare to negotiate prices for high-cost drugs. For union members or family members who benefit from the Affordable Care Act, it extends health insurance premium subsidies.



IRA Prescription Drug Provisions

- Inflation Penalty
- Medicare Part D Reform
 - \$35 copay for insulin
 - \$2000 out of pocket maximum
 - Remove 5% co-insurance in the catastrophic phase
- Medicare Prescription Drug Negotiation



Inflation Penalty

- Implementation Date: January 1, 2023
- Budget Impact: \$56 billion savings over 10 years (saves Medicare \$71 billion and costs Medicaid \$15 billion)
- Under the IRA, single-source Part B drugs and all Part D drugs excluding certain low-spend drugs will be subject to a penalty if the drug's price increases faster than inflation. This penalty will take the form of a rebate to Medicare on all units sold in Parts B and D at an amount over the allowed price increase.



Inflation Penalty continued

For Part B drugs:

- The rebate is calculated as the total number of units sold in Part B multiplied by the amount the Part B payment rate in the applicable quarter exceeds the inflation-adjusted benchmark Part B payment rate for the quarter. Part B drugs that are currently approved would have Q3 of 2021 as their benchmark quarter, while drugs approved after December 1, 2020, would have the third full quarter after their approval as a benchmark quarter.

For Part D drugs:

- The rebate will be the amount equaling the total number of units sold in Part D multiplied by the amount that the volume-weighted average annualized AMP for a given year exceeds the inflation-adjusted, volume-weighted average annualized AMP for the benchmark year. The benchmark year for currently approved Part D drugs is 2021. Part D drugs approved after October 1, 2021, will use the first calendar year following approval as their benchmark year.



\$35 Insulin Copay cap

- Implementation date: January 1, 2023
- Budget Impact: Cost \$5 billion over 10 years

- Establish a \$35 cap for a month's supply of insulin for Medicare patients.
- The cap would apply to either \$35 or 25% of the plan's negotiated price for a 30-day supply.
- Private plans would be required to offer first-dollar coverage of insulin without any deductible, according to an analysis from the Congressional Budget Office.
- Participating plans do not have to cover all insulin products at the \$35 monthly copayment amount, just one of each dosage form (vial, pen) and insulin type (rapid-acting, short-acting, intermediate-acting, and long-acting).



Removal of 5% Coinsurance

- Implementation date: January 1, 2024
- Budget Impact: Cost \$30 billion over 10 years (with the OOP max)
- Removes 5% coinsurance in the catastrophic phase of the benefit



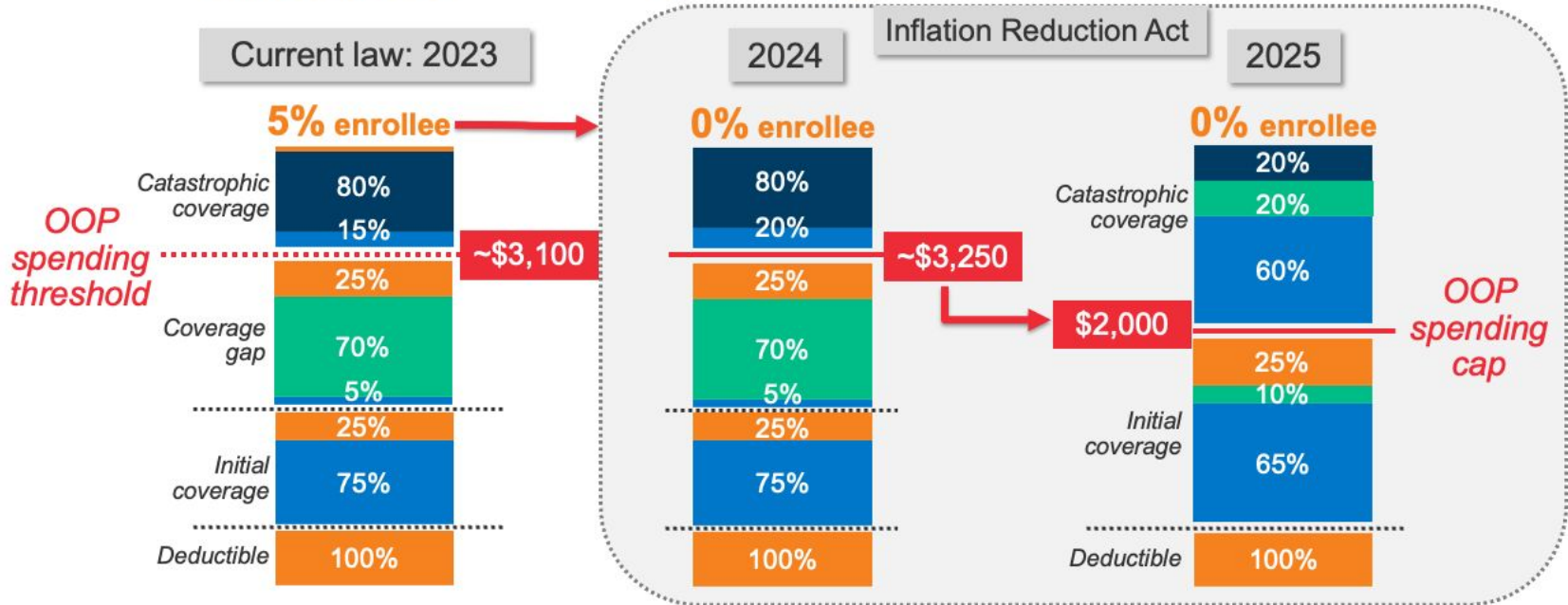
\$2000 Out-of-Pocket Cost Maximum

- Implementation Date: January 1, 2025
- Budget Impact: Cost \$30 billion over 10 years (with removing coinsurance)
- People with Medicare prescription drug coverage will benefit from a yearly cap (\$2,000 in 2025) on what they pay out-of-pocket for prescription drugs.
- They will also have the option to pay their prescription costs in monthly amounts spread over the year rather than all at once, beginning in 2025.

Figure 2

Changes to Medicare Part D for Brand-Name Drug Costs

Share of **brand-name drug** costs paid by: ● Enrollees ● Part D Plans ● Drug manufacturers ● Medicare



NOTE: OOP is out-of-pocket. The out-of-pocket spending threshold will be \$7,400 in 2023 and is projected to be \$7,750 in 2024 and \$8,100 in 2025, including what beneficiaries pay directly out of pocket and the value of the manufacturer discount on brand-name drugs in the coverage gap phase. These amounts translate to out-of-pocket spending of approximately \$3,100, \$3,250, and \$3,400 (based on brand-name drug use only).



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Medicare Negotiation for Prescription Drugs

- Implementation Date: January 1, 2026
- Budget Impact: \$100 billion in savings over 10 years

- Negotiation: Eligible drugs will be selected from 50 Part B and 50 Part D drugs having the highest total expenditures during the most recent 12-month period prior to the selected drug publication date



Medicare Negotiation for Prescription Drugs

- Negotiation of prices for certain drugs covered under Medicare Part B (physician-administered drugs) and Part D (retail prescription drugs), starting with 10 high-spending, single-source drugs for 2026 and increasing to 20 by 2029.
 - To be eligible for negotiation, a chemical drug must have been Food and Drug Administration (FDA)-approved for at least 7 years and a biological product must have been licensed for at least 11 years. To be eligible for negotiation, a qualifying drug cannot have a generic or biosimilar substitute.



Figure 1

Medicare Drug Price Negotiation Timeline for 2026 & 2027



SOURCE: KFF analysis of section 11001 of the Inflation Reduction Act of 2022.



Relationship to State Work

- Inflation Reduction Action is primarily related to Medicare
 - Medicare is a federal program that is generally outside of the scope of state authority
- States can implement supporting drug affordability policies for programs within their authority
- IRA compliments the work of the Maryland Prescription Drug Affordability Board





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