

Inflation Reduction Act:
Summary of Provisions Lowering Prescription Drug Costs

The Inflation Reduction Act makes historic strides in lowering drug prices for Medicare beneficiaries by for the first time, empowering the Secretary of the Department of Health and Human Services (HHS) to negotiate the price of high-cost prescription drugs and capping out-of-pocket costs.

Negotiation: This bill empowers the Secretary of HHS to negotiate prescription drug prices for high-priced drugs in Medicare, lowering prices for seniors and people with disabilities.

- The Secretary is required to negotiate drug prices on the highest cost single-source drugs in Medicare that have been on the market nine years for small molecule drugs and 13 years for biologics.
- The Secretary will negotiate 10 drugs in 2026, 15 drugs in 2027 and 2028, and 20 drugs thereafter. Prices for 2026 will be posted publicly in 2024.
- The maximum price the Secretary can negotiate is:
 - 75 percent of the lower of the non-federal average manufacturer price (AMP) or the net Part D price for drugs on the market between nine and 12 years
 - 65 percent of the non-federal AMP or the net Part D price for drugs on the market between 12 and 16 years
 - 40 percent of the non-federal AMP or the net Part D price for drugs on the market for longer than 16 years
- Drugs that have been negotiated must be on the Medicare Part D (drugs at the pharmacy) formulary during the time period of their negotiation agreement.
- The legislation delays negotiation of biologicals for up to two additional years when a biosimilar is likely to come to market.

Out-of-Pocket Maximum: For the first time ever, this bill caps Medicare Part D out-of-pocket drug spending at \$2,000 per year.

- Beginning in 2025, Medicare Part D prescription drug costs will be capped at \$2,000 per year.
- The Medicare Part D structure is redesigned to incentivize Part D plans to more aggressively manage the costs of high-priced drugs and protect beneficiaries from catastrophic spending.
- Drug manufacturers must pay discounts for Part D drugs—a 10 percent discount in the initial coverage phase and 20 percent discount in the catastrophic.
- Part D premium increases will be capped at no more than 6 percent until 2030.

Inflation Rebate: This bill requires drug manufacturers to pay a rebate to Medicare if they increase their prices faster than the rate of inflation.

- If a Medicare Part B (drugs at the physician's office) or Part D drug price rises faster than inflation, the drug manufacturer must pay Medicare a rebate beginning in October 2022 for Part D and January 2023 for Part B.

Additional Provisions: This bill improves access to vaccines and biosimilars and increases support for low-income beneficiaries.

- The bill also establishes a \$0 copayment for vaccines in Medicare Part D, Medicaid, and the Children's Health Insurance Program (CHIP) and incentivizes the biosimilar market with increased payments to providers.
- The bill expands Medicare Part D extra help for premiums and copayments by increasing the income eligibility to 150 percent of the federal poverty level.