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President Biden Signs the Inflation Reduction Act into Law

On August 16, 2022, one week after Congress passed the Inflation Reduction Act of 2022 (IRA), President Joseph Biden signed the bill into law. The broad bill, which covers healthcare, taxes, and climate change, had been passed around Congress in assorted versions with varying support for months, but under the specter of a record 40-year-high inflation rate, congressional Democrats ultimately came together to pass the IRA; no Republicans voted for the bill.[1] The IRA aims, among other things, to fight against ever-increasing healthcare costs, by lowering prescription drug prices and extending federal health insurance subsidies.

Although this omnibus law is anticipated to result in $485 billion in total spending, the law actually stands to lower the U.S. deficit by approximately $300 billion across the next ten years.[2] By levying a tax on certain stock buybacks and imposing a 15% minimum corporate tax on large corporations, the new law will generate hundreds of billions of dollars in tax revenue in the coming decade.[3] Of these totals, $98 billion is expected to be spent on healthcare provisions, while savings of over $320 billion will principally come from reduced Medicare drug prices.[4]

Prescription Drug Costs

Among the bill's numerous healthcare provisions, the IRA allows the federal government to negotiate on behalf of seniors to reduce Medicare prescription drug costs.[5] To determine which drugs for which the government may negotiate prices, the Centers for Medicare & Medicaid Services (CMS) is directed to publish a list of eligible high-cost drugs, which must be single source (i.e., there is no generic or biosimilar version) and must have been on the market for at least seven years.[6] From that list, the U.S. Department of Health & Human Services (HHS) can select a total of 100 drugs (50 Part B drugs and 50 Part D drugs) over a six year period to negotiate for a "maximum fair price."[7] The "maximum fair price" is capped at: "75 percent of the Average Manufacturer Price for those [drugs] on the market for nine to 11 years (25 percent discount offered by the drug maker); or 65 percent for 12 to 15 years (35 percent discount offered by the drug maker); or 40 percent for 16 years or longer (60 percent discount offered by the drug maker)."[8]

In an effort to maintain drug price levels going forward, the IRA discourages pharmaceutical companies from arbitrarily inflating prices on certain drugs.[9] Between 2019 and 2021, 50% of Medicare-covered drugs saw price increases higher than the rate of inflation.[10] Beginning 2023, if manufacturers' prices on those drugs rise quicker than the rate of inflation, those manufacturers will be required to pay rebates to beneficiaries, which amount will be the difference between the inflation rate and the rate of increase in the drug price.[11]

In addition to reducing the prices of certain prescription drugs, the bill will lessen the prescription drug costs directly incurred by patients. In 2020 alone, Americans paid $388.6 billion in out-of-pocket healthcare costs generally;[7] to combat this, the IRA establishes a maximum cap on beneficiary spending. First, Medicare beneficiaries' out-of-pocket costs for insulin will be capped at $35 per month and all cost sharing for vaccines covered under Part D will be eliminated.[12] Second, starting in 2025, beneficiaries' out-of-pocket costs under Part D will be capped at $2,000 per year.[13] Third, beginning in 2024, beneficiaries will not be required to pay a coinsurance above the catastrophic threshold (which was $7,050 in 2022); previously beneficiaries had to pay a 5% coinsurance on drugs once hitting the catastrophic threshold.[14]

Healthcare Coverage Costs

Since 2010, the average American family has seen a 60% increase in their yearly health insurance premium.[15] The Patient Protection and Affordable Care Act (ACA), among other things, created an open marketplace where patients could find affordable and subsidized health insurance (dependent on income level).[16] Under the ACA, if a person's income level is between 150% and 400% of the federal poverty level (FPL), they may receive a premium tax credit to subsidize the cost of insurance premiums.[17] These subsidies were subsequently extended and enhanced by the American Rescue Plan Act (ARPA), so that in 2021 and 2022:

(1) Individuals with incomes below 150% of the FPL (who are not Medicaid eligible) could access zero-premium coverage;

(2) Individuals with incomes between 150% and 400% of the FPL received enhanced subsidies; and

(3) Individuals with incomes above 400% of the FPL could receive premium subsidies if the premium payment would be more than 8.5% of their income.[18]

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These expanded and enhanced subsidies were set to expire at the end of 2022. Consequently, the IRA extends these subsidies for an additional three years, through 2025.[19] This ensures that the 13 million Americans who already rely on subsidized monthly premiums through the ACA will continue to save $800 per year on average, and 3 million more Americans (who otherwise would be uninsured due to affordability concerns) are anticipated to obtain insurance coverage.[20]

Stakeholder Reactions

A number of government officials released statements in support of the IRA's healthcare provisions. U.S. Department of Health and Human Services (HHS) Secretary Xavier Becerra called the law "one of the most consequential pieces of legislation in our lifetimes that will lower healthcare costs for millions of Americans."[21] CMS Administrator Chiquita Brooks-LaSure believes the bill will "meaningfully lower health care costs for people across the country" and highlighted the fact that the bill fought to enact "a $35 monthly co-pay cap for insulin, a limit on out-of-pocket expenses in Medicare Part D, and reduced costs under Medicare's new ability to negotiate drug prices in the years ahead."[22]

The American Medical Association (AMA) released a statement extolling the bill's benefits to Medicare beneficiaries and ACA tax credit recipients, but also noted that the IRA "does nothing to address Medicare physician payment reform or to halt payment cuts set to take effect next year."[23]

In contrast, the pharmaceutical industry, which spent $187 million on lobbying in the first seven and a half months of 2022 alone, was largely displeased with the IRA's healthcare provisions.[24] Stephen Ubl, CEO of the Pharmaceutical Research and Manufacturers of America (PhRMA), called the bill "partisan" and claimed it would "lead to fewer cures and treatments," while simultaneously not doing "nearly enough to make medicines more affordable for most Americans."[25]

Conclusion

The varied provisions of the IRA is likely to significantly impact some of the largest segments of the U.S. economy and will have far-reaching implications for the healthcare industry. Paid for in large part by increases in tax revenue generated by stricter enforcement and a minimum corporate rate, the IRA allows the federal government to spend more to lower out-of-pocket healthcare costs and expand access to health insurance coverage.

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