

# The Inflation Reduction Act: What's changing in Healthcare?

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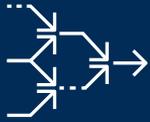
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# Agenda



## Timeline

- Overview of timeline for next few years



## Provisions

- Overview of provisions in IRA, with focus on:
  - ACA Subsidy Extension
  - Inflation Rebates
  - \$35 Insulin Copay Caps
  - Part D Benefit Redesign
  - Drug Price Negotiation



## Stakeholder Perspectives

- Discussion of potential implications, focusing on:
  - Beneficiaries
  - Payers
  - Manufacturers
  - Government
  - Wholesalers
  - Pharmacies
  - Providers



## Q&A

- Open discussion and questions through chat

# Webinar Speakers



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# Caveats, Limitations, and Qualifications

## Caveats and Qualifications

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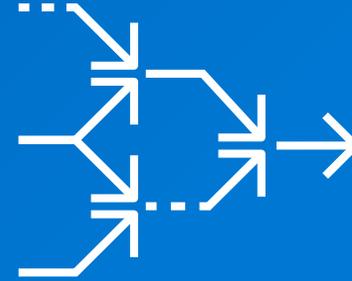
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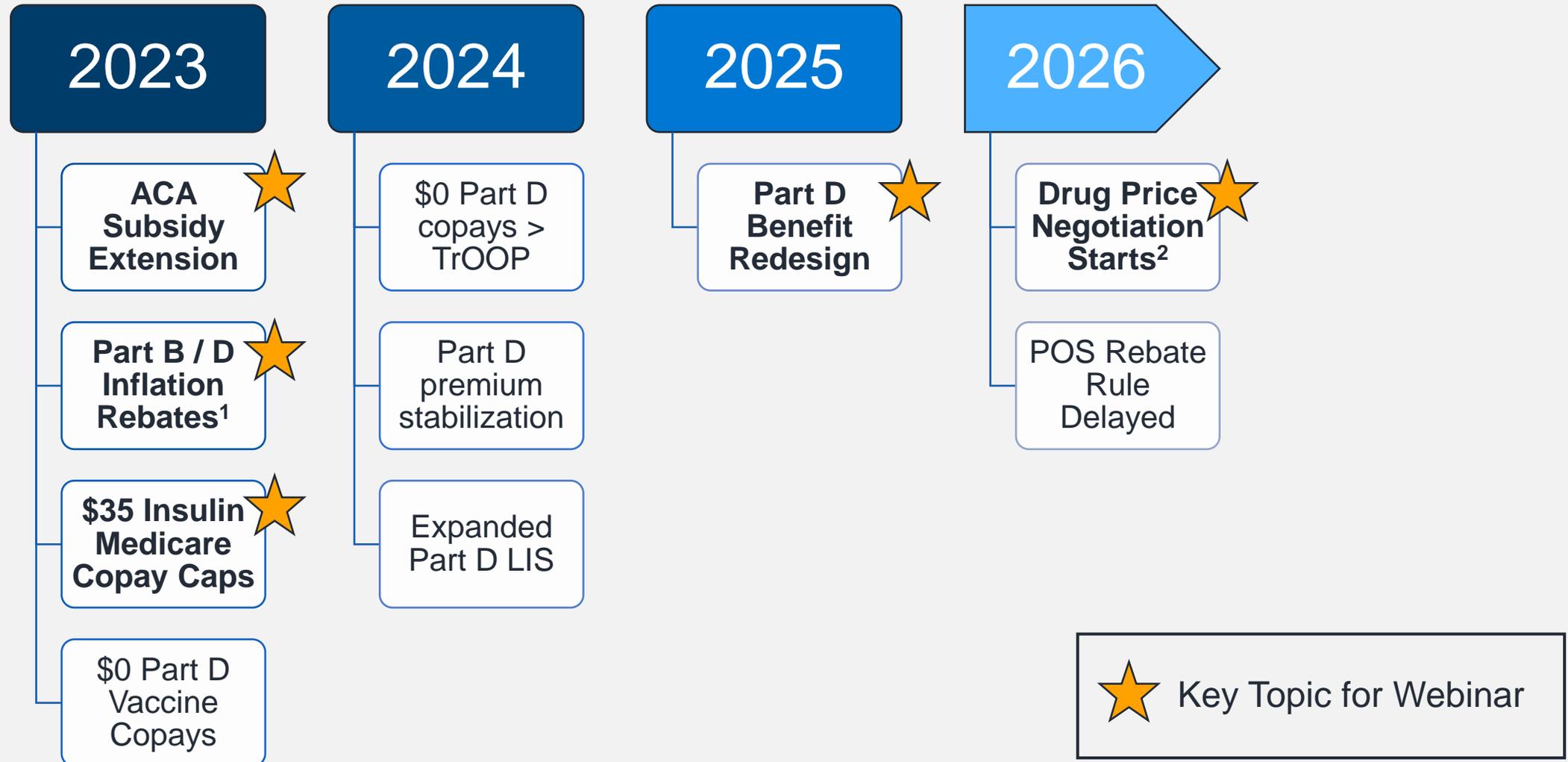
## Key Limitations

- **Uncertainty:** Additional guidance will be needed to implement and interpret this new legislation.
- **Opinions:** Stakeholder perspectives reflect our opinions. Other experts may come to different conclusions

# Timeline



# Timeline



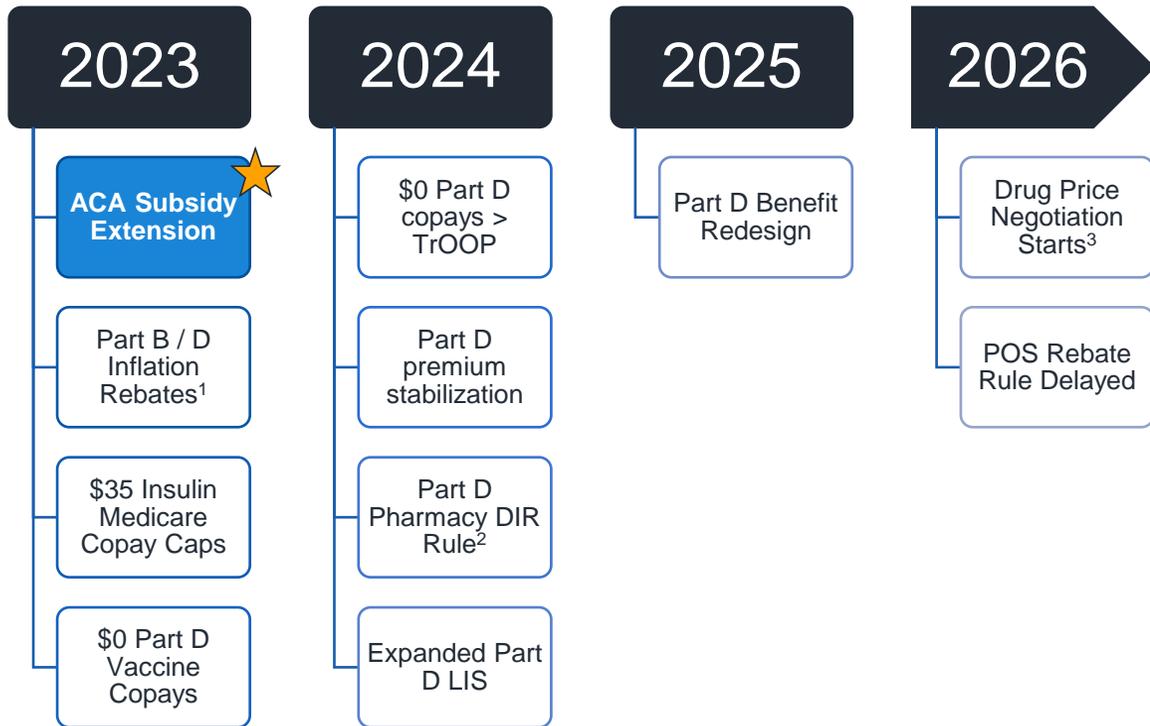
<sup>1</sup> Part D inflation rebates apply starting Q4 2022, Part B applies starting Q1 2023

<sup>2</sup> Part D drug price negotiation starts for 2026, Part B drug price negotiation starts in 2028

# Provisions



# ACA Subsidy Extension



# ACA Subsidy Expansion

## Key Components

**Enhanced subsidies introduced through the American Rescue Plan Act in 2021**



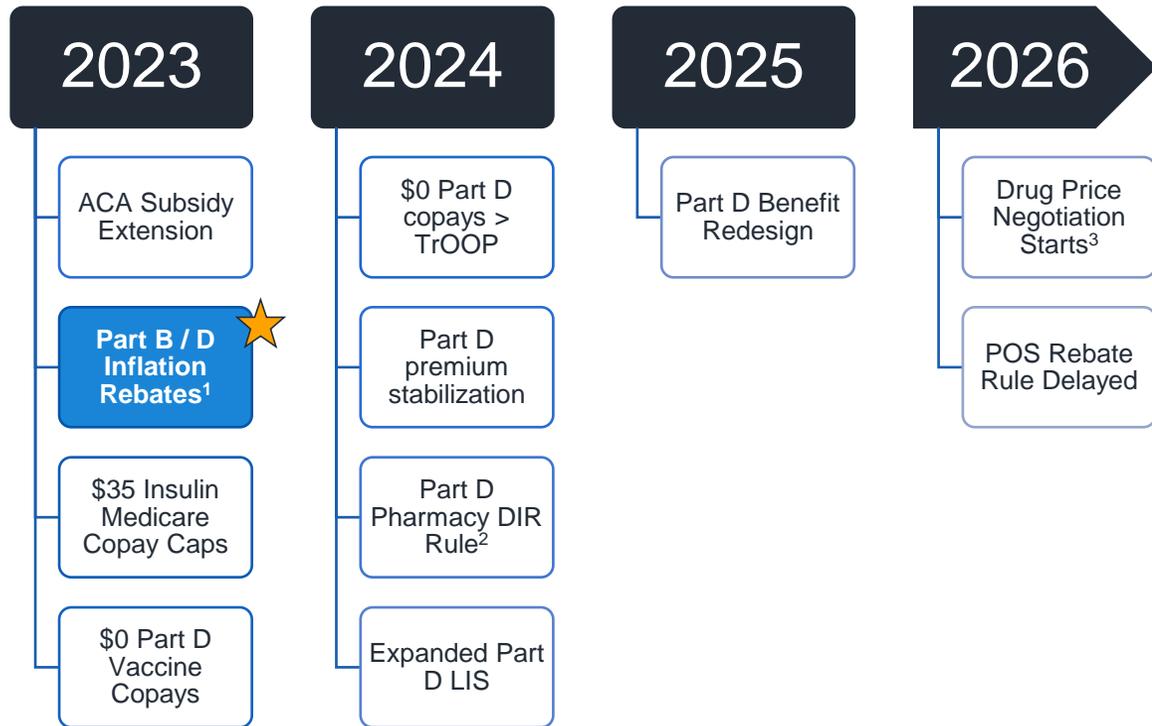
**Subsidies originally scheduled to expire at the end of 2022 are extended through 2025**



**This provision is expected to keep subsidized members in the ACA market**



# Inflation Rebates



# Inflation Rebates

## Key Components

The IRA introduces new inflation rebate payments for drugs not selected for negotiation from manufacturers to the federal government if drug prices, as measured by the average manufacturer price (AMP), increase faster than inflation.

Drug prices from the benchmark year (2021) are trended by the Consumer Price Index for All Urban Consumers (CPI-U) and compared to actual prices to calculate the inflation rebate. The CPI-U benchmark period, existing drug price benchmark period, and future launch drug price benchmark periods are as follows:

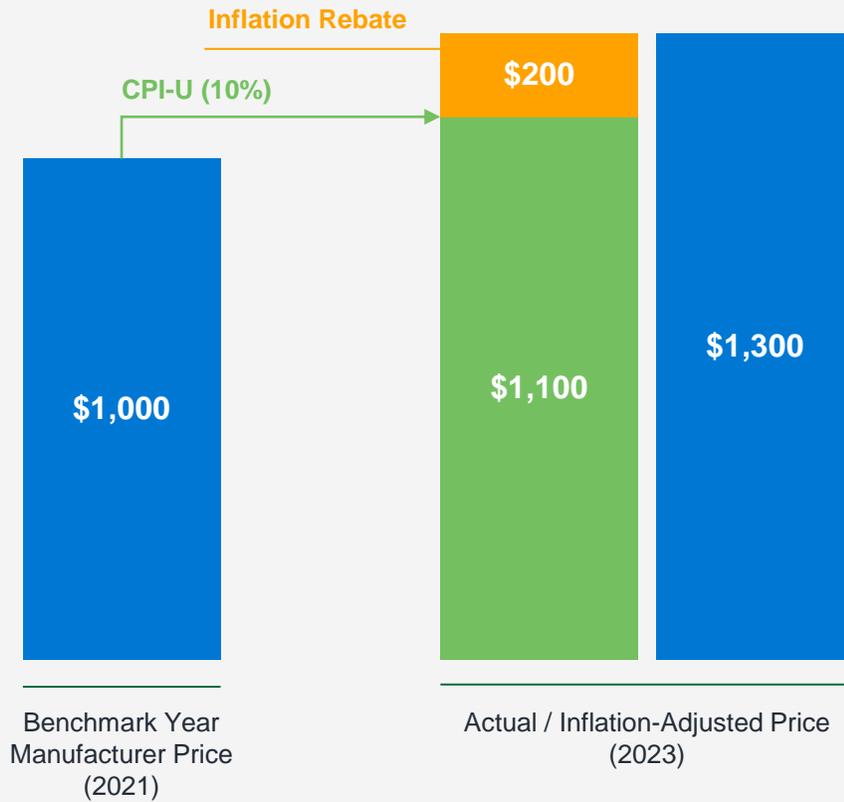
- CPI-U benchmark period: January 2021
- Existing drug price benchmark period: Part B – Q3 2021, Part D – Average of Q1 through Q3 2021 AMP
- Future launch drug price benchmark period: Part B – first three quarters following launch, Part D – first calendar year after launch

The rebate calculation varies between drugs covered by Medicare Part B and Part D but follows a similar formula:

$$\text{Inflation Rebate} = \text{Total Units} \times \text{Maximum} (\text{Actual Price} - \text{Inflation Adjusted Benchmark}, 0)$$

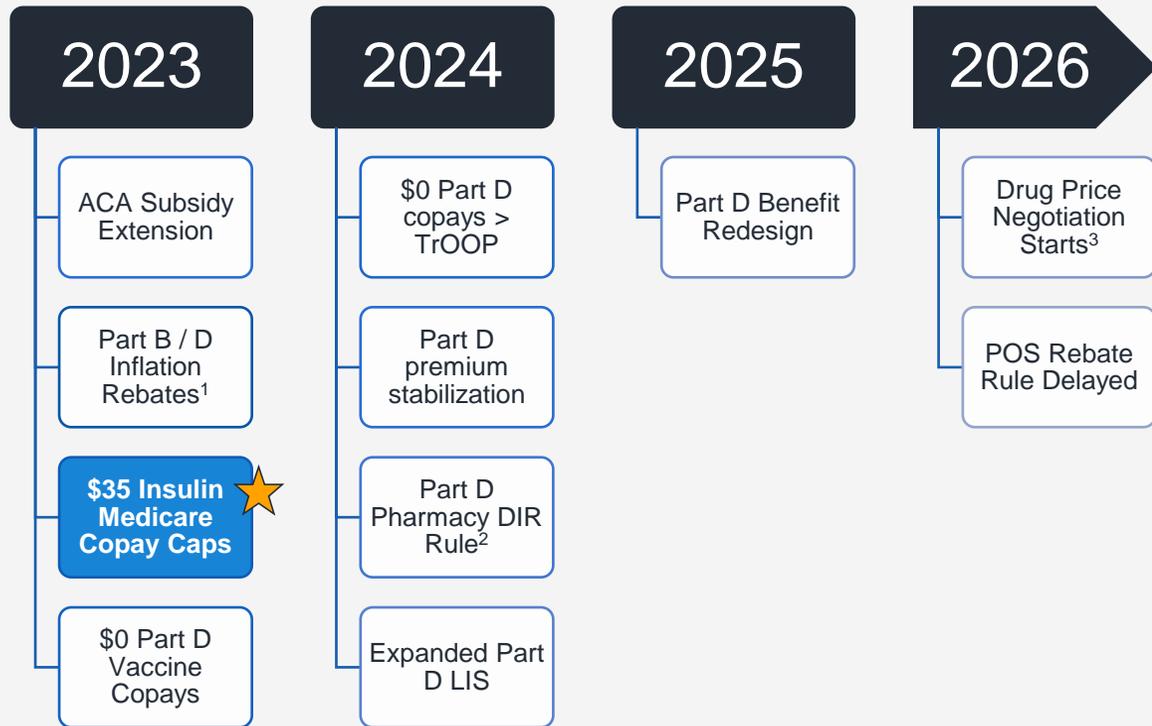
# Inflation Rebates

## Illustrative Example



- 2021 AMP: \$1,000
- Benchmark CPI-U: 10%
- Inflation-Adjusted Payment Amount:  $\$1,000 \times (1 + 10\%) = \$1,100$
- 2023 AMP: \$1,300
- Inflation Rebate:  $\$1,300 - \$1,100 = \$200$

# \$35 Insulin Medicare Copay Caps



# Insulin Medicare Copay Caps

## Key Components

### Insulin copays are capped at \$35 starting in 2023

- Applicable to both non-low income (NLI) and low income (LI) beneficiaries for Part B and Part D covered insulins
- Cap is part of the basic Part D benefit design, such that the defined standard benefit in the coverage gap phase would be the copay maximum (i.e., \$35 per month instead of 25% coinsurance) in 2023
- Does not apply to the commercial market as in previous iterations of similar proposals

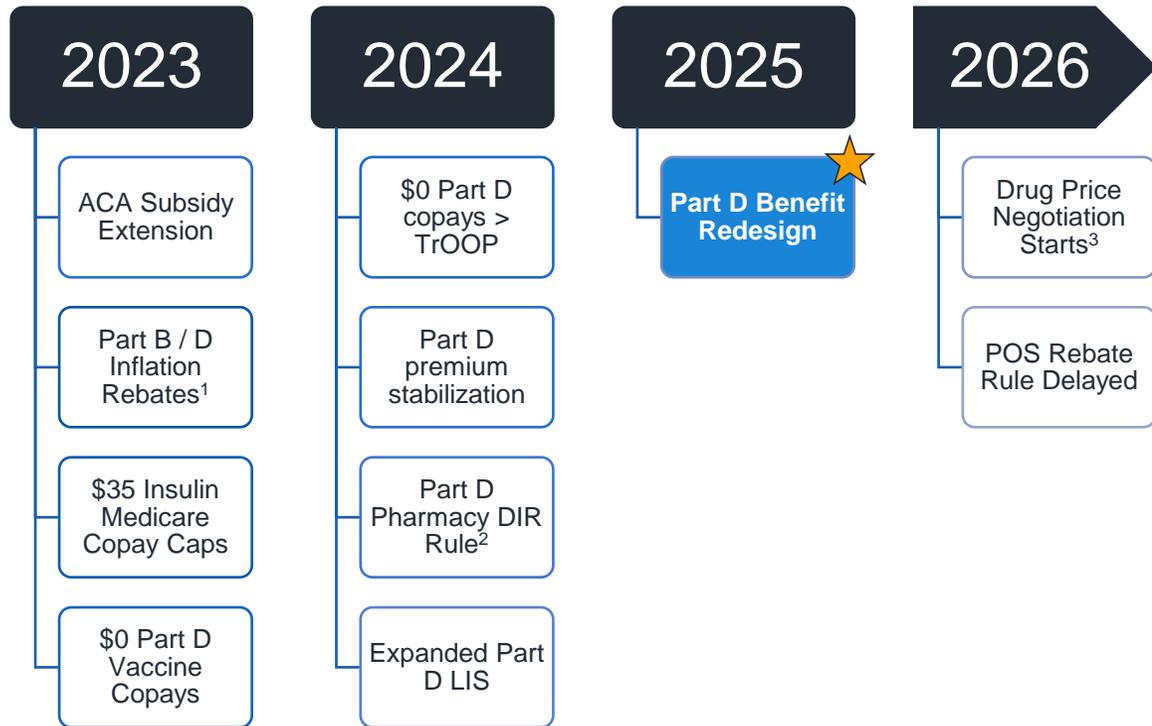


### Implications for 2023

- Given this guidance was not specified when Part D plan bids were submitted, plans did not account for this cost
- The IRA outlines a provision to provide plans with a retrospective subsidy for 2023 to compensate them for these costs
- The IRA does not specify exactly how the subsidy would be calculated or distributed, and these payments may be subject to Medicare sequestration



# Part D Benefit Redesign



# Part D Benefit Redesign

## Current Part D Benefit: NLI Beneficiaries



Members



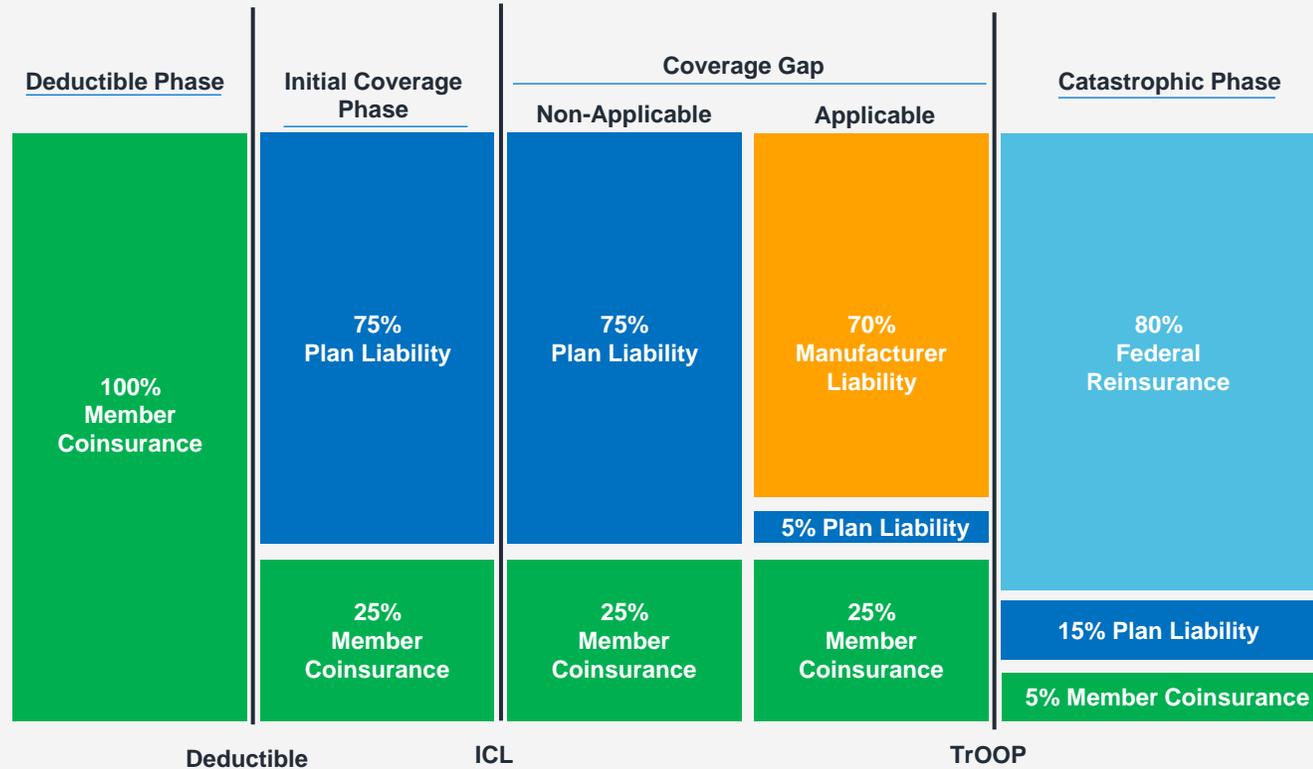
Pharma  
Manufacturers



Plan  
Sponsors



Federal  
Government



# Part D Benefit Redesign

## IRA Part D Benefit\*



Members



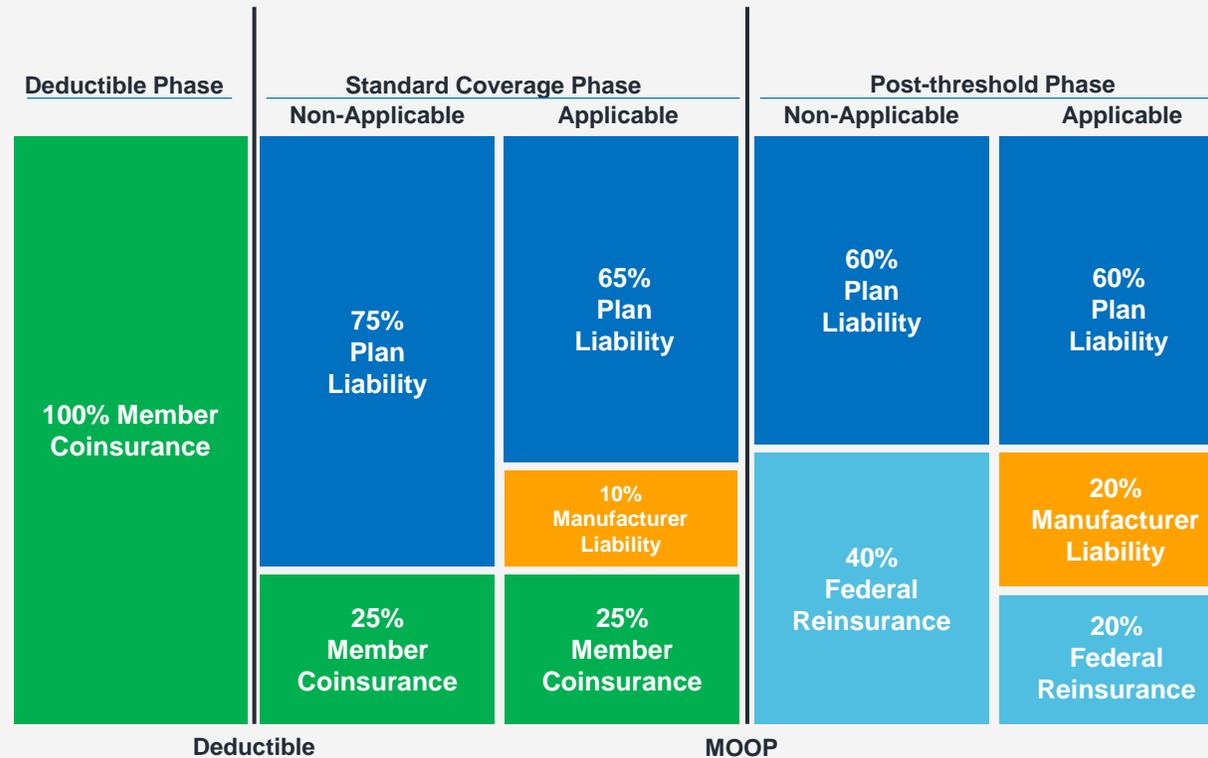
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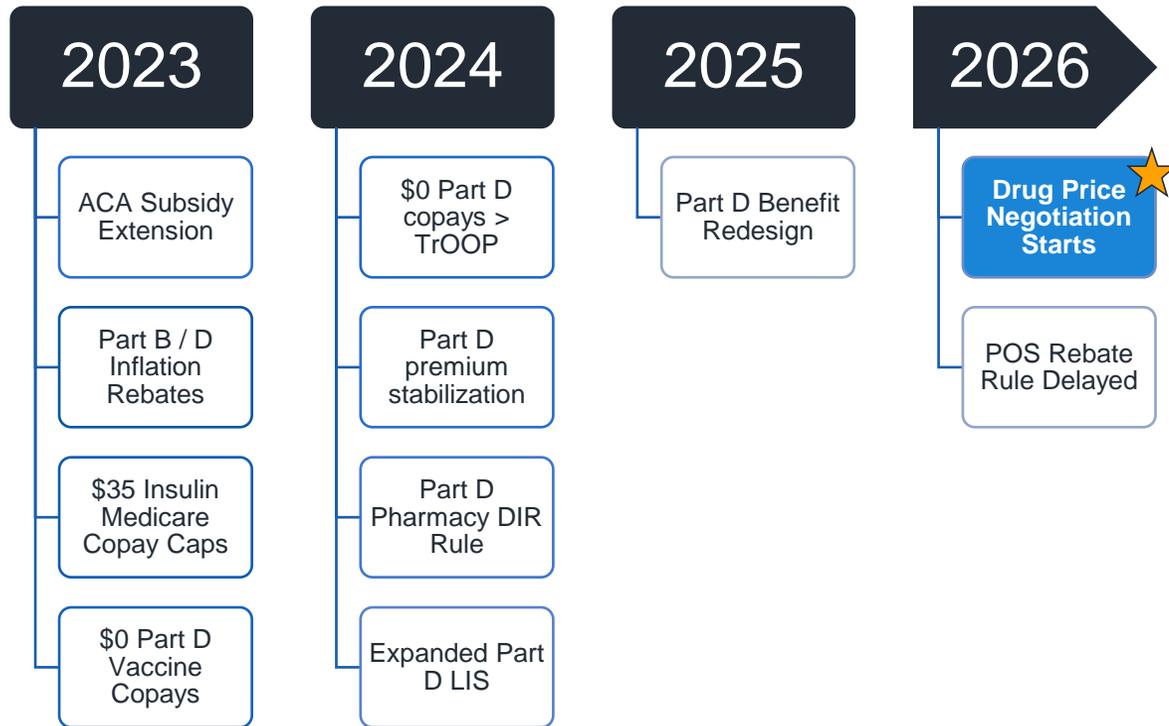


# Part D Benefit Redesign

## Key Changes

<b>Benefit Structure</b>	3 Phases with a \$2,000 MOOP in 2025
<b>MOOP Accumulation</b>	Based on basic benefit cost sharing
<b>Federal Reinsurance</b>	20% for applicable drugs and 40% for non-applicable drugs
<b>Manufacturer Discount Program</b>	10% of applicable drug costs above the deductible and below MOOP, and 20% of applicable drug costs above MOOP for all beneficiaries. Phased in through 2031 for income & “specified” / “specified small” manufacturer definitions
<b>Monthly Cap on Cost Sharing</b>	Option to smooth cost sharing over the course of the year

# Drug Price Negotiation



# Drug Pricing Negotiation

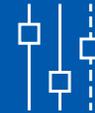
## Key Provisions

**Part D in 2026**

**Part B in 2028**



**Manufacturer  
Discount Program  
liability waived**



**Negotiated prices  
included in Best  
Price calculation**



**Negotiated drugs  
must be on  
formulary**



**Criteria:**

- Top 50 single source brands and biologics
- 7 or 11 years since launch
- No generic/biosimilar

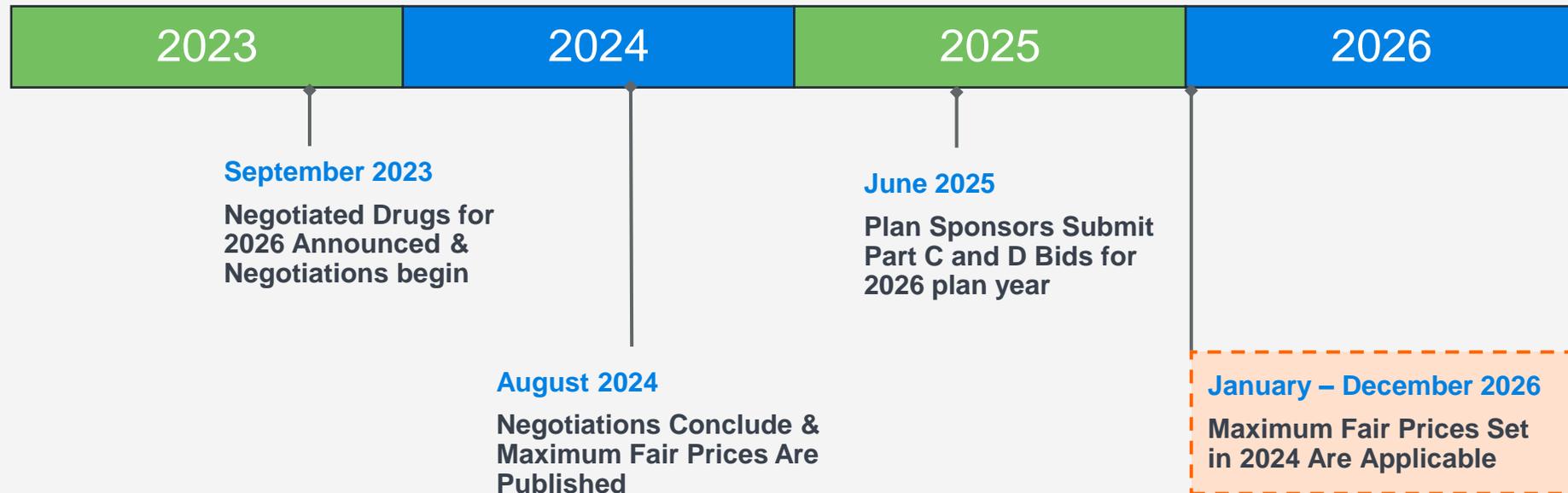


**Statutory formula  
defines maximum  
negotiated price**



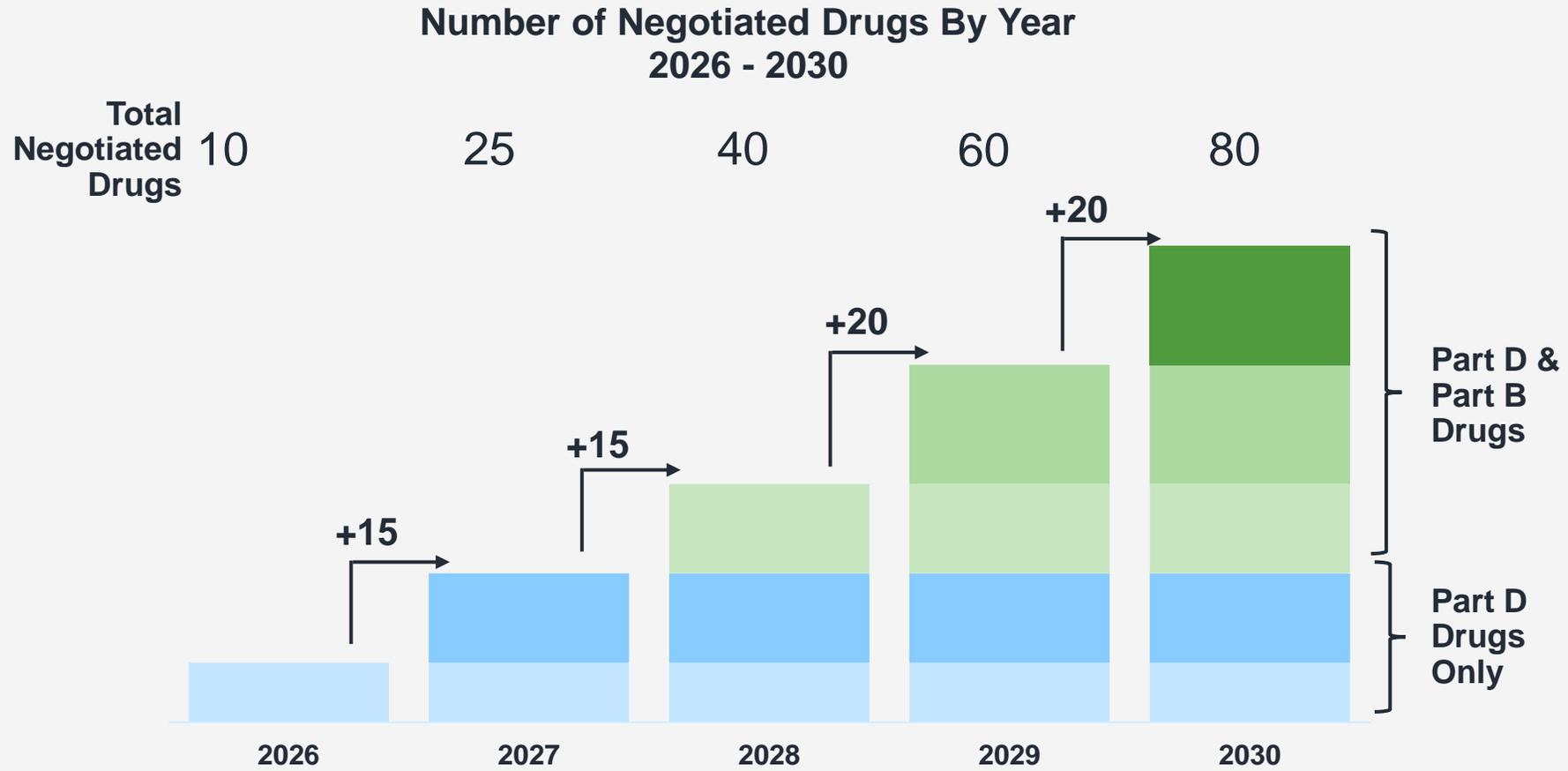
# Drug Pricing Negotiation

## Maximum Fair Price (MFP) Negotiation Timeline



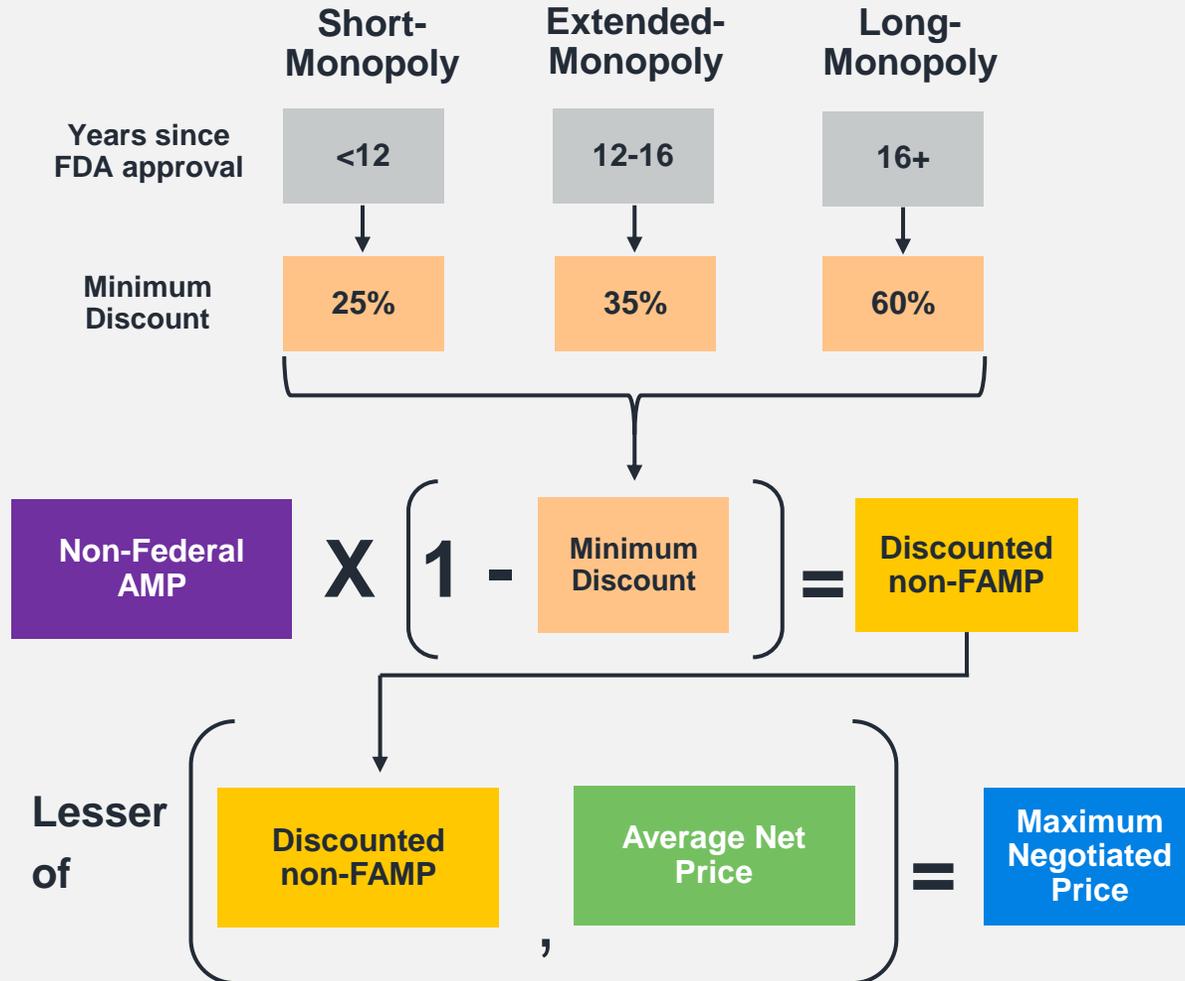
# Drug Pricing Negotiation

## Number of Drugs by Year

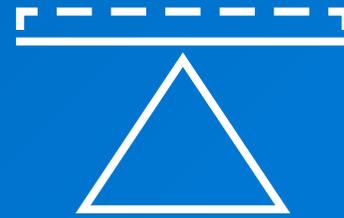


# Drug Pricing Negotiation

## Maximum Negotiated Price Calculation



# Stakeholder perspectives



# Stakeholder Perspectives

## Sample Questions to Consider

### Let's Discuss 3 Questions

#### Financial

- ★ What might happen to drug and stakeholder costs?
  - How will stakeholders earn income if MFPs are the same from manufacturer to members?
  - How (and when) will the risk score model be changed? How will that affect financials?
  - How will premium changes look in MAPD vs. PDP market?
  - Will continuation of the enhanced ACA subsidies lead to a more predictable risk pool?

#### Operational

- ★ How will MFPs be implemented in the supply chain?
  - How will 2023 changes (insulin, vaccines) be implemented?
  - How (and when) will retrospective subsidies be calculated and paid?
  - How will beneficiary cost-share smoothing be implemented? What communications need to occur?
  - How will specified small manufacturers be identified and how will that be communicated?

#### Strategic

- ★ How might contracting strategy change?
  - How might formulary and UM strategy change?
  - How will competitive pressures, coupled with negotiation, affect the marketplace?
  - How will utilization patterns change? How does that affect revenue / costs by stakeholder?
  - Will longer-term enhanced ACA subsidies lead to lower silver premiums in the individual market?

# What might happen to drug and stakeholder costs?

## Beneficiaries

- Part D costs and predictability
- Part B negotiated prices and rebates



## Plan Sponsors & Other Payers

- Managing specialty drug costs
- Costs by income & condition
- Commercial market impacts



## Pharma Manufacturers

- Existing vs. new product launches
- Biosimilar and generic competition
- CGDP to MDP



## Federal Government

- Inflation rebates
- Part D subsidy changes
- Negotiated price discounts



# How might MFPs be implemented in the supply chain?

## Pharma Manufacturers

- Maximum Fair Price vs. list price
- Best price implications



## Wholesalers

- Payments to manufacturers
- Chargeback system



## PBMs & Other Payers

- Cash flow / timing impacts
- Modifications to claims processing system



## Pharmacies

- Dispensing fees and income
- Data and communication feeds



# How might contracting strategy change?

## Pharma Manufacturers

- Specialty vs. traditional brands
- Timing of changes and competition



## PBMs & Other Payers

- Rebates vs. list price dynamics
- Contracting implications



## Providers

- Biosimilar incentives



## Pharmacies

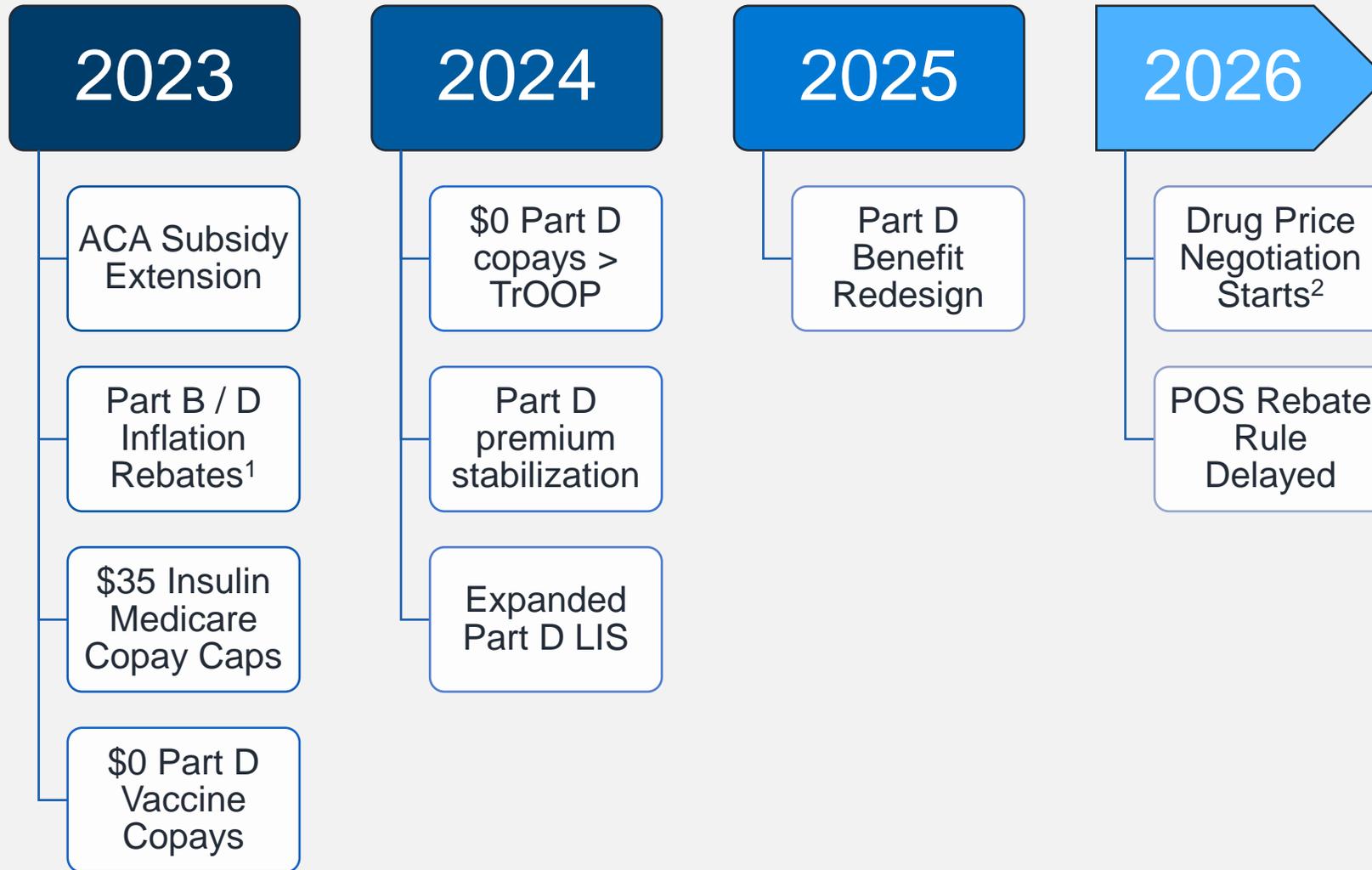
- Purchase price
- Contract settlements



# Q&A



# Timeline for Reference



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# Thank you

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