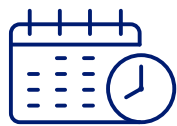


Inflation Reduction Act's Implications for Medicare Part D

This chart summarizes the changes to Medicare Part D as a result of the [Inflation Reduction Act of 2022](#), which was signed into law on August 16, 2022, and notes the implications for retirees and plans. This summary is current as of September 23, 2022. We will update it as we learn more and as the Centers for Medicare & Medicaid Services (CMS) issues guidance.



Timing



Change



Implication for Retirees



Funding/Plan Implications

January 1, 2023

- Insulin copayments limited to \$35 per month in 2023, 2024 and 2025
- In 2026 and beyond, insulin copayments limited to lesser of \$35; 25% of the Medicare negotiated price or 25% of the negotiated price of the covered insulin product

Applies to covered insulin products in Medicare Part D plans and for insulin furnished through durable medical equipment under Medicare Part B; no deductible

- Temporary federal subsidy to reimburse Part D plans for some amount to cover reduced insulin copayments
- Cost implications (after temporary subsidy runs out) will depend on current cost sharing for these prescriptions

January 1, 2023

Eliminates cost sharing for adult vaccines

Applies to adult vaccines covered under Medicare Part B and vaccines under Medicare Part D that are recommended by the Advisory Committee on Immunization Practices (e.g., shingles)

- Temporary federal subsidy to reimburse Part D and Medicare Advantage plans for some amount to cover reduced vaccine copayments
- Cost implications after temporary subsidy runs out

January 2023 (Part B) and October 2023 (Part D)

Drug manufacturers required to pay rebates to Medicare if prices rise faster than inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U)

Applies to: Single-source drugs and biologics covered under Medicare Part B (excluding vaccines) and all covered drugs under Medicare Part D, where average annual cost is \$100 or more per individual

- 2021 is base year for measuring cumulative price changes, based on CPI-U
- Rebate based on units sold in Medicare and the amount over the capped amount
- Paid by manufacturer to the Medicare Supplementary Medical Insurance trust



Timing



Change



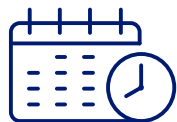
Implication for Retirees



Funding/Plan Implications

| | | | |
|-----------------|---|---|---|
| January 1, 2024 | Eliminates retiree cost share above the catastrophic coverage threshold | No retiree cost share above the catastrophic coverage threshold | Zero retiree cost share will likely result in modest plan cost increases; however, these should be offset by increase to direct subsidies |
| January 1, 2024 | Low-income subsidies (LIS) expanded | Full LIS benefits for income up to 150% of the Federal Poverty Level (FPL) (previously 135%); eliminates partial LIS (previously scaled for incomes between 135–150%) | Plans must pass through benefits to LIS beneficiaries |
| 2024–2030 | Base Part D Premium increases limited to 6% | 2024 premiums limited to no more than 6% increase over 2023 (continues annually through 2030) | Does not appear to regulate premium amounts charged by employers |
| 2025 | \$2,000 cap on out-of-pocket (OOP) spending (adjusted annually) | Medicare beneficiaries may make monthly payments during year rather than face higher costs at end of the year (“smoothing”) | Expected plan cost increases/decreases based on brand versus generic distribution; this will be factored into the direct subsidies ¹ |
| 2025 | Definition of retiree cost share modified to include health plan payments (other than the basic benefit) | May allow beneficiaries to progress into catastrophic coverage faster | Payments provided by health plans beyond basic coverage to reduce cost share for beneficiaries (enhanced coverage) will accumulate toward the OOP maximum allowing plans to receive catastrophic-phase reimbursements from CMS and manufacturers |
| 2025 | Manufacturer discount program changes: Manufacturers will pay a discount of 10% in the period after the deductible is met and before the OOP maximum, and 20% after the OOP maximum | Continued discounts from manufacturers | <ul style="list-style-type: none"> • Replaces the previous coverage-gap discount program, which sunsets at the end of 2024 • Manufacturer discounts no longer accumulate toward the OOP maximum • The lower payments accumulating to the OOP maximum will increase cost to the plan; however, these should be offset by increase to direct subsidy¹ |

¹ Actual direct subsidies are unknown as they are based on Individual Part D bids each year.



Timing



Change



Implication for Retirees



Funding/Plan Implications

| | | | |
|-------------|--|---|---|
| 2025 | <ul style="list-style-type: none"> • Medicare reinsurance in catastrophic coverage reduced to 20% • Plan share of costs increases to 60% • Drug manufacturers share 20% | Occurs at the same time as \$2,000 cap on retiree OOP spending | <ul style="list-style-type: none"> • Increases plan's share to 60% • The lower reinsurance payments will result in significant plan cost increases; however, these should be offset by increase to direct subsidies² |
| 2026 | <p>Medicare-negotiated prices implemented for certain high-cost drugs:</p> <ul style="list-style-type: none"> • 10 Part D in 2026 • +15 Part D in 2027 • +15 Part B & D in 2028 • +20 Part B & D in 2029 | <ul style="list-style-type: none"> • 50 drugs with the highest total Medicare Part D spending and 50 drugs with the highest Medicare Part B spending will be selected from "negotiation-eligible" drugs • List of drugs subject to negotiation expected to be announced in September 2023 | Possible PBM re-contracting requirements; PBMs may use to renegotiate pricing terms |
| 2032 | Rule that would have eliminated drug rebates in favor of point-of-service discounts delayed to 2032 | Rule unlikely to be implemented | Rule unlikely to be implemented |

² Actual direct subsidies are unknown as they are based on Individual Part D bids each year.

For more information about the implications of the Inflation Reduction Act for Medicare Part D, please contact your Segal consultant. Segal can be retained to work with plan sponsors on their retiree health coverage.

This resource is for informational purposes only and does not constitute legal, tax or investment advice. You are encouraged to discuss the issues raised here with your legal, tax and other advisors before determining how the issues apply to your specific situations.