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Impact of the Inflation Reduction Act on Payer Drug Coverage and Utilization Management – Insights from a Quantitative Survey

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Introduction

The US healthcare system is facing significant reform with the passage of the US Inflation Reduction Act of 2022 (IRA). One of the main changes introduced with the IRA is the ability for the Centers for Medicare and Medicaid Services (CMS) to negotiate the Medicare prices of 10 high-cost, Part D drugs in 2026, with more Part D and Part B drugs to be negotiated in following years. Each negotiated product faces a minimum price cut of 25-60%, depending on its time on the market. Manufacturers must agree with CMS on a "maximum fair price" or potentially lose Medicare and Medicaid coverage for all the company's pharmaceutical products.

In addition to manufacturers, payers are also impacted by the IRA. Under the legislation, payers providing Medicare Part D supplements and Advantage plans may experience financial pressure due to new cost-share requirements. Within the IRA's Medicare Part D redesign, insurers with Medicare offerings are expected to cover 60% of drug costs in the catastrophic phase of the Part D prescription drug benefit. This is a 300% increase from the plans' previous 15% responsibility. Additionally, payers offering Medicare plans may experience increased drug costs due to the IRA-mandated $2,000 patient out-of-pocket cap. Medicare enrollees will no longer have the current drug donut-hole and post-catastrophic coverage cost-share requirement. Post-IRA, this cost will be substantially covered by payers, once the Part D redesign is fully implemented in 2025.

A broad, consistent payer response to the IRA has yet to be observed, as the full extent of the legislation's impact on these payers has not occurred. This research examines the surveyed payers' current perceptions of the IRA and identifies concerns and possible reactions to the IRA legislation.

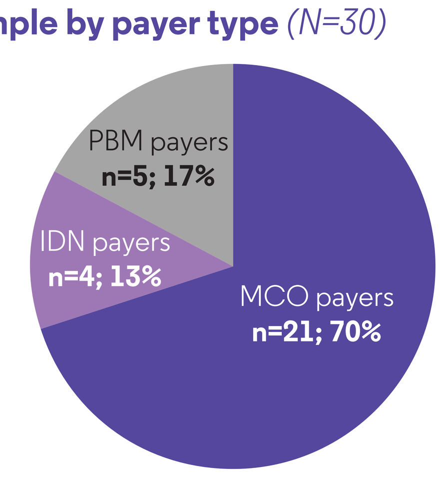
Objective

- To determine payer perceptions of the most impactful provisions of the IRA
- To determine the indirect impact of the negotiated prices on: 1) the Medicare net price of drugs not selected for negotiation 2) the commercial net price of the drugs selected for negotiation
- To determine the impact of the IRA on payer utilization management tactics
- To determine the impact of the IRA on payer willingness to provide Medicare Advantage and stand-alone Part D Prescription Drug Plans

Methods

30 payers were surveyed on their perceptions of the IRA using the electronic survey platform Qualtrics. The survey consisted of 23 questions. The sample consisted of payers from Managed Care Organizations, Pharmacy Benefit Managers, and Integrated Delivery Networks that offer their own health plans.

Sample by payer type *(N=30)*



- The MCOs[1] and IDNs[2] covered 35 million Medicare lives (out of 65 million enrollees); the PBMs[3] covered 20 million Medicare lives
- 16 payers represented National Health Plans; 14 represented Regional Health Plans
- 20 payers were Pharmacy Directors; 10 were Medical Directors
- 24 organizations were represented. Multiple payers were surveyed from large national payers due to their increased influence in the market

Results

Most Impactful IRA Provisions

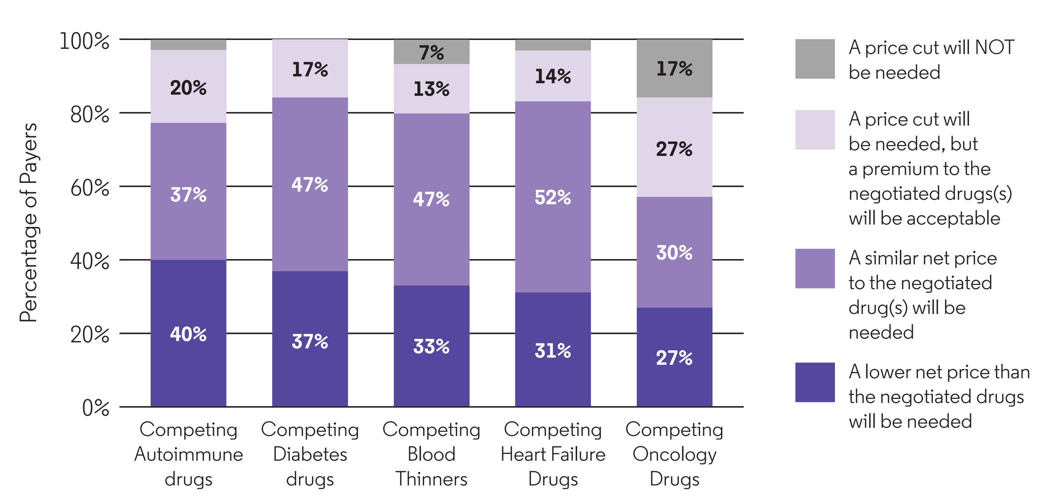
Figure 1: Payers' Leading Concerns About the IRA *(N=30)*
Forced ranking exercise of top 5 items from list of 10 items

1. 60% plan cost-share in catastrophic phase
2. Decreased patient cost-sharing due to the $2,000 out-of-pocket cap
3. Overall increase in compliance and administrative costs
4. Manufacturers compensate for IRA by reducing commercial rebates
5. 6% cap on Medicare premium increases

- Increased financial liabilities for payers under the Part D redesign due to increased cost share in catastrophic phase and decreased patient cost sharing accounted for payers' top 2 concerns
- Payers expressed worry that limiting plan members' OOP costs to $2,000 reduces the patient and physician incentive to choose lower-priced therapies
- Payers were also concerned about manufacturers attempting to offset the reduced Medicare revenue from negotiated drugs by increasing net prices in the commercial book of business

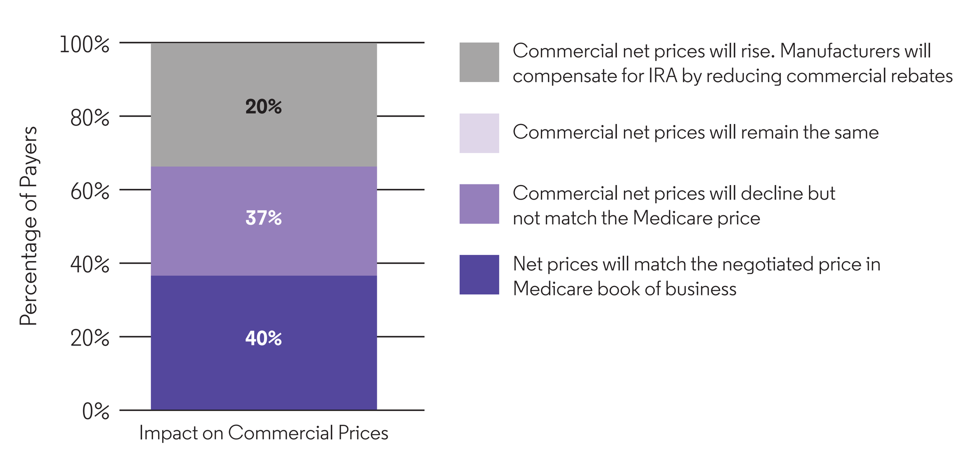
Indirect Impact of Negotiated Medicare Price

Figure 2: Change in Medicare Net Price of Competitors of Negotiated Drugs Needed to Retain Coverage and Management *(N=30)*



- Across all therapeutic areas, a majority of payers expected the competitors of the negotiated drugs to match or beat the reduced net price of the negotiated drug if they seek to retain their current coverage and management
- Oncology is the only TA[4] in which less than 60% of payers expected the competitors to match or beat the reduced net price of the negotiated drug

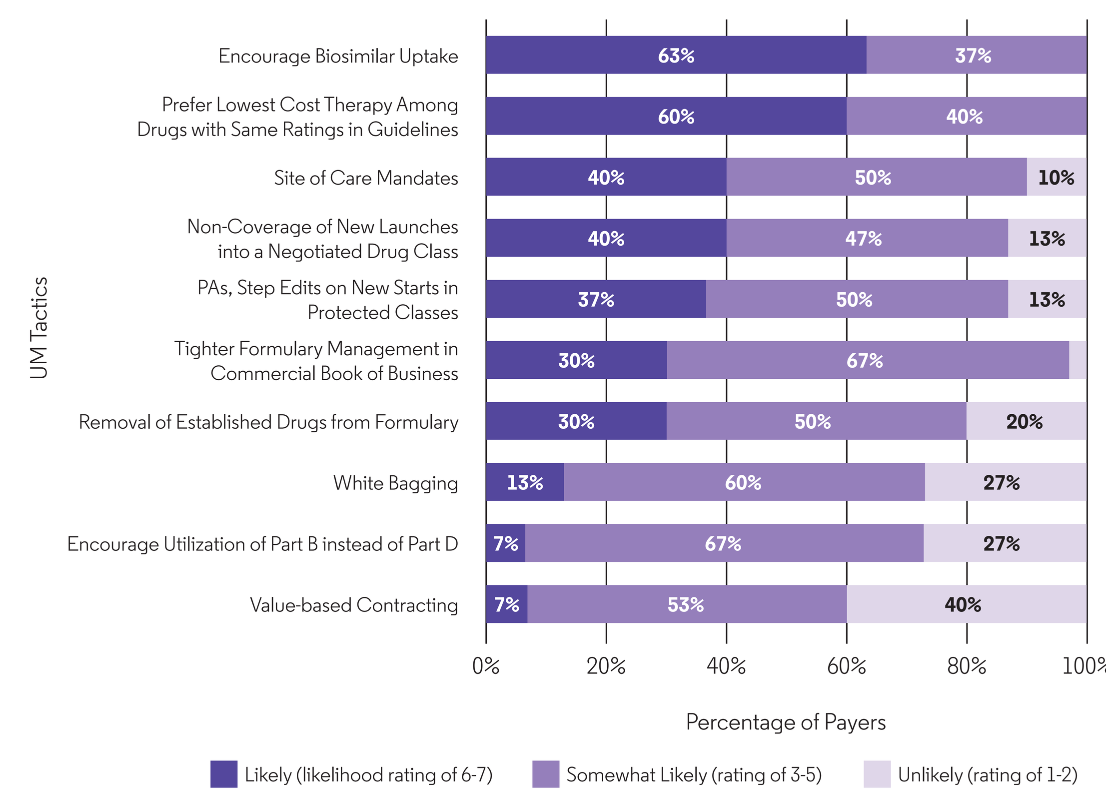
Figure 3: Impact of Reduced Medicare Price on Commercial Net Prices of Negotiated Drugs *(N=30)*



- One-third *(n=10)* of payers expected the commercial net prices of the negotiated drugs to rise because they believe manufacturers will compensate for the IRA by reducing commercial rebates
- Two-thirds *(n=20)* of payers expected the commercial net prices of the negotiated drugs to decline, with 37% *(n=11)* anticipating parity pricing with the reduced Medicare rate, and 30% *(n=9)* anticipating a smaller decrease
- No payers expected commercial net prices to remain the same
- 82% of national payers *(n=13/16)* expected commercial net prices to decline compared to 50% of regional payers *(n=7/14)*

Impact of IRA on Utilization Management

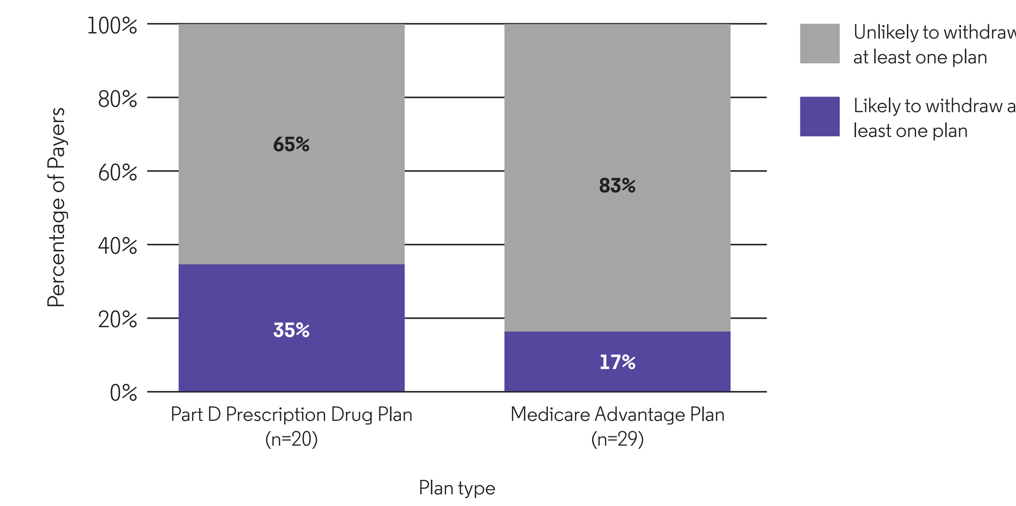
Figure 4: Likelihood of Increasing Utilization Management Tactics in Response to IRA *(N=30)*



- In response to the IRA, payers are likely to encourage biosimilar utilization and leverage guidelines to prefer the lowest-cost, clinically equivalent therapy
- Payers who stated they are likely to leverage guidelines indicated they are most likely to do so to manage diabetes, oncology, and immunology drugs
- Although increased cost-sharing in Part D is payers' top IRA-related concern, only 7% of payers *(n=2)* indicated they are likely to steer members toward Part B therapies over Part D therapies
- Payers indicated step edits are likely if a competitor of a negotiated drug does not lower its price sufficiently. A majority would consider removing the competitor from the formulary or moving it to a more restrictive tier
- Tighter formulary management in the commercial book of business may include site of care mandates and white bagging
- 70% *(n=21/30)* of payers stated the IRA's increase in federal subsidies to insurers is insufficient to reduce the need for more utilization management

Impact of IRA on Willingness to Provide Medicare Plans

Figure 5: Likelihood of Withdrawing ≥ 1 Medicare Plan from Market Due to IRA *(among payers whose organization offer the plan type)*



- The adverse impact of the IRA upon Prescription Drug Plans is perceived to be higher because Medicare Advantage plans can offset some of the increased Part D expense by increasing management of the medical benefit, including non-drug costs
- When forced to rank a list of 10 potential concerns, payers ranked "forced withdrawal from Medicare due to the IRA" as the 9th most significant concern

Conclusion

The IRA is likely to have a significant impact on payer drug pricing, coverage, and utilization management. Its impact on pricing appears likely to extend beyond drugs selected by the government for price negotiation. Most surveyed payers expected the competitors of the negotiated drugs to match or beat the price obtained by Medicare, or else changes to formulary placement or utilization management would be likely.

The major provisions of the IRA have not yet been implemented, so payers' reactions can only be estimated at this time. The results indicated that some "pull through" effect to the commercial market is likely. Both pharmaceutical and insurance companies are expected to seek to offset the financial impact of the IRA in the commercial market, complicating net price negotiations.

Payers may increase a variety of utilization management tactics in response to the IRA, especially the encouragement of biosimilar uptake and the use of clinical guidelines to put low-cost drugs in the preferred tier in undifferentiated classes. Most payers did not indicate plans to withdraw from the broader Medicare Advantage market. However, exit from the Part D Prescription Drug Plan market was suggested by respondents to be a more likely option. More research is needed on the differentiated impact of the IRA on regional vs. national plans and the reason why payers stated they are not likely to increase the use of steerage toward Part B in response to the IRA.

Acronyms:
MCO[1] – Managed Care Organization; IDN[2] – Internal Delivery Network; PBM[3] – Pharmacy Benefit Manager; TA[4] – therapeutic area

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Disclosures
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