CRA Insights: Life Sciences

CRA Charles River Associates

October 2022

Inflation Reduction Act: Increasing healthcare coverage, reducing healthcare prices. How will it impact manufacturers?

Part 1: Expanding patient access to healthcare

The Inflation Reduction Act (IRA) of 2022, signed into law on August 16, contains some of the most significant changes in healthcare regulation since the introduction of the Medicare Modernization Act of 2003. There are many healthcare-related policy changes contained in the IRA, which can be categorized into three major sections:

1. Expansion of patient access to affordable insurance
2. Adjustments to medication pricing and reimbursement
3. Reforms to patient cost-sharing

Over the coming weeks, CRA will briefly summarize some of the most important changes associated with the IRA and highlight implications for life science manufacturers. In this installment, we tackle provisions related to expanding patient access to healthcare. We welcome any feedback or questions you might have about our analysis and look forward to discussing how your products and organization may be impacted.

There are at least three important changes within the IRA impacting patient access to health insurance.

- **Extending Affordable Care Act (ACA) tax credits**

  The ACA created subsidies, also known as Premium Tax Credits (PTC), for individuals or families living near the federal poverty level (FPL) that cap the premiums associated with ACA-qualified health plans purchased within the Health Insurance Marketplace. These subsidies work on a sliding scale, providing Americans near the FPL with subsidies continuing but at decreasing levels up to 400% of the FPL. The American Rescue Plan Act of 2021 (also called the COVID-19 Stimulus Package) expanded these subsidies, providing additional support to those closer to the FPL and ensuring that a person at any income level would not pay more than 8.5% of their income in health insurance premiums. These changes were set to expire in 2023 but have been extended by the IRA for three years until January 1, 2026. Had these tax

credits expired, it is estimated that five million Americans would have lost their health insurance within the ACA marketplace[1].

- **Medicare Part D premium stabilization**

  Increases to premiums for Medicare Part D plans will be capped at 6% year-over-year from 2024 through 2029[2]. In 2030 and beyond, premium calculations will revert to their previous computation which relies on competitive bidding. To the extent that health plans were to increase premiums by more than 6%, the Government would cover the difference for the period from 2024-2029[3]. It is worth noting that in recent years Medicare Part D monthly premiums have not increased at an annual rate of 6% and, in fact, have fallen 19% from a high of $32 in 2018 to $26 in 2021[4]. The Medicare Part D premium stabilization could stave off any major increases in premiums resulting from recent inflationary pressures throughout the economy.

- **Expanding eligibility of low-income subsidies (LIS) under Medicare Part D**

  LIS individuals qualify for Medicare Part D plans that have very low cost-sharing and limited to no premiums. This section of the IRA expands eligibility of individuals who qualify for LIS from 135% of the FPL to 150% of the FPL starting January 1, 2024. This change will increase the number of individuals that qualify based on income by six million compared to the 56 million that fall below 135% of the FPL[5]. However, the total number of LIS enrollees was only 14 million in 2019[6] (e.g., due to not meeting other LIS-qualifying requirements), suggesting that the income-based eligibility expansion could impact far fewer than six million individuals.

In summary, the IRA has extended the subsidies provided to many families with the COVID-19 stimulus package, limited the ability for plans to raise premiums to patients higher than 6% per year, and opened the opportunity for more patients to qualify for low-income subsidies.

Implications for life sciences companies

- As with any provision that increases the number of insured patients, **these provisions bolster the number of patients that can access critical healthcare services**, including medications. This tends to increase overall market size for many healthcare products with a more significant impact in certain diseases that disproportionately impact low-income individuals and families (e.g., metabolic, cardiovascular, and renal disease)[7].
- Stability in Medicare Part D premiums could lead to **less switching during open enrollment periods**, and **less pressure for patients to move out of higher premium plans** that tend to have more generous benefits and formularies. Patients staying on plans for longer may mean that manufacturers with drugs that have a longer-term health economic benefit may be viewed more favorably by Part D payers.
- The expansion of the LIS population may result in a **moderate increase in patients with minimal out-of-pocket cost obligations** which could be beneficial for manufactures selling or developing high-cost medications in therapeutic areas where LIS coverage is more common.

---

[1] https://www.urban.org/research/publication/what-if-american-rescue-plan-act-premium-tax-credits-expire.

[2] Inflation Reduction Act, Page 194, https://www.democrats.senate.gov/imo/media/doc/inflation_reduction_act_of_2022.pdf

[3] https://www.cbo.gov/system/files/2022-08/58355-Prescription-Drug.pdf, p. 3.

[4] https://www.kff.org/medicare/issue-brief/key-facts-about-medicare-part-d-enrollment-premiums-and-cost-sharing-in-2021/.

[5] https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pov/pov-01.html.

[6] https://www.kff.org/medicare/state-indicator/number-of-low-income-subsidy-lis-enrollees/.

[7] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5171223/.

While this change will undoubtedly be impactful for those patients that are newly eligible for the LIS program, additional provisions within the IRA are dedicated to reforming cost-sharing for even more non-LIS Medicare patients.

- One possible side-effect: **if plans face a margin squeeze**, due to rising healthcare costs, higher beneficiary utilization of healthcare, and reforms to patient cost sharing, **plans may look to other avenues to limit expenditures such as considering increased utilization management** or maybe even fewer products included on the formulary.

In our next installment we will cover new rules governing the pricing and reimbursement of pharmaceuticals, including provisions enabling price negotiations for Medicare products, reimbursement policies for biosimilars, and mandatory rebates tied to inflation rates.

Matthew Majewski and Rhett Johnson are vice presidents in the Life Sciences Practice at Charles River Associates, a global consulting firm. The authors have nearly 50 years of experience in assisting clients with pricing and market access related issues. The views expressed here are the authors' and not those of their employer or other organizations they are affiliated with.

About CRA and the Life Sciences Practice

CRA is a leading global consulting firm that offers strategy, financial, and economic consulting services to industry, government and financial clients. Maximizing product value and corporate performance, CRA consultants combine knowledge and experience with state-of-the-art analytical tools and methodologies tailored to client-specific needs. Founded in 1965, CRA has offices throughout the world.

The Life Sciences Practice works with leading biotech, medical device, and pharmaceutical companies; law firms; regulatory agencies; and national and international industry associations. We provide the analytical expertise and industry experience needed to address the industry's toughest issues. We have a reputation for rigorous and innovative analysis, careful attention to detail, and the ability to work effectively as part of a wider team of advisers. To learn more, visit **crai.com/lifesciences**.

Contacts

Rhett Johnson
Vice President
+1-617-425-3326
rjohnson@crai.com

Matthew Majewski
Vice President
+1-212-520-7260
mmajewski@crai.com