



## Research

# The 10-percent Solution: Who Gets IRA Drug Price Savings?

DOUGLAS HOLTZ-EAKIN | MARCH 21, 2023

### Executive Summary

- The Inflation Reduction Act (IRA) is advertised as substantially reducing drug costs for a wide swath of Medicare beneficiaries.
- This study finds that at present under 6 million beneficiaries – less than 10 percent – will benefit at all.
- For those who do benefit, savings are typically modest – 69 percent of those with any saving will save less than \$300.

### Introduction

The Inflation Reduction Act (IRA) is advertised as substantially reducing drug costs for a wide swath of Medicare beneficiaries. According to a Biden Administration [Fact Sheet](#):

The Inflation Reduction Act protects Medicare beneficiaries from catastrophic drug costs by phasing in a cap for out-of-pocket costs at the pharmacy, establishing a \$35 monthly cap per prescription of insulin, requiring companies who raise prices faster than inflation to pay Medicare a rebate, and allowing Medicare to negotiate prices for high-cost prescription drugs for the first time ever.

The quote is typical of the administration's claims regarding the provisions of the IRA and paints a picture of dramatic savings for every Medicare beneficiary. But what do the data say?

This study uses detailed data on Medicare beneficiaries to identify those individuals who will save from the provisions in the IRA. Courtesy of analysis provided by IQVIA<sup>[1]</sup>, this study finds that presently under 6 million – less than 10 percent – of Medicare beneficiaries will see lower drug spending as a result of the IRA. Moreover, most of those savings will be modest: 69 percent of those with any savings at all will save less than \$300.

### Drug Savings and the IRA

Figure 1 displays the main finding of this research. At present, there are 65 million individuals who are enrolled in Medicare, but 15 million of those are not enrolled in the pharmacy benefit, meaning they cannot benefit from the IRA's drug cost saving provisions. (It is important to note that there are not yet any benefits to the so-called drug negotiation provisions in the IRA.) Of course, if the provisions of the IRA induce more seniors to enroll in the benefit, our estimate is a lower bound.

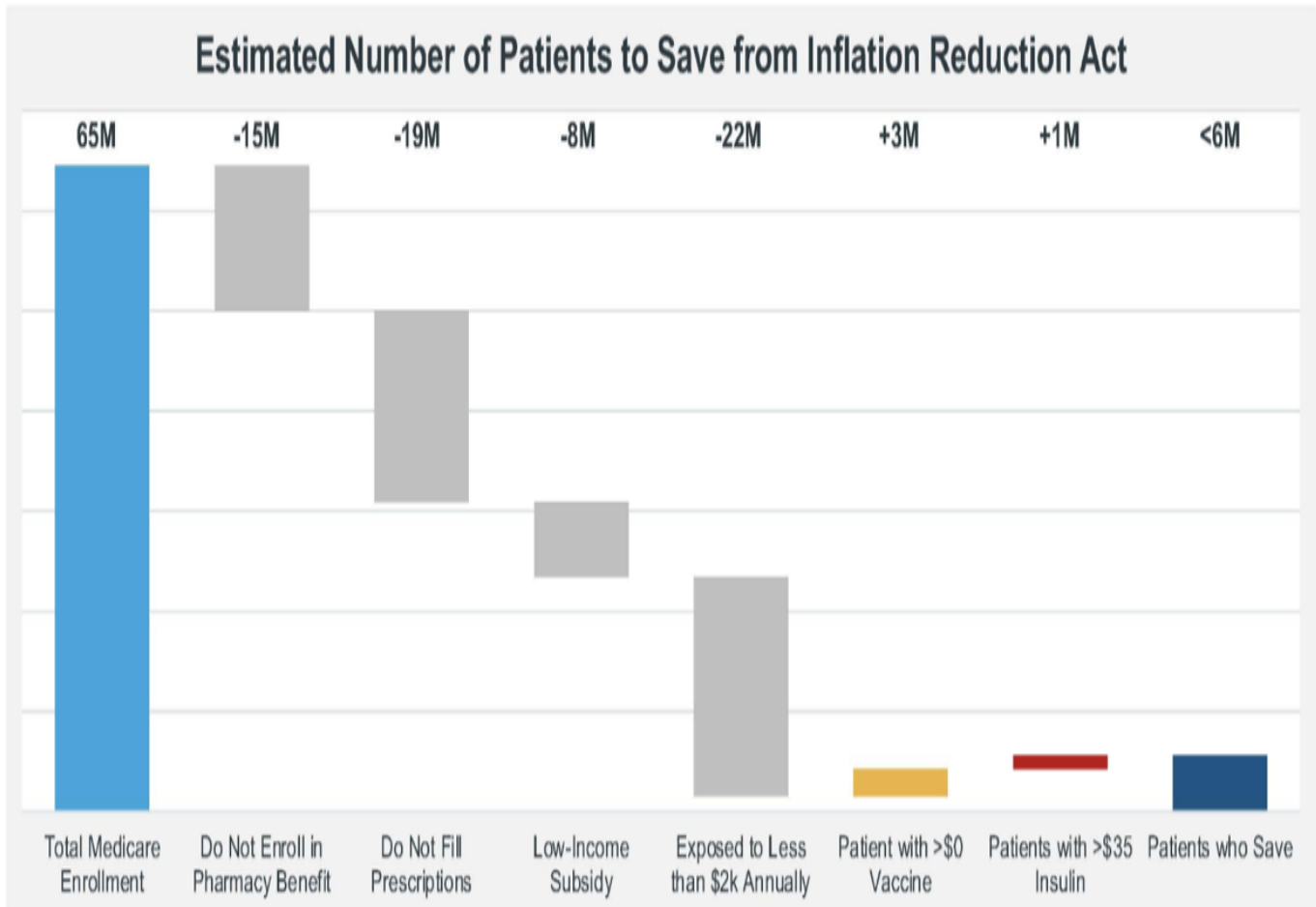
Another 19 million beneficiaries have no prescriptions to fill and will also not benefit. (Here again, if the IRA induces more seniors to fill prescriptions, more will benefit.) Similarly, 8 million are enrolled in the low-income subsidy population, which is already protected from out-of-pocket costs and will not benefit from the IRA.

Finally, 22 million seniors enrolled in Medicare have prescription drug expenses and are exposed to out-of-pocket costs but have annual spending that falls below \$2,000, and thus will not benefit from the hard cap on catastrophic drug costs. The small remainder will benefit from the redesign of the Part D benefit.

There are two other ways to save from the IRA. The IRA made vaccinations free, which produces savings for about 3 million beneficiaries, and it placed a \$35 monthly limit on insulin expenses. The latter proposition helps another 1 million seniors.

But the bottom line is striking. Of the 65 million Medicare beneficiaries, only 5.6 million are benefited by the IRA.

# Figure 1

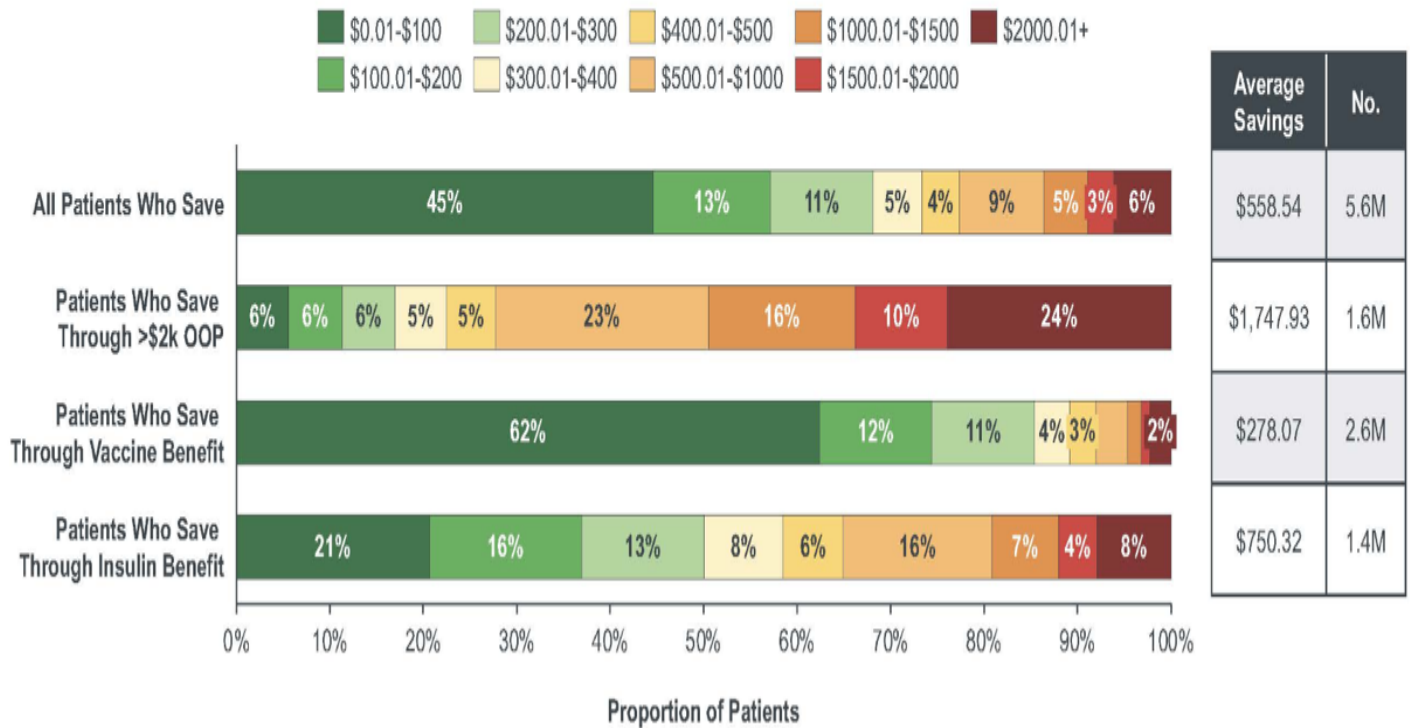


Another important question is how much seniors will save from the IRA. These findings are shown in Figure 2. The first line focuses on the 5.6 million with savings, where the average saving is about \$560 annually. But averages can be deceiving: 45 percent of these individuals will save less than \$100; another 13 percent between \$100 and \$200; and 11 percent between \$200 and \$300. A full 69 percent will have savings under \$300, while only 6 percent will benefit from the \$2,000 catastrophic maximum.

The second line shows some detail for the 1.6 million individuals who save from the IRA's less-than-\$2000 cap on out-of-pocket drug costs, with the key finding being that a quarter have substantial savings. In contrast, the savings from both the free vaccines and insulin spending cap look much more like the overall savings, with a large proportion of those saving seeing only modest reductions.

Figure 2

How Much Do Patients Save?



Conclusion



The Inflation Reduction Act is advertised as a broad-based policy to substantially reduce drug spending by Medicare beneficiaries. A close look at the data, however, paints a very different picture. At present, under 10 percent of enrollees will be helped at all, and the vast majority will receive modest savings of \$300 or less a year.

*[1] The American Action Forum thanks IQVIA for its assistance with data analysis of both public and proprietary Medicare Part D information from Jan. 2021-Dec. 2022. Conducted by IQVIA, US Market Access Strategy Consulting and Analytics, February 2023. Copyright 2023. All rights reserved. All conclusions herein are the author's alone.*