



## LOWER COSTS FOR AMERICAN FAMILIES: DRUG PRICING SAVINGS FROM THE INFLATION REDUCTION ACT

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### Prepared for Representative Jim Costa 16th Congressional District of California

Big corporations are raising prices and squeezing far too many Americans. That's why Democrats are taking action to lower costs for American families.

The Inflation Reduction Act of 2022 contains critical reforms to lower prescription drug prices and help Americans struggling to afford their medications.

This fact sheet summarizes the cost savings that would have been realized by Medicare beneficiaries in the 16th Congressional District of California if the new law had been in place in 2020.<sup>i</sup>

#### *Lower Out-of-Pocket Costs*

The Inflation Reduction Act caps Medicare beneficiaries' annual out-of-pocket costs for prescription drugs covered by Medicare Part D at \$2,000 per year starting in 2025, benefiting an estimated over 1.4 million Medicare beneficiaries annually.<sup>ii</sup>

An estimated 1,000 beneficiaries in the district had out-of-pocket costs above \$2,000 in 2020.

**If the Inflation Reduction Act's out-of-pocket cap had been in effect in 2020, the average Medicare beneficiary in the district enrolled in a standard drug plan would have saved an estimated \$150 in out-of-pocket costs.**

#### *Savings on Insulin*

Beginning in 2023, monthly copayments for insulin products will be capped at \$35 per month for Medicare beneficiaries, benefitting up to 1.7 million people who use insulin.<sup>iii</sup>

An estimated 5,700 Medicare beneficiaries in the district used insulin in 2020.

**If the Inflation Reduction Act's \$35 insulin copay cap had been in effect in 2020, a Medicare beneficiary in the district enrolled in a standard Medicare drug plan who used Novolog—one of the most commonly-prescribed rapid-acting insulins—could have saved \$1,233 per year.**

## ***Major Savings for Medicare Beneficiaries***

In 2020, an estimated 88,000 people in the district were enrolled in Medicare Part D. The total cost of prescriptions filled by these beneficiaries in 2020 was \$494 million.

The Congressional Budget Office estimates that the drug pricing reforms in the Inflation Reduction Act—which finally allow the government to negotiate lower prices with Big Pharma—will save more than \$280 billion over ten years, including more than \$100 billion through price negotiations.<sup>iv</sup> These provisions will reduce costs for the more than 51 million Americans who receive prescription drug coverage through Medicare Part D plans.<sup>v</sup>

### **If the Inflation Reduction Act’s drug pricing provisions had been fully in effect in 2020:**

- **The total cost of prescriptions filled by Medicare beneficiaries in the district would have been \$17 million lower.**
- **Medicare beneficiaries in the district could have saved a total of \$5 million in reduced premiums and out-of-pocket costs.**

## ***The Oversight Committee’s Investigation***

The Oversight and Reform Committee’s drug pricing investigation revealed that these structural reforms are needed to curb the pharmaceutical industry’s uninhibited pricing practices, reduce the high burden on taxpayers, and ensure that Americans can afford their prescriptions.<sup>vi</sup> The investigation found:

- Drug companies targeted the U.S. market for price increases—while maintaining or lowering prices in the rest of the world—in part because Medicare could not negotiate directly.
- The Medicare program lost \$25 billion over a five-year period on just seven drugs because Medicare Part D plans failed to secure the same generous rebates or discounts as other federal health care programs.
- The companies investigated by the Committee collectively raised prices more than 250 times on the 12 drugs examined. Several companies directly tied incentive compensation to drug-specific revenue targets; for at least two companies, the company would have missed its revenue targets and the executives would not have received bonuses had they not raised drug prices.

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<sup>i</sup> This fact sheet draws on publicly available data from the U.S. Department of Health and Human Services, the Centers for Medicare and Medicaid Services, the Medicare Payment Advisory Committee, the Congressional Budget Office, the Medicare Board of Trustees, and the Kaiser Family Foundation. An explanation of the methodology used to generate the estimates found in this fact sheet is available at online at <https://oversight.house.gov/sites/democrats.oversight.house.gov/files/Drug%20Pricing%20District%20Report%20Methodology.pdf>.

<sup>ii</sup> Kaiser Family Foundation, *How Would the Prescription Drug Provisions in the Senate Reconciliation Proposal Affect Medicare Beneficiaries* (July 27, 2022) (online at [www.kff.org/medicare/issue-brief/how-would-the-prescription-drug-provisions-in-the-senate-reconciliation-proposal-affect-medicare-beneficiaries/](http://www.kff.org/medicare/issue-brief/how-would-the-prescription-drug-provisions-in-the-senate-reconciliation-proposal-affect-medicare-beneficiaries/)) (reporting that, based on 2020 data, there were 1,446,600 non-low income subsidy Part D enrollees with out-of-pocket costs greater than \$2,000). This group includes about 1.3 million enrollees who had spending above the catastrophic coverage threshold in 2020. The IRA also eliminates the 5% coinsurance requirement for beneficiaries who are above the Medicare Part D catastrophic coverage threshold (which is currently \$7,050 in out-of-pocket drug costs).

<sup>iii</sup> Kaiser Family Foundation, *Insulin Out of Pocket Costs in Medicare Part D* (July 28, 2022) (online at [www.kff.org/medicare/issue-brief/insulin-out-of-pocket-costs-in-medicare-part-d/](http://www.kff.org/medicare/issue-brief/insulin-out-of-pocket-costs-in-medicare-part-d/)) (reporting that, based on 2020 data, there were 1,698,295 non-low income subsidy Part D enrollees who use insulin).

<sup>iv</sup> Congressional Budget Office, *Estimated Budgetary Effects of Subtitle I of Reconciliation Recommendations for Prescription Drug Legislation* (July 8, 2022; revised July 13, 2022) (online at [www.cbo.gov/publication/58290](http://www.cbo.gov/publication/58290)). Congressional Budget Office estimated that all of the prescription drug pricing provisions combined will reduce the federal deficit by \$287.6 billion over the 2022-2031 period. Subsequently, the Senate parliamentarian ruled one aspect of the inflationary rebates to be outside the scope of the budget reconciliation process so that provision was removed from the bill, which will decrease the Congressional Budget Office estimated savings slightly. PBS News, *Senate Parliamentarian Approves Most Drug Price Controls in Democrats' Economic Package* (Aug. 6, 2022) (online at [www.pbs.org/newshour/politics/senate-parliamentarian-approves-most-drug-price-controls-in-democrats-economic-package](http://www.pbs.org/newshour/politics/senate-parliamentarian-approves-most-drug-price-controls-in-democrats-economic-package)).

<sup>v</sup> Medicare Payment Advisory Commission, *Health Care Spending and the Medicare Program*, at Page 158 (Chart 10-8) (July 19, 2022) (online at [www.medpac.gov/wp-content/uploads/2022/07/July2022\\_MedPAC\\_DataBook\\_SEC\\_v2.pdf](http://www.medpac.gov/wp-content/uploads/2022/07/July2022_MedPAC_DataBook_SEC_v2.pdf)).

<sup>vi</sup> Majority Staff Report, House Committee on Oversight and Reform, *Drug Pricing Investigation* (Dec. 2021) (online at <https://oversight.house.gov/sites/democrats.oversight.house.gov/files/DRUG%20PRICING%20REPORT%20WITH%20APPENDIX%20v3.pdf>).