The Effect of the Inflation Reduction Act (IRA) on Benefit and Formulary Design, Including Drug Coverage and Selection, for Medicare Part D and Commercial Patients in the United States

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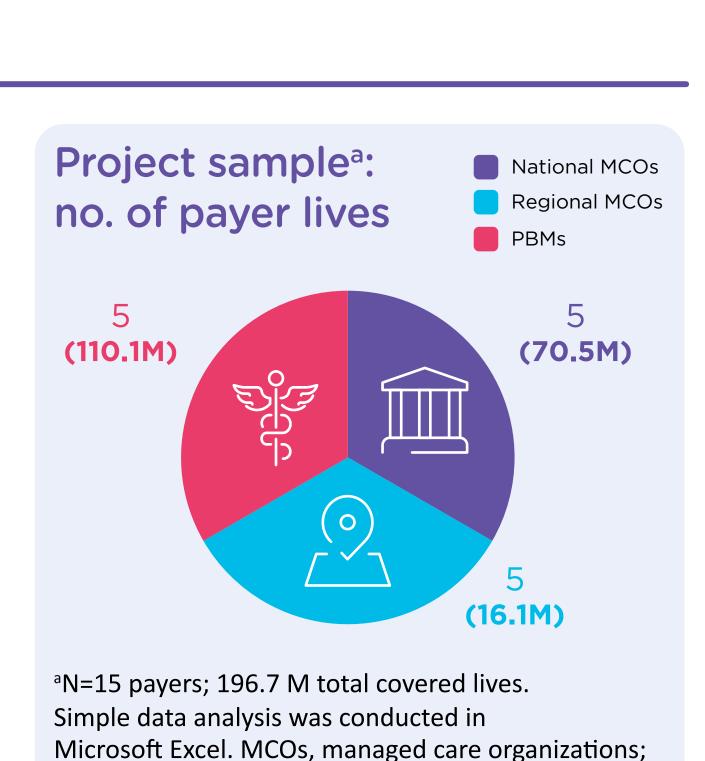


Background and objectives

- The Inflation Reduction Act (IRA) was signed in August 2022. It includes changes to the Medicare Part D program, such as increased payer cost exposure during the catastrophic coverage phase, 6% caps on premium increases, and a \$2,000 patient out-of-pocket spending cap
- With this research, we aimed to understand how US payer organizations' Medicare Part D formularies and benefit design may be impacted by the IRA, as well as any changes that may occur to commercial formularies and benefit design

Methodology

- Secondary research was conducted to understand the implications of the IRA
- Based on research results, a discussion guide was developed and focused on questions related to how payers would respond to the increased costs to their plans
- In-depth telephone interviews were conducted with 15 pharmacy directors at managed care organizations (MCOs) and pharmacy benefit managers (PBMs)
- Data were analyzed, and conclusions were drawn about the possible consequences of the IRA



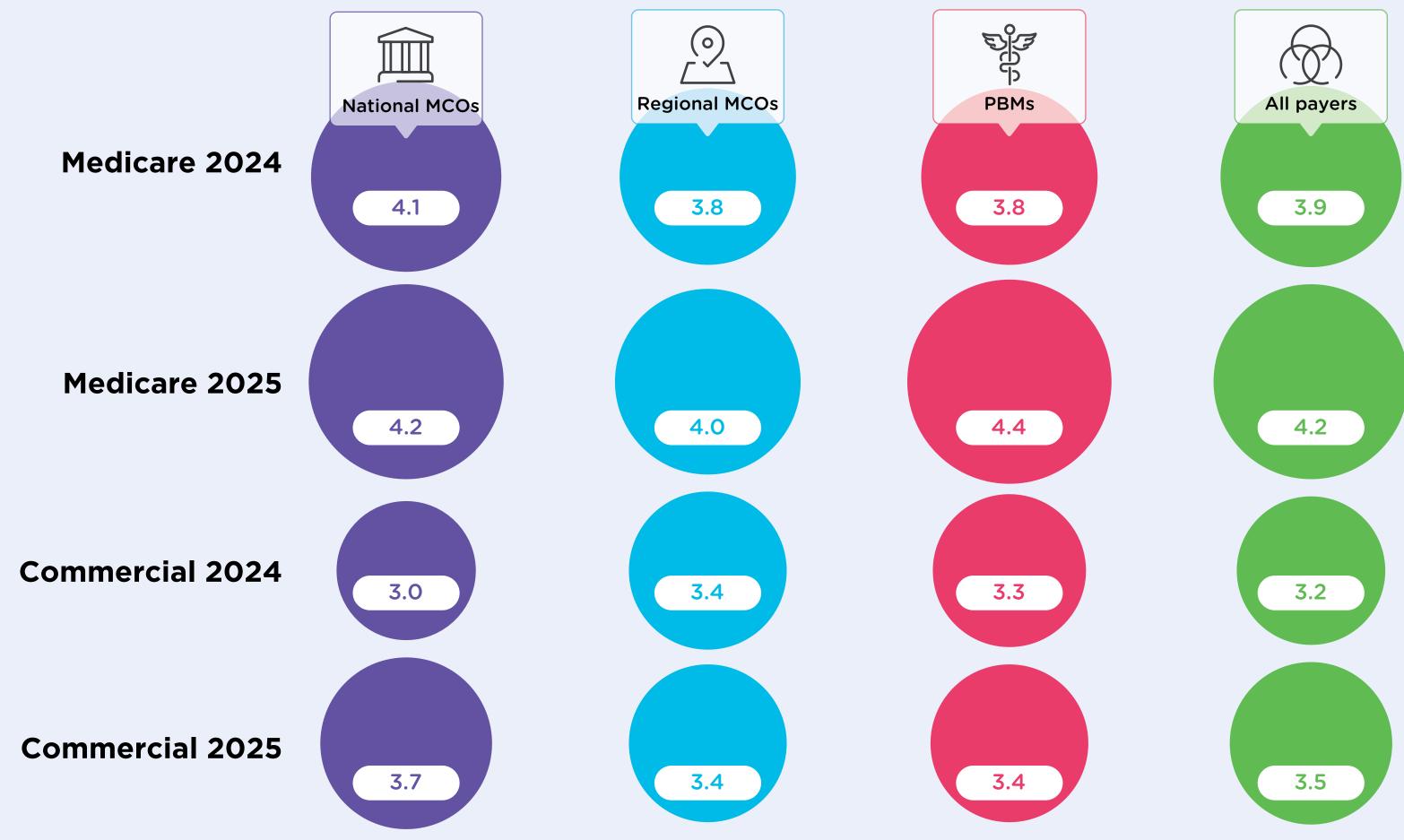
PBMs, pharmacy benefit managers.

Results

Likelihood of increasing member premiums more than in previous years

- It is likely that in 2024, and even more likely in 2025, payers will increase their Medicare Part D premiums more than in previous years
- It is moderately likely payers will increase premiums more than in previous years for the commercial book of business

Likelihood of increasing member premiums more than in previous years



^aAverage rating; N=15 payers.

MCOs, managed care organizations; PBMs, pharmacy benefit managers.

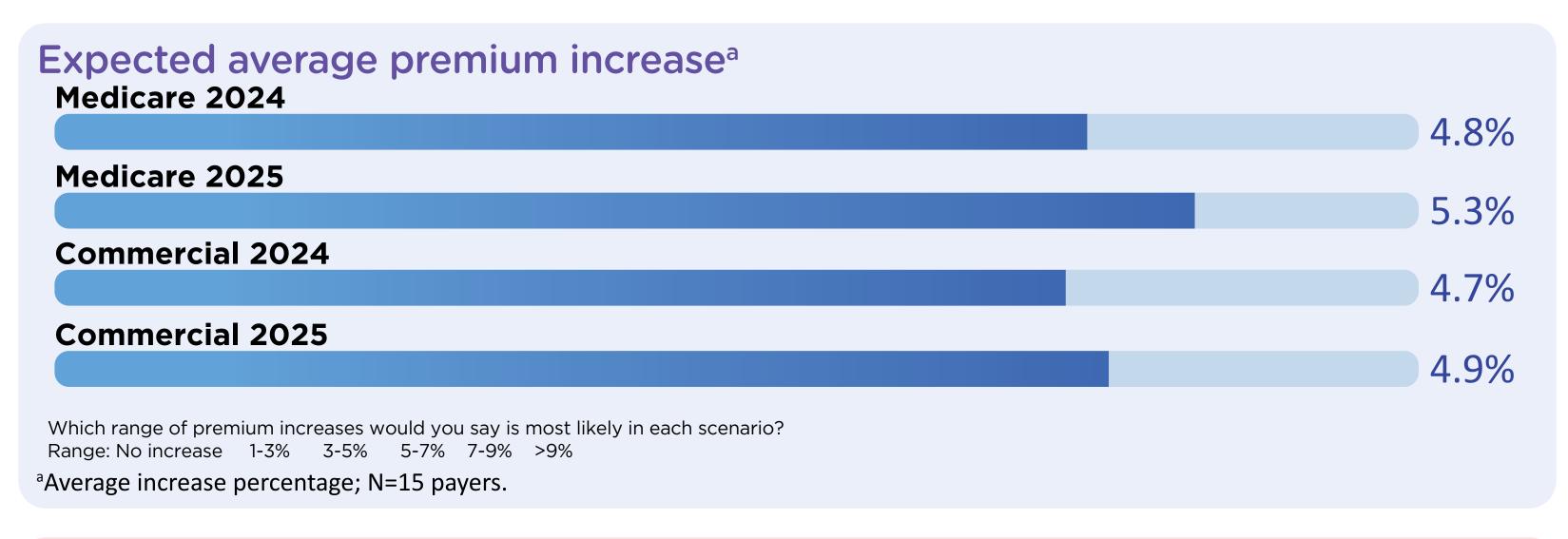
Average increase in premium

- When considering premium increases, payers will be limited by the 6% premium increase cap in Medicare Part D
- In addition, payers are concerned with keeping premiums in line with competitors, which limits their willingness and ability to increase premiums

Results (continued)

Medicare Part D: In Medicare Part D, premiums are expected to increase, on average, by 4.8% in 2024 and 5.3% in 2025

Commercial: Commercial premium increases are expected to remain below 5% in both 2024 and 2025



Likelihood of changing benefit design

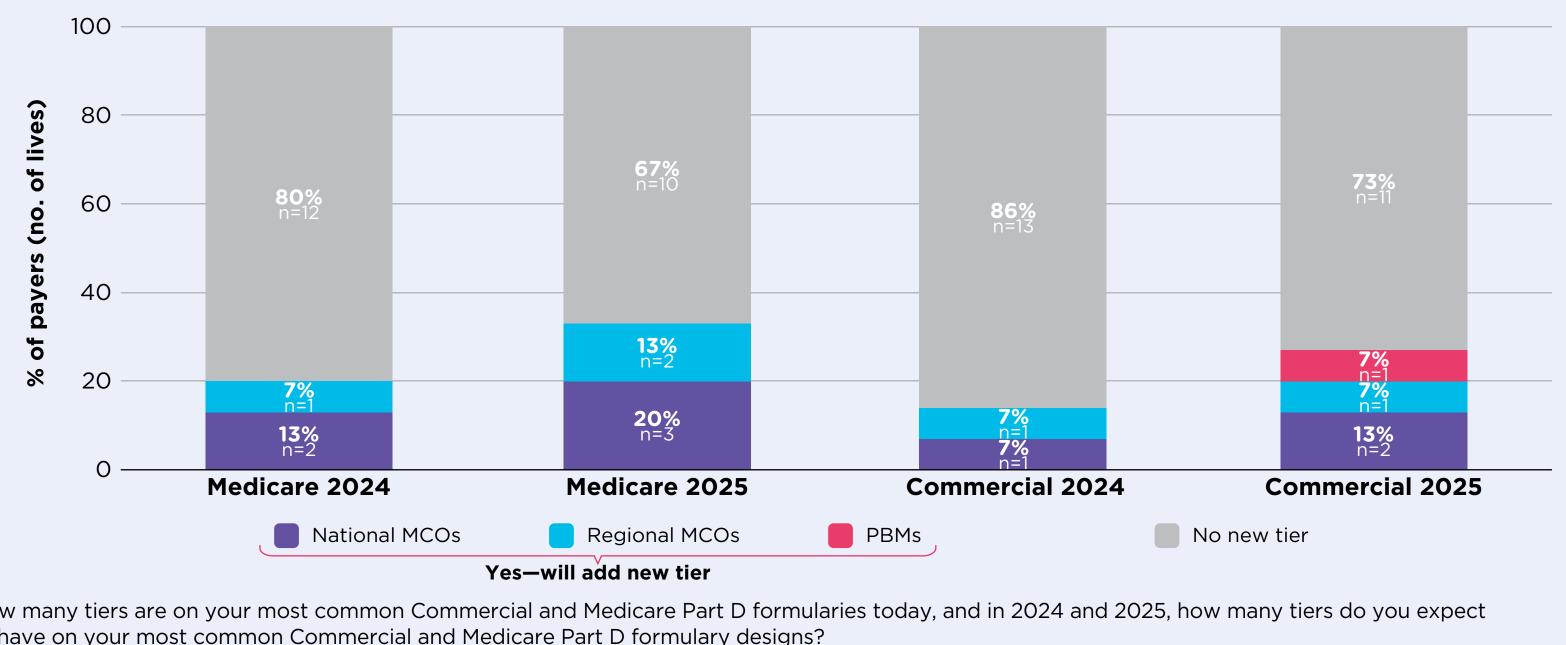
Medicare Part D

- In 2024, 3 of 15 payers (20%) expect to change the number of tiers on their most common Medicare Part D formulary design
- 1 expects to add a nonpreferred specialty tier; 1 expects to add a nonpreferred generic tier; and 1 expects to add a specific tier for insulin
- In 2025, 5 of 15 payers (33%) expect to increase the number of tiers on their most common Medicare Part D plan
 - 3 expect to add a nonpreferred specialty tier; 1 expects to add a nonpreferred generic tier; and 1 expects to add a tier for insulin

Commercial

- In 2024, 2 of 15 payers (13%) expect to add a tier to their most common commercial plan design
- 1 expects to add a specialty coinsurance tier, and 1 expects to add a tier for insulin
- In 2025, 4 of 15 payers (27%) expect to add a new tier to their most common commercial plan design
- 3 expect to add another specialty tier and 1 expects to add a tier for insulin

Likelihood of adding a new tier as a result of the IRA^a



IRA, Inflation Reduction Act; MCOs, managed care organizations; PBMs, pharmacy benefit managers

Likelihood of increasing copayment and coinsurance levels in 2024 and 2025

Medicare Part D

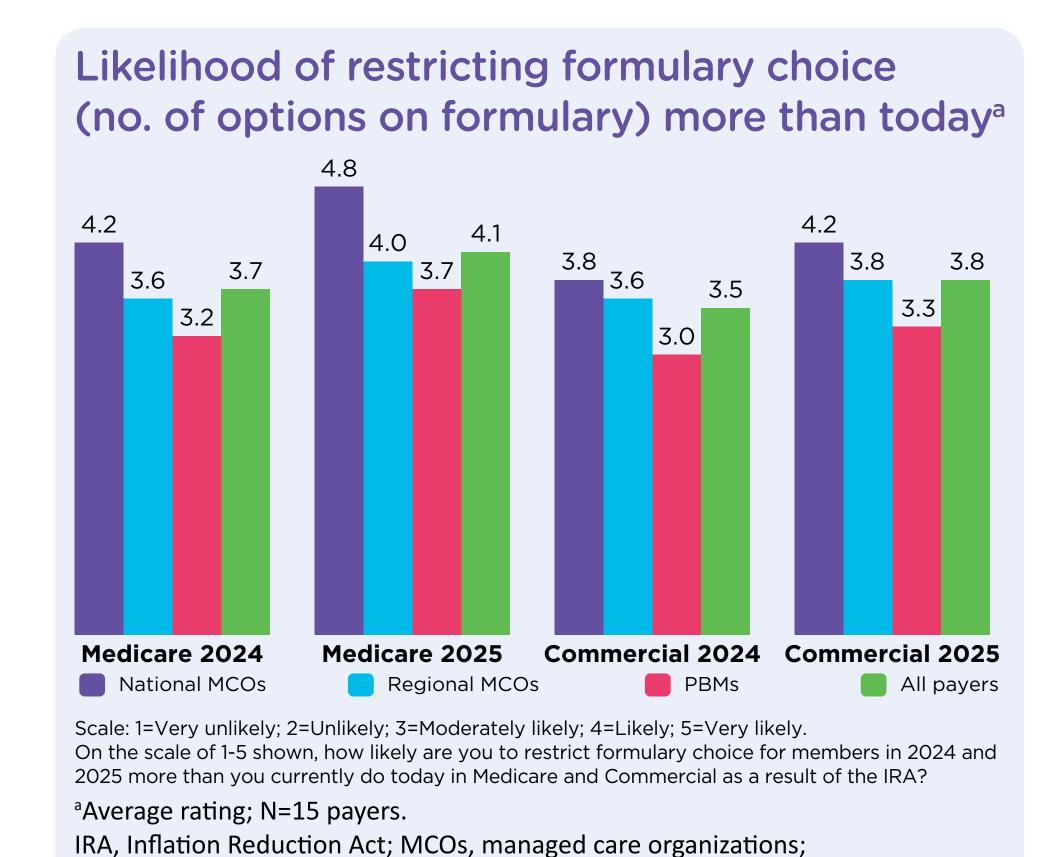
- 6 of 15 payers (40%) expect to increase copayment (copay) in 2024 and 2025
- On average, these payers anticipate copay levels could increase in 2024 by \sim \$1 for the preferred generic tier, ~\$5 for the 2nd generic tier, ~\$5 for the preferred brand tier, and ~\$10 for the nonpreferred brand tier
- These payers expect copay levels could increase by an additional 4% by 2025
- None of the payers sampled expects to increase coinsurance levels in Medicare Part D in 2024 or 2025

Commercial

- 4 of 15 payers (27%) expect to increase copays in 2024, and 3 of 15 payers (20%) expect to increase copays in 2025
- On average, these payers posited copay levels could increase in 2024 by ~\$7 for the nonpreferred generic tier, ~\$12 for the preferred brand tier, and ~\$14 for the nonpreferred brand tier
- These payers expect copay levels could increase by an additional ~5% in 2025
- None of the payers sampled expects to increase coinsurance levels in commercial in 2024 or 2025

Likelihood of restricting formulary choice

- In Medicare Part D, it is likely that payers will restrict formulary choice in 2024 more than today, and it is even more likely that they will do so in 2025
- It is moderately likely for payers to restrict formulary choice in the commercial book of business in 2024 and more likely to do so in 2025
- National MCOs in our sample indicate the highest likelihood of restricting formulary choice
- One representative from a large PBM indicates that their organization already restricts formulary choice significantly today; thus, there is not much room to further reduce choice
- Disease states with multiple drug options available are most likely to be targeted (eg, asthma, diabetes, multiple sclerosis, and rheumatoid arthritis)
- Formulary choice is likely to remain open in protected classes and rare and orphan disease states

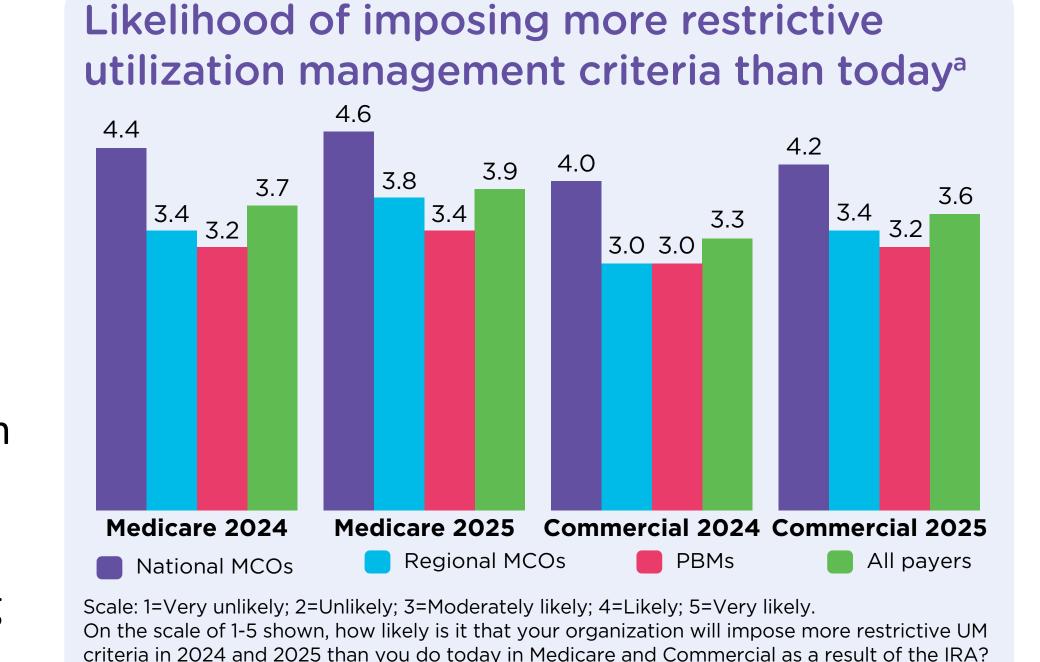


Likelihood of imposing more restrictive utilization management criteria

PBMs, pharmacy benefit managers.

Medicare Part D

- In Medicare Part D, payers indicate they are likely to impose more restrictive utilization management (UM) criteria in 2024 and are even more likely to do so in 2025
- It is moderately likely for payers to impose more restrictive UM criteria on their commercial formularies in 2024, but more likely in 2025
- When asked what criteria would be implemented, payers mentioned additional prior authorization criteria and more restrictive criteria; for example, moving from physician attestation to chart notes, imposing additional step edits, and managing more products beyond label
- Payers at national MCOs indicate the highest likelihood of imposing more restrictive UM
- One PBM payer indicates their organization already has restrictive UM criteria in place; thus, there is little room to become more restrictive
- One high-control regional MCO also is already restricting to their maximum ability today, thus, would not increase UM further

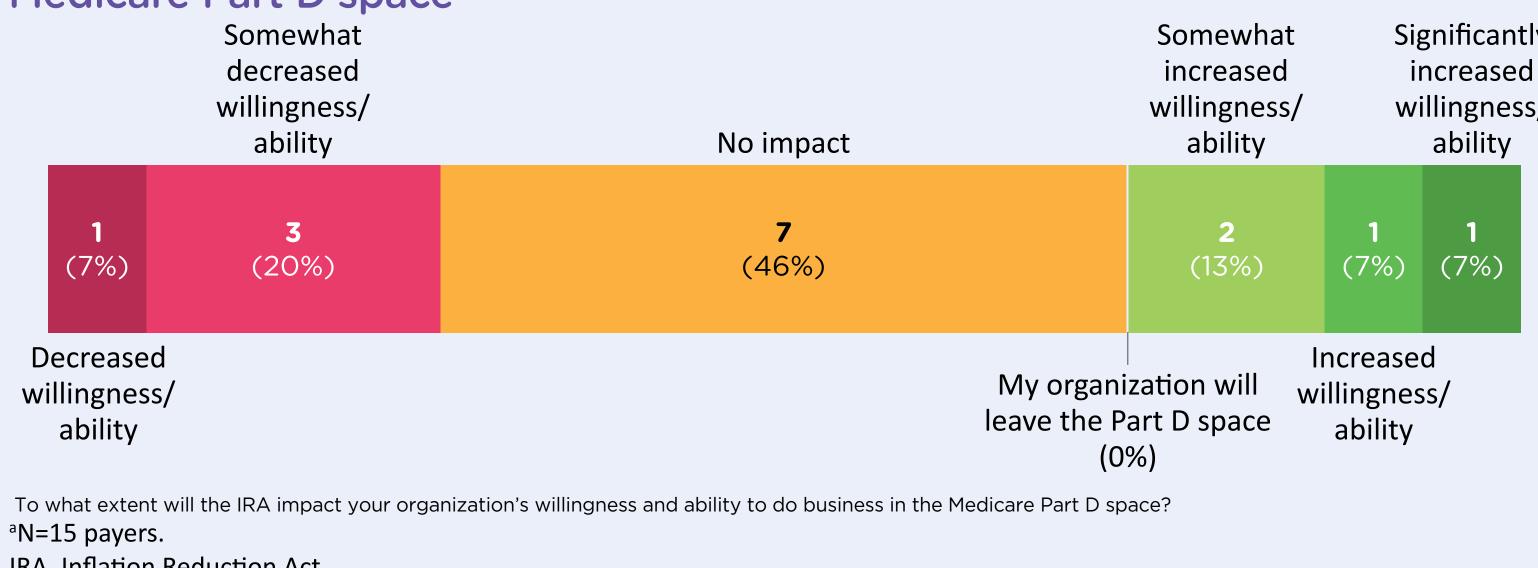


criteria in 2024 and 2025 than you do today in Medicare and Commercial as a result of the IRA? ^aAverage rating; N=15 payers. IRA, Inflation Reduction Act; MCOs, managed care organizations; PBMs, pharmacy benefit managers; UM, utilization management.

Impact of IRA on business in Medicare Part D

- Despite the increased cost to payers as a result of the IRA, none of the payers in this sample expects to leave the Medicare Part D space
- 4 of 15 payers (27%) indicate they may be less willing/able to participate in Medicare Part D than they are today
- These payers expect copay levels could increase by an additional 5% in 2025
- It is important to note that these payers are not concentrated in Medicare Part D today, with ~5% of lives in this book of business
- 11 of 15 payers (75%) stated the IRA would have a positive-to-no impact on their willingness/ability to do business in Medicare Part D

Impact of IRA on the organization's willingness/ability to do business in the Medicare Part D space^a



^aN=15 payers. IRA, Inflation Reduction Act.

Conclusions and limitations

Conclusions

- Medicare Part D patients are likely to see higher premiums in 2024 and, especially, in 2025 as a result of the IRA
- However, premiums will not increase more than 6% per year
- Medicare Part D benefit design is unlikely to change in 2024, with 1 payer adding a specialty tier in 2024; benefit design could change for some patients in 2025, with 3 payers in our sample indicating that they could add a specialty tier in 2025
- Medicare Part D patients could face increased copay levels in 2024 and 2025, but coinsurance levels will remain the same; the \$2,000 out-of-pocket cap will limit copay and coinsurance exposure for patients on multiple drugs
- Medicare Part D patients could have fewer drug options to choose from on formulary in 2024 and 2025; this will especially impact patients with diseases, such as asthma, diabetes, multiple sclerosis, and rheumatoid arthritis
- Furthermore, Medicare Part D patients could face more hurdles in obtaining drugs as a result of more restrictive UM criteria, such as laborious prior authorization criteria, additional step edits, and more restrictions beyond product label
- None of the payers in our sample expects to leave the Part D space as a result of this legislation, and those who show hesitation are already limited players in Medicare Part D today
- In 2024 and 2025, commercial patients may face higher copay levels, fewer drug options, and more restrictive UM criteria

Limitations

- This research is limited to pharmacy directors who were willing and able to participate in market research on the topic of the IRA
- Payers are still uncertain about the precise impact of the IRA and were asked to estimate likely outcomes
- Future research should continue to monitor the implications of the IRA on Medicare Part D and commercial patients

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