

Impact of inflation reduction action (IRA) on commercial plans' approach to managing drugs

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Background

The IRA of 2022 allows Medicare to negotiate prices of selected drugs covered under Medicare Parts B and D. Such drugs will be subjected to a maximum fair price (MFP), where the manufacturers will be required to discount their drug. As a result, commercial plans are also likely to reassess their formulary management strategy to adapt to the change in Medicare-levied prices. This research aims to describe the potential impact of IRA on pricing and management of drugs under commercial plans in response to IRA.

Methods

First, the IRA legislation and associated PubMed articles related to drug pricing were identified and reviewed. Based on the review, a quantitative survey with multiple choice questions was prepared. Finally, insights were collected from survey responses of pharmacy and medical directors of key national/regional commercial plans.

Results

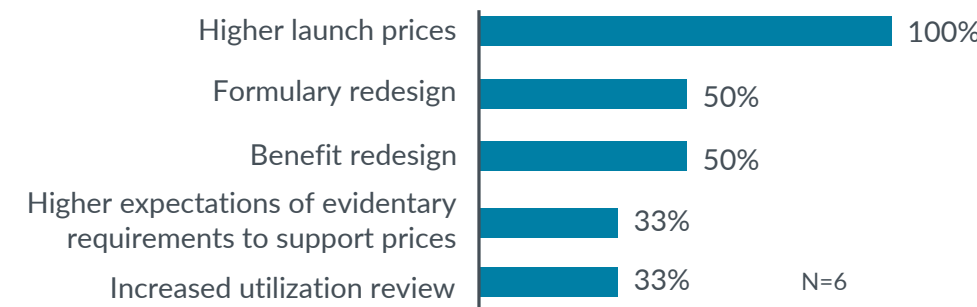
A total of six respondents completed the survey. Majority of respondents were national commercial payers (Figure 1).

Figure 1: Respondent demographics (N=6)



All payers noted that the IRA will impact their commercial plans and expected higher launch prices compared to prices if IRA were not implemented. In consequence, most payers anticipated that their commercial plans will likely require a formulary redesign (50%) and/or benefit redesign (50%) as well as increased utilization management (33%) such as step through IRA-regulated drugs and prior authorization (Figure 2).

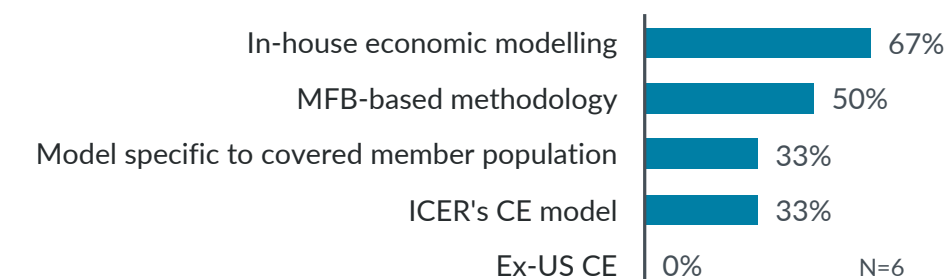
Figure 2: Expected impact on commercial coverage



Impact of higher "launch prices" on commercial plans

For commercial plans, some payers (50%) noted to use IRA's MFP-based methodology to evaluate "higher launch" prices. In addition, the most common alternative approach included "in-house economic modelling" (Figure 3).

Figure 3: Expected assessment of "high launch" prices due to IRA for commercial plans



Impact on commercial coverage of drugs subjected to the IRA

Payers are likely to re-negotiate prices based on MFP and re-assess contracting/rebates (Figure 4). Further, rebates will be dependent on product's market share and IRA's established MFP. However, most payers noted that there will be no difference in the level of rebate between their commercial and Medicare/Medicaid plans (Figure 5).

Figure 4: Impact on commercial plans of drugs subjected to IRA regulations

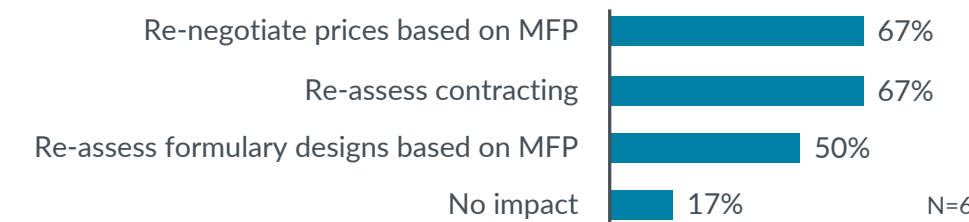
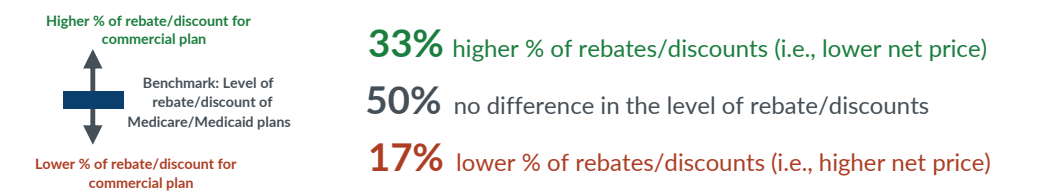


Figure 5: Difference in level of rebate/discount of drugs subjected to IRA regulations between their commercial vs. medicare/medicaid plans



Impact on commercial coverage of drugs NOT subjected to the IRA

Payers noted that within the same indication they expected a higher level of discount for products not eligible for IRA compared to drugs subjected to IRA (Figure 6) to reduce plan's liability and remain on plan's formulary. Rebates for drugs not eligible for IRA will be based on established MFP and market share and expect a mixed result of higher or lower level of rebates (Figure 7).

Figure 6: Impact on commercial plans of drugs not subjected to IRA

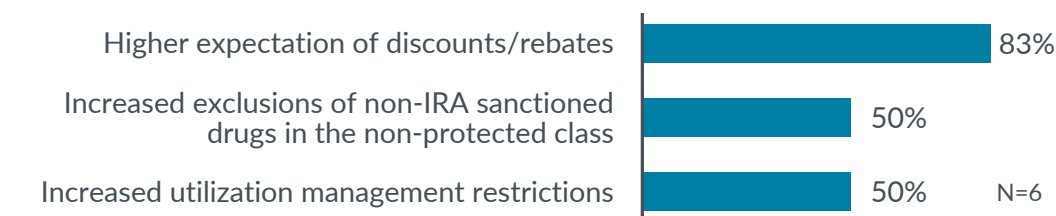
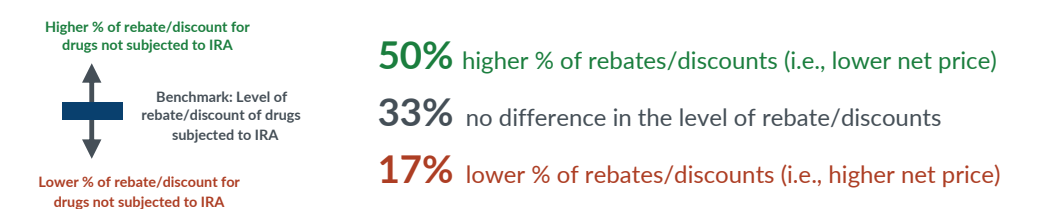


Figure 7: Difference in level of rebate/discount between drugs subjected to IRA vs. those not subjected within the same indication



Conclusions

IRA is likely to accentuate the increasing downward pressure on drug pricing- impacting commercial coverage in addition to Medicare plans. However, in the near term, the IRA may result in higher prices from manufacturers in anticipation of discount and price negotiations, resulting in new and more restrictive formulary policy. Considering CMS-mandated discounts, majority of commercial payers expected an increase in engagements with manufacturers on evidence discussions and price negotiations. Importantly, manufacturers will need to develop new approaches for payer strategies and post-launch negotiations – potentially prior to implementation of IRA in 2026.

REFERENCES – <https://www.congress.gov/bill/117th-congress/house-bill/5376/text>

Abbreviations – CE: Cost-effectiveness; CMS: Centers for Medicare/Medicaid Services;

ICER: Institute for Clinical and Economic Review; IRA: Inflation Reduction Act; MFP: Maximum fair price

