

The Inflation Reduction Act: What's changing in Healthcare?

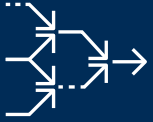
NOVEMBER 10, 2022

Kevin Pierce, FSA, MAAA
CONSULTING ACTUARY

Hiram Satterwhite, FSA, CERA, MAAA
SENIOR CONSULTING ACTUARY



Agenda



Timeline

- Overview of timeline for next few years



What is changing?

- ACA Subsidy Extension
- Inflation Rebates
- \$35 Insulin Copay Caps
- Part D Benefit Redesign
- Drug Price Negotiation



How could this affect healthcare markets?

- Drug Prices
- Product Implications
- Key Payer Takeaways



Q&A

- Open discussion and questions

Speakers



Kevin Pierce

FSA, MAAA

Consulting Actuary



Hiram Satterwhite

FSA, CERA, MAAA

Senior Consulting Actuary

Visit

For additional insight on the topics discussed today, reach out to your Milliman consultant and/or explore the resources at the link below:

www.milliman.com

Caveats, Limitations, and Qualifications

Caveats and Qualifications

Kevin Pierce and Hiram Satterwhite are actuaries with Milliman. They are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. To the best of our knowledge and belief, this presentation is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

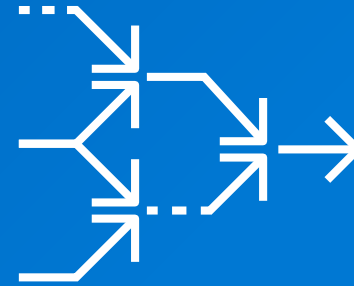
This presentation is intended for informational purposes only. It reflects the opinions of the presenters and does not represent any formal views held by Milliman. Milliman makes no representations or warranties regarding the contents of this presentation, nor do they intend to benefit or create a legal duty to any recipient of this presentation.

The authors are not lawyers, and this presentation does not reflect legal advice. Participants should consult with counsel prior to taking any action based on the information in this presentation.

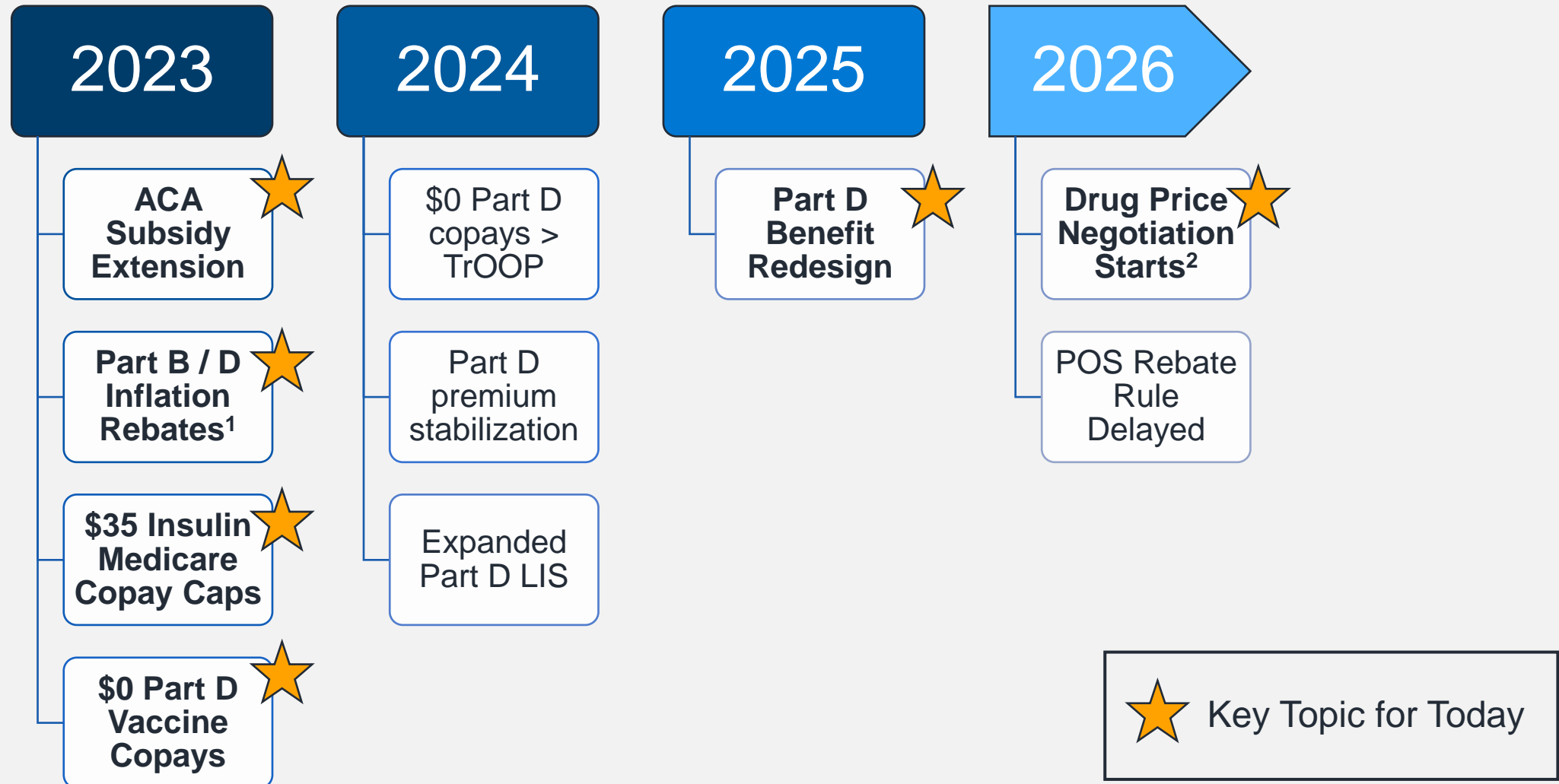
Key Limitations

- **Uncertainty:** Additional guidance will be needed to implement and interpret this new legislation.
- **Opinions:** Payer implications and preparation strategies reflect our opinions. Other experts may come to different conclusions

Timeline



Timeline



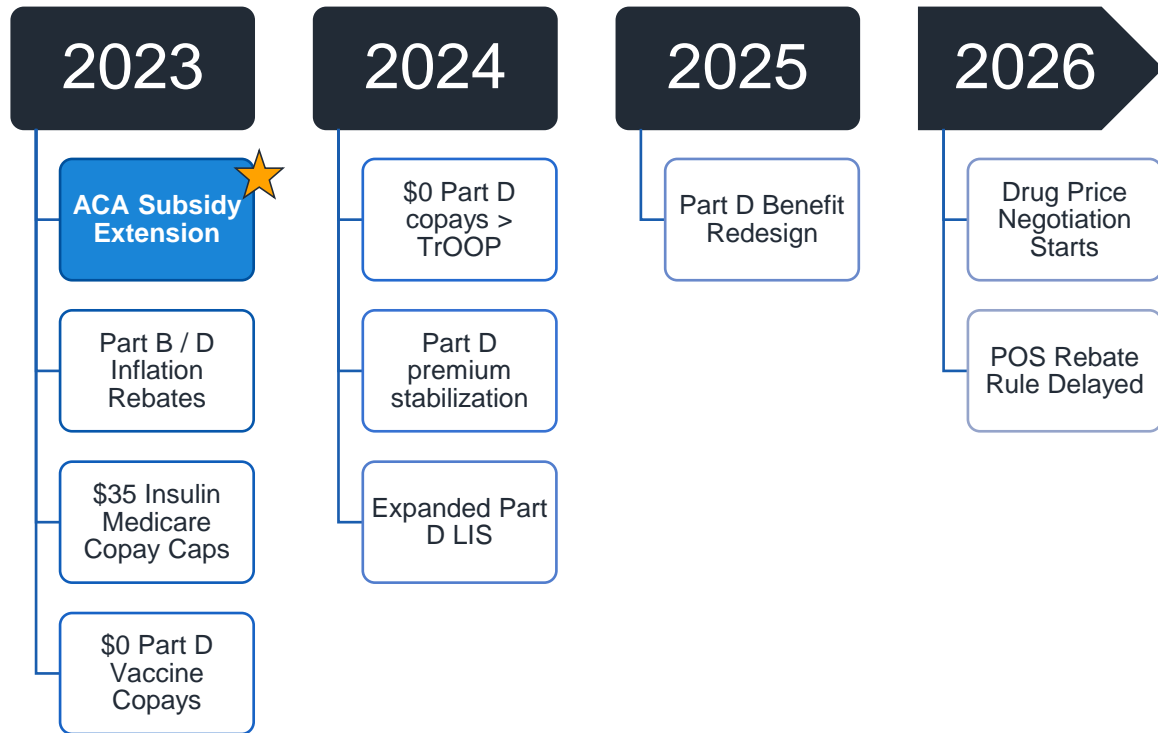
¹ Part D inflation rebates apply starting Q4 2022, Part B applies starting Q1 2023

² Part D drug price negotiation starts for 2026, Part B drug price negotiation starts in 2028

What is changing?



ACA Subsidy Extension



ACA Subsidy Extension

Key Components

Enhanced subsidies introduced through the American Rescue Plan Act (ARPA) in 2021



Subsidies originally scheduled to expire at the end of 2022 are extended through 2025



This provision is expected to keep subsidized members in the ACA market



ACA Subsidy Extension

Illustrative Impact of Enhanced Subsidies

Figure 1
Premium Limit as a % of Income With and Without Enhanced Subsidies

FPL Range	Premium Limit as a % of Income	
	Original Subsidies	Enhanced Subsidies
100 to 133%	2.1%	0.0%
133 to 150%	3.1% to 4.1%	0.0%
150 to 200%	4.1% to 6.5%	0% to 2%
200 to 250%	6.5% to 8.3%	2% to 4%
250 to 300%	8.3% to 9.8%	4% to 6%
300 to 400%	9.8%	6% to 8.5%
Over 400%	Ineligible	8.5%

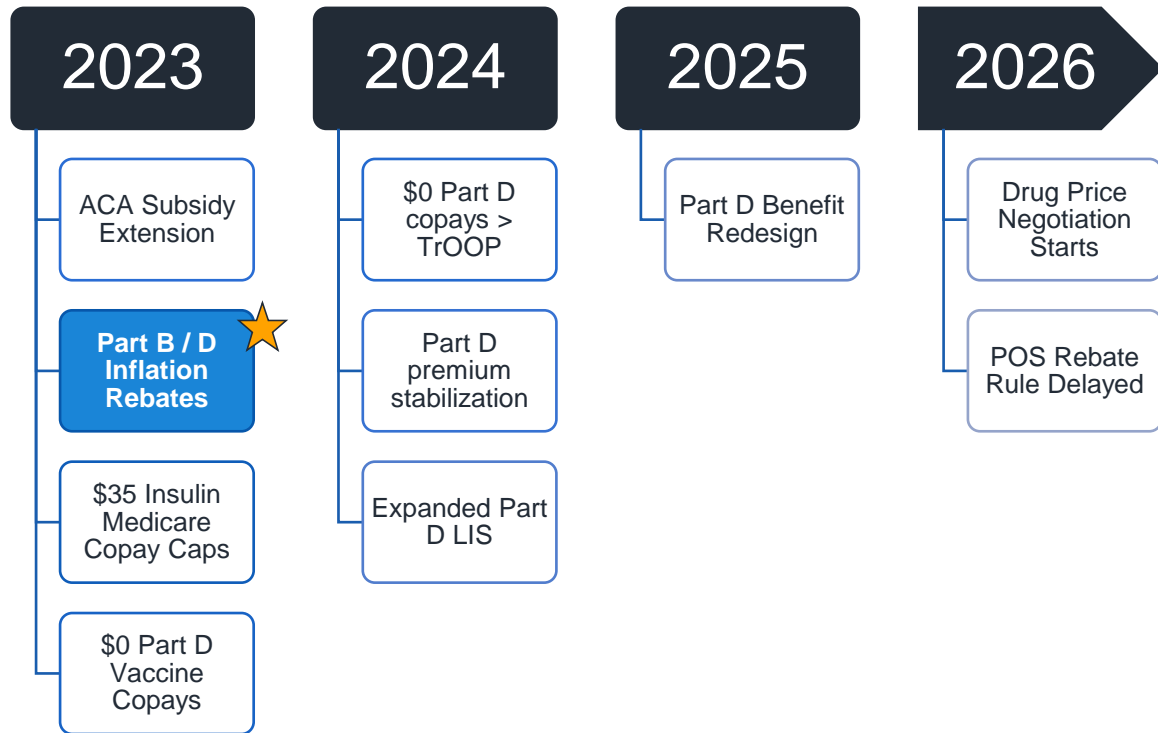
Figure 2
Illustrative APTC¹ Calculation With and Without Enhanced Subsidies

Category	Original Subsidies	Enhanced Subsidies	Calculation
	Salary	\$30,000	
Premium Max % of Salary	5.50%	1.70% (b)	
Benchmark Premium PMPM	\$450.00	\$450.00 (c)	
Max Subsidized Premium	\$137.50	\$42.50 (d) = (a) * (b) / 12	
APTC PMPM	\$312.50	\$407.50 (e) = (c) - (d)	
APTC Enhancement PMPM		\$95.00	

¹APTC = Advanced Premium Tax Credit

² Benchmark premium is the second lowest cost silver plan in the market

Inflation Rebates



Inflation Rebates

Key Components

The IRA introduces new inflation rebate payments for drugs not selected for negotiation from manufacturers to the federal government if drug prices, as measured by the average manufacturer price (AMP), increase faster than inflation.

Drug prices from the benchmark year (2021) are trended by the Consumer Price Index for All Urban Consumers (CPI-U) and compared to actual prices to calculate the inflation rebate. The CPI-U benchmark period, existing drug price benchmark period, and future launch drug price benchmark periods are as follows:

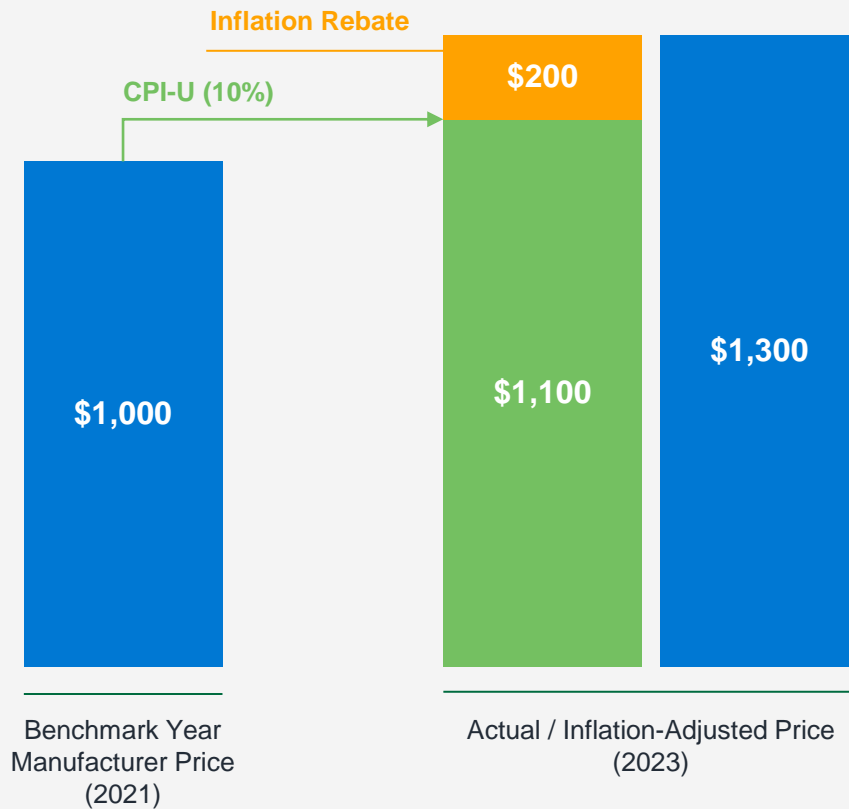
- CPI-U benchmark period: January 2021
- Existing drug price benchmark period: Part B – Q3 2021, Part D – Average of Q1 through Q3 2021 AMP
- Future launch drug price benchmark period: Part B – first three quarters following launch, Part D – first calendar year after launch

The rebate calculation varies between drugs covered by Medicare Part B and Part D but follows a similar formula:

$$\text{Inflation Rebate} = \text{Total Units} \times \text{Maximum} (\text{Actual Price} - \text{Inflation Adjusted Benchmark}, 0)$$

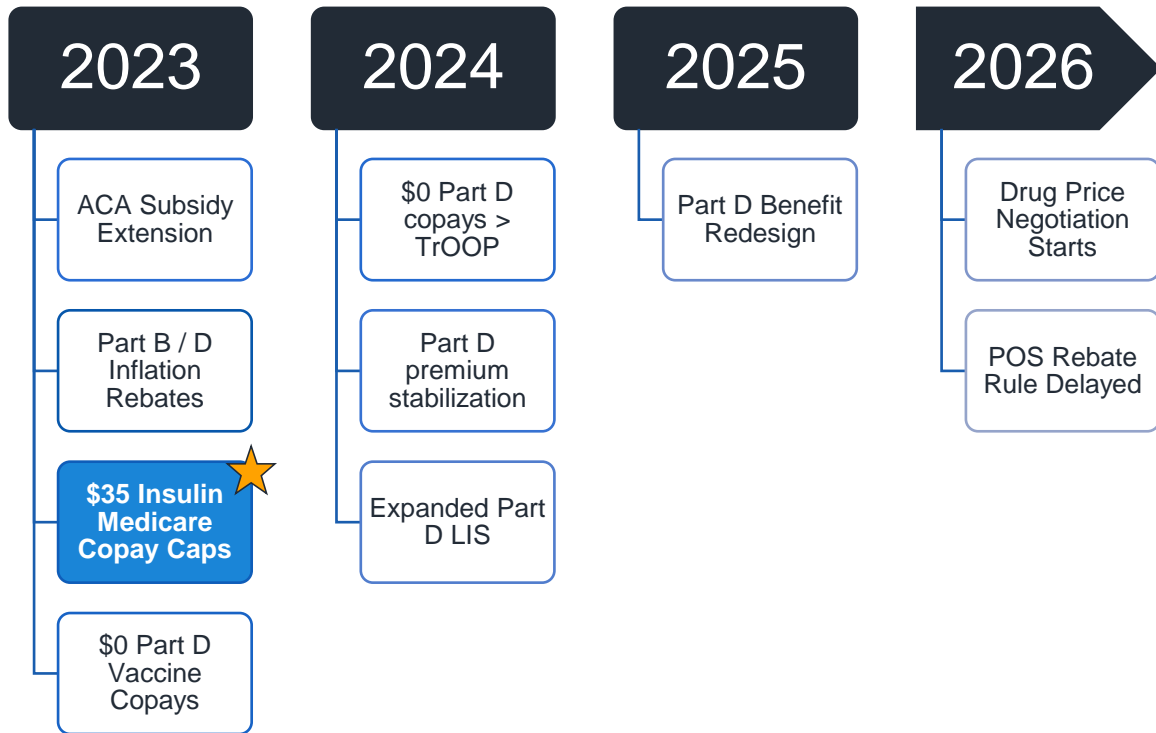
Inflation Rebates

Illustrative Example



- 2021 AMP: \$1,000
- Benchmark CPI-U: 10%
- Inflation-Adjusted Payment Amount: $\$1,000 \times (1 + 10\%) = \$1,100$
- 2023 AMP: \$1,300
- Inflation Rebate: $\$1,300 - \$1,100 = \$200$

\$35 Insulin Medicare Copay Caps and \$0 Part D Vaccine Copays



Insulin Copay Caps and \$0 Vaccine Copays

Key Components

Insulin copays are capped at \$35 starting in 2023

- Applicable to non-low income (NLI) and low income (LI) beneficiaries for Part B and Part D covered insulins
- Cap is part of the defined standard Part D benefit
- Does not apply to the commercial market as in previous iterations of similar proposals

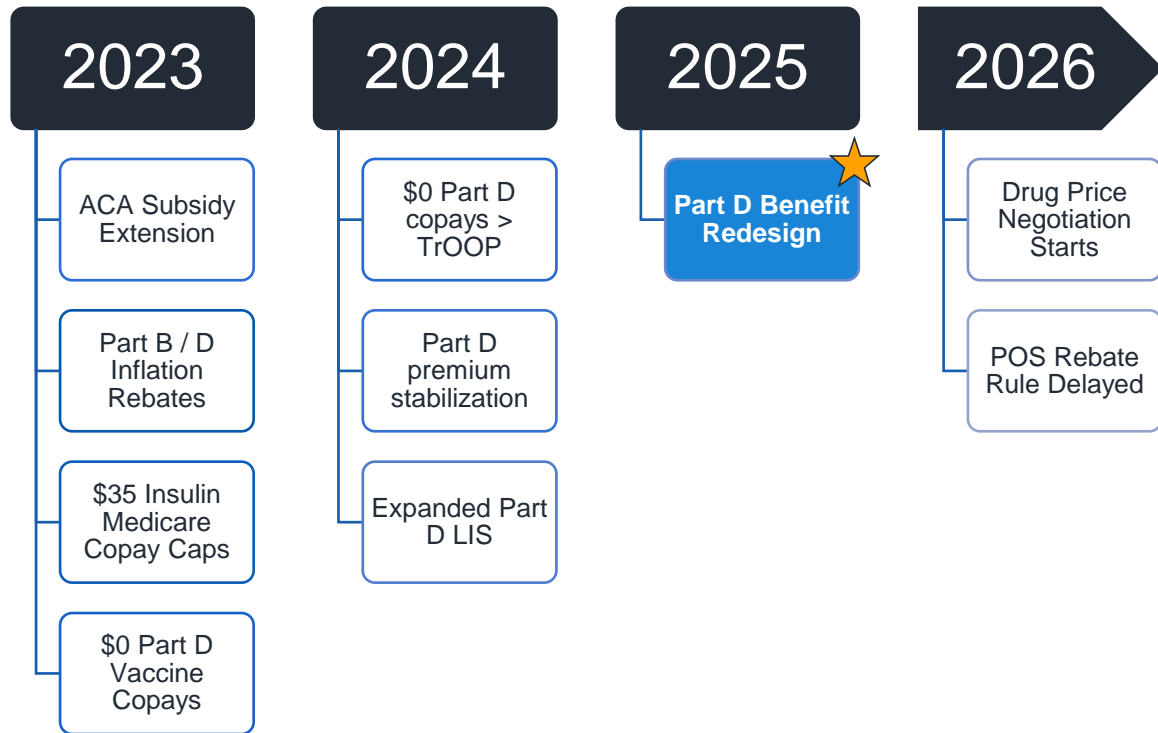


Vaccine copays are capped at \$0 in 2023

- Applicable to all Part D beneficiaries
- Includes all vaccines recommended for “adults” by the Advisory Committee on Immunization Practices (ACIP)
- Vaccines not recommended by ACIP for adults or administered to someone not an adult



Part D Benefit Redesign



Part D Benefit Redesign

Gross Drug Spend \$500 \$4,500 \$11,000

Current Part D Defined Standard Benefit

Deductible	100%				
ICL		75%	25%		
Coverage Gap		Brand / "Applicable"	70%	5%	25%
		Generic / "Non-Applicable"	75%		25%
Catastrophic					80% 15% 5%

Legend	
Member	Plan
Pharma	Govt

Gross Drug Spend \$500 \$6,500

IRA Part D Benefit Design

Deductible	100%					
Below MOOP		10%	65%	25%	Brand / "Applicable"	
			75%	25%	Generic / "Non-Applicable"	
Above MOOP				20%	20%	50%
				40%		50%

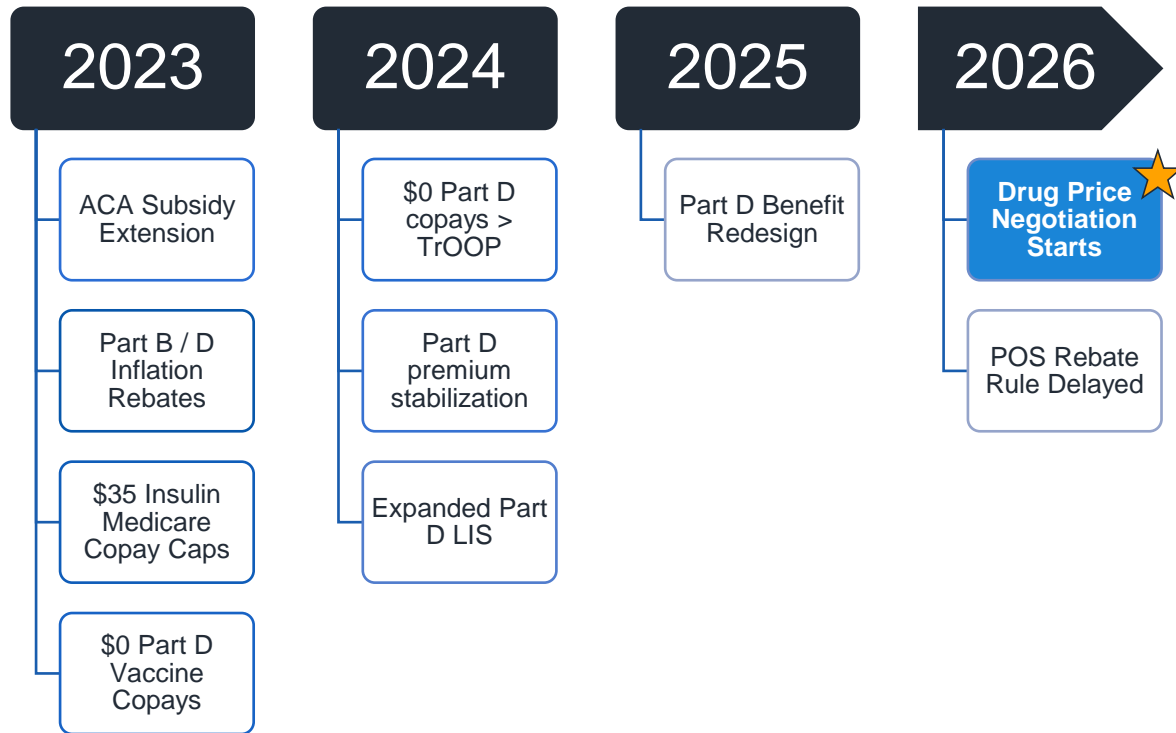
- Reflects non-low income beneficiaries
- Gross spend metrics are rounded for simplicity
- Catastrophic phase is based on a member cost accumulator.
- Values illustrated reflect approximate gross cost amount

Part D Benefit Redesign

Key Changes

Benefit Structure	3 Phases with a \$2,000 MOOP in 2025
MOOP Accumulation	Based on basic benefit cost sharing
Federal Reinsurance	20% for applicable drugs and 40% for non-applicable drugs
Manufacturer Discount Program	10% of applicable drug costs above the deductible and below MOOP, and 20% of applicable drug costs above MOOP for all beneficiaries. Phased in through 2031 for income & “specified” / “specified small” manufacturer definitions
Monthly Cap on Cost Sharing	Option to smooth cost sharing over the course of the year

Drug Price Negotiation



Drug Pricing Negotiation

Key Provisions

Part D in 2026

Part B in 2028



Manufacturer Discount Program liability waived



Negotiated prices included in Best Price calculation



Negotiated drugs must be on formulary



Criteria:

- Top 50 single source brands and biologics
- 7 or 11 years since launch
- No generic/biosimilar

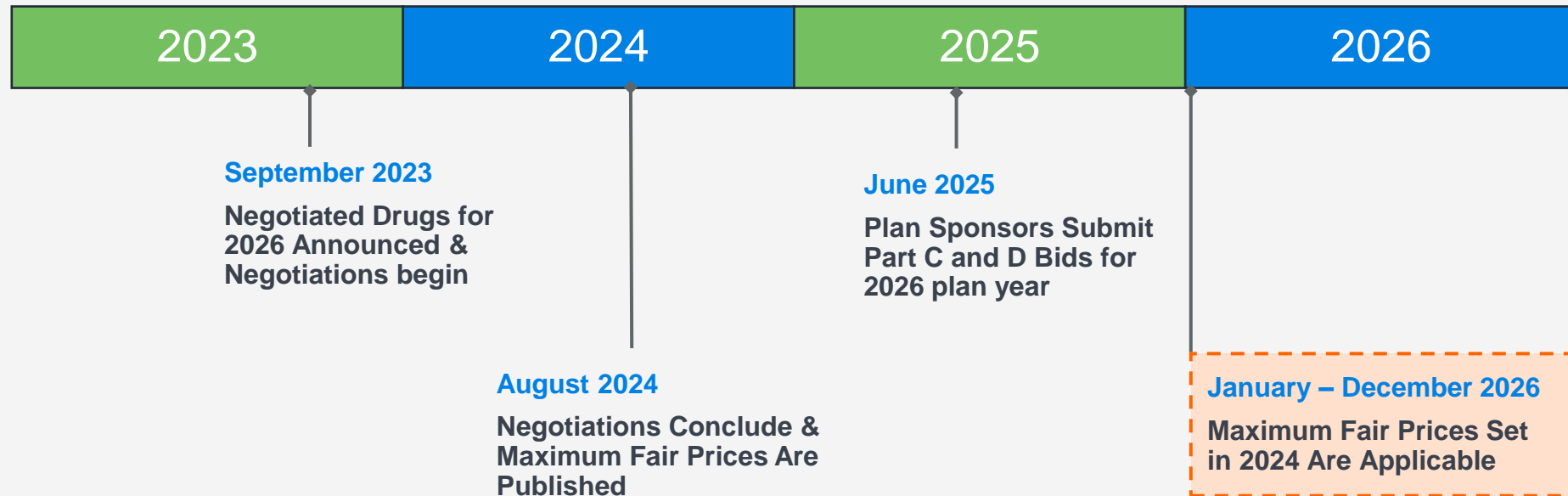


Statutory formula defines maximum negotiated price



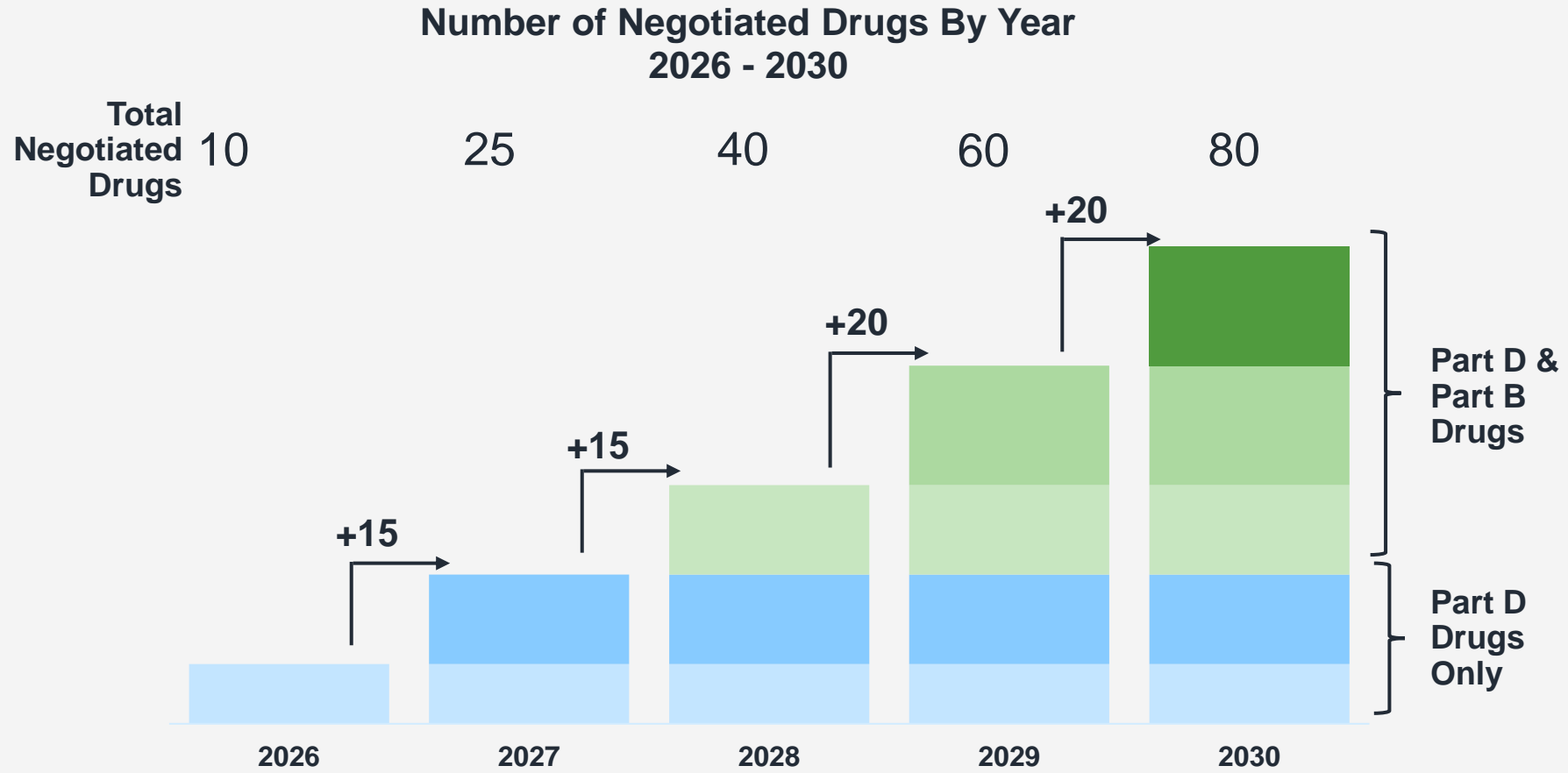
Drug Pricing Negotiation

Maximum Fair Price (MFP) Negotiation Timeline



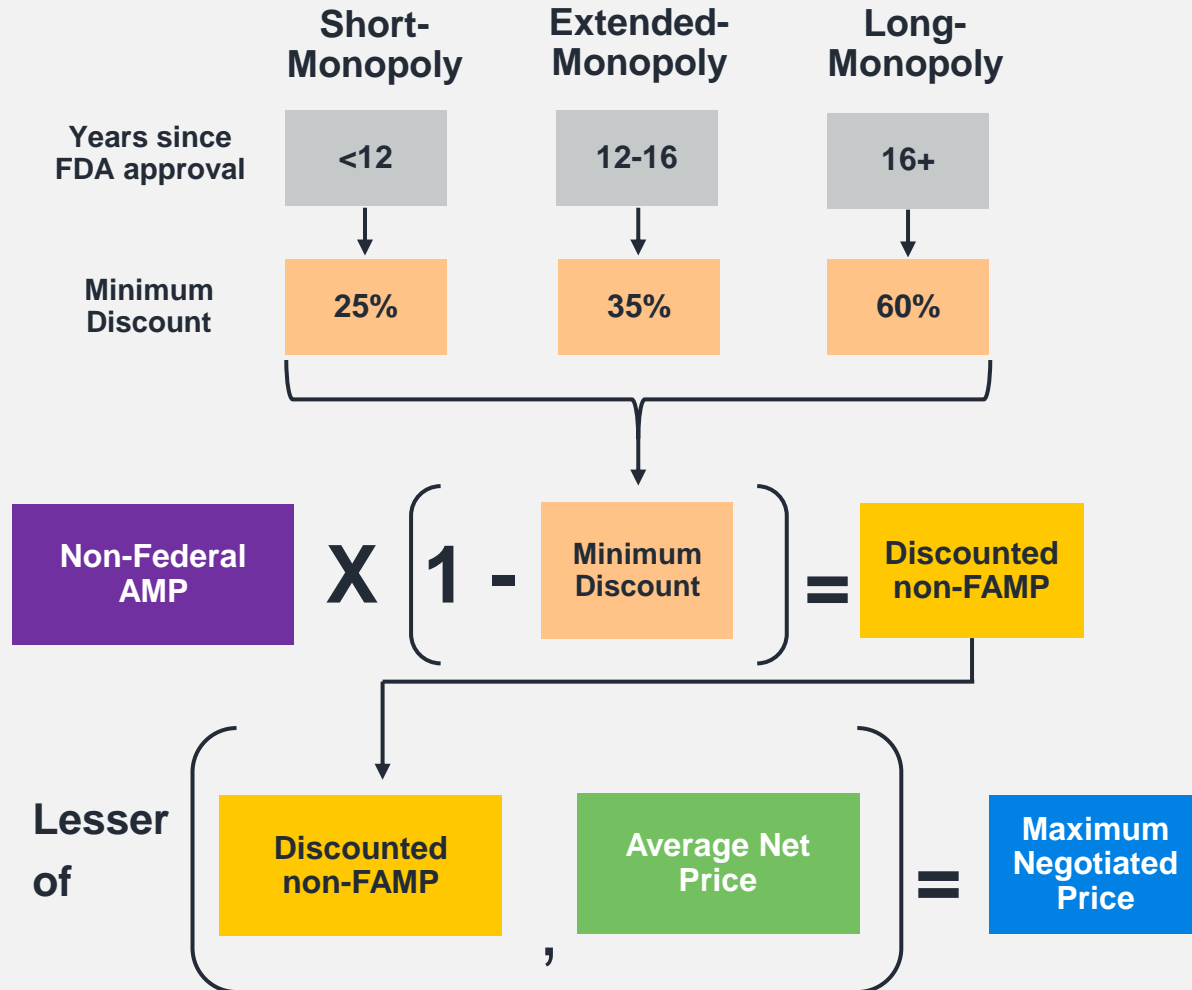
Drug Pricing Negotiation

Number of Drugs by Year

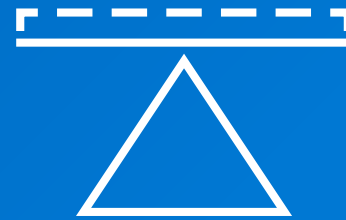


Drug Pricing Negotiation

Maximum Negotiated Price Calculation



How could this affect healthcare markets?



Potential Impacts to Drug Prices

New drug launch prices

- Inflation rebates and negotiation impacts
- Part D manufacturer payments for high list price products

Medicare vs. Commercial

- Inflation rebates now apply to Medicare and Medicaid
- Negotiation prices posted publicly

Medicare Price Negotiation

- Biosimilar and generic competition
- Class-level impact of selected drugs

Product Implications

MAPD

- Provider risk-sharing deals
- Private reinsurance
- Supp. benefit pressure

- Profitability / risk by condition and income
- Formulary, UM, and benefit strategy
- Preferred networks

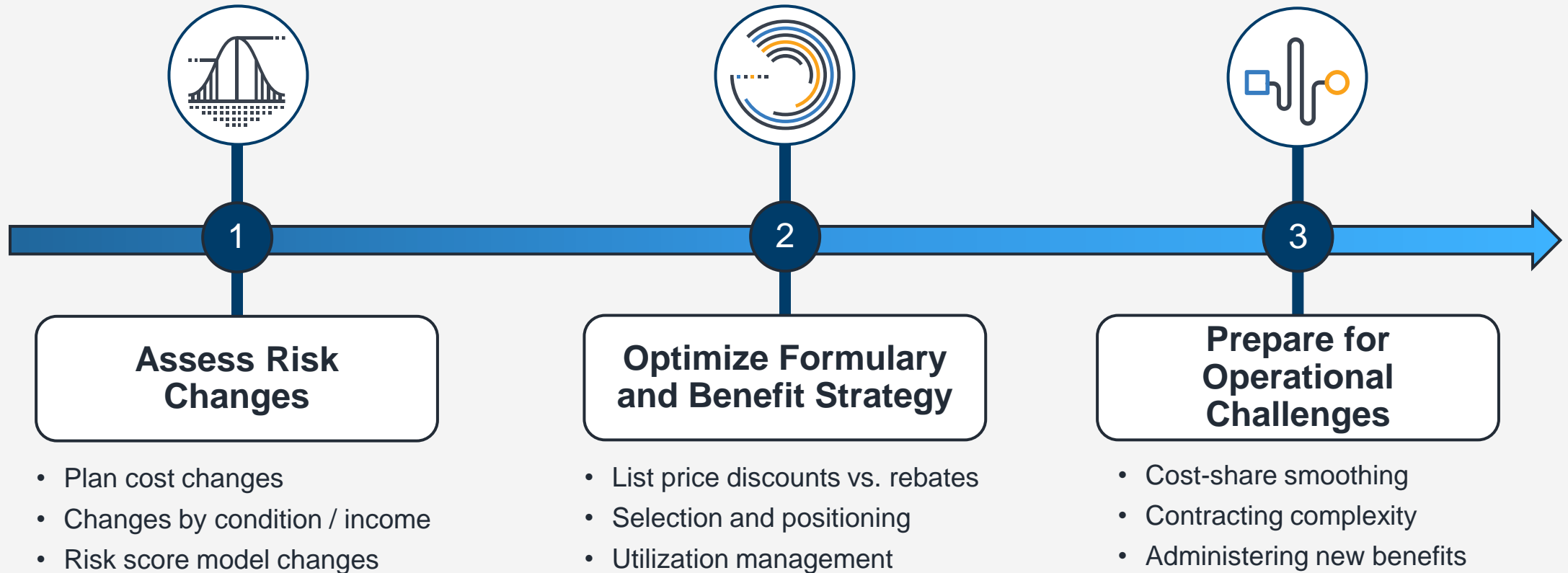
PDP

- Premium fluctuations
- New product landscape
- “Feeder” into MAPD

Reinsurance

- Private Part D product may appeal in market
- Requires careful product design and pricing

Payer Key Takeaways



Q&A





Thank you

Kevin Pierce

kevin.pierce@milliman.com

Hiram Satterwhite

hiram.satterwhite@milliman.com

Visit

For additional insight on the topics discussed today, reach out to your Milliman consultant and/or explore the resources at the link below:

www.milliman.com