Drug Deals and the IRA

SEAC Fall 2024

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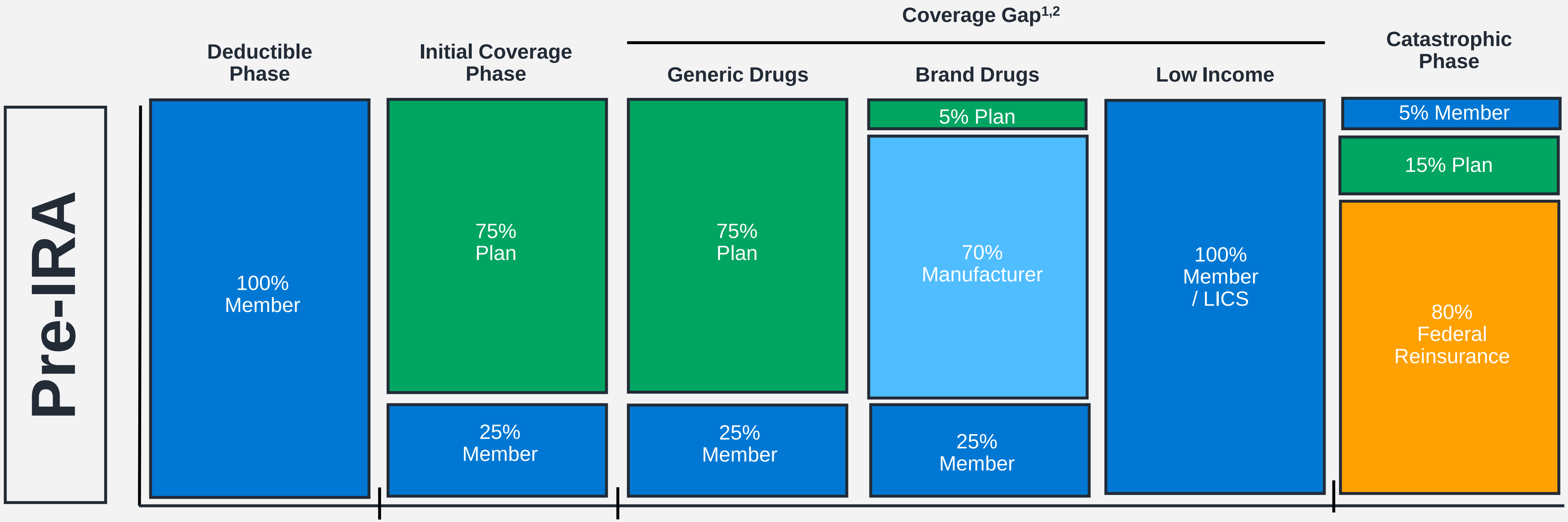
Medicare Part D Defined Standard Benefit (pre-2024)

- **Plan** liability is a small share of total drug costs
- **Government** pays majority of high-cost therapies
- No maximum out-of-pocket for **patients**
- **Pharma** liability limited to coverage gap and non low income beneficiaries



Part D Plan Liability for High-Cost Brand Drugs (pre-2024)

Manufacturer rebates offset plan's limited liability for brands

$2,000 Prescription

Catastrophic Phase

- 5% Member
- 15% Plan
- 80% Federal Reinsurance

Net plan liability is only $1 for the $2,000 drug in catastrophic phase

Allowed Cost	$2,000
Rebate (Percent)	**23%**
Rebate (Total)	$460
Rebate (Plan Retained)	$299
Reinsurance/Cost Share	$1,700
Plan Liability	**$1**

Part D Plan Liability for High-Cost Brand Drugs (pre-2024)

High manufacturer rebates can make plans favor brands financially

$2,000 Prescription

Catastrophic Phase

5% Member

15% Plan

80% Federal Reinsurance

Net plan liability is now $480 <u>profit</u> for the $2,000 drug in catastrophic phase

Allowed Cost	$2,000
Rebate (Percent)	**60%**
Rebate (Total)	$1200
Rebate (Plan Retained)	$780
Reinsurance/Cost Share	$1,700
Plan Liability	**-$480**

More rebates, please!

Negotiation between PBMs and Manufacturers

- Leverage volume and formulary placement in exchange for more rebates
- High WAC prices with large rebates preferred
- Rebated brands can compete with generics
- Plans leverage rebates to lower premiums

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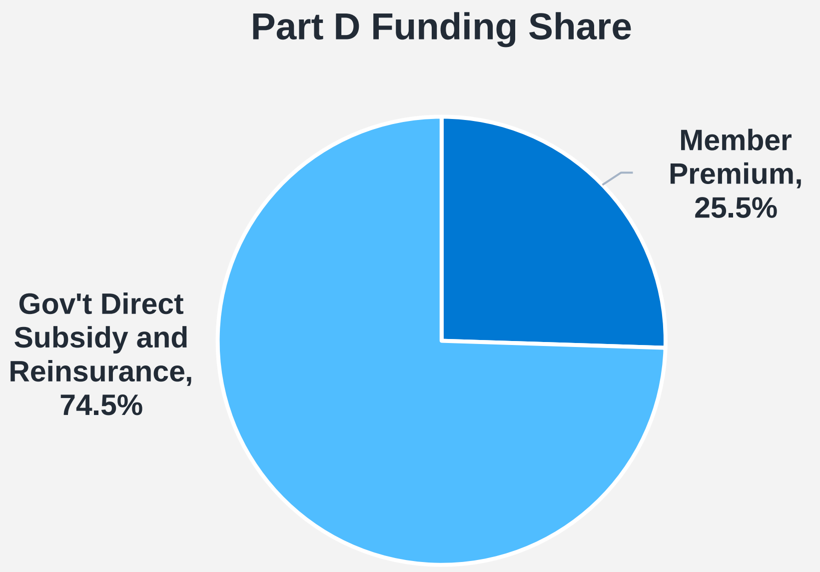
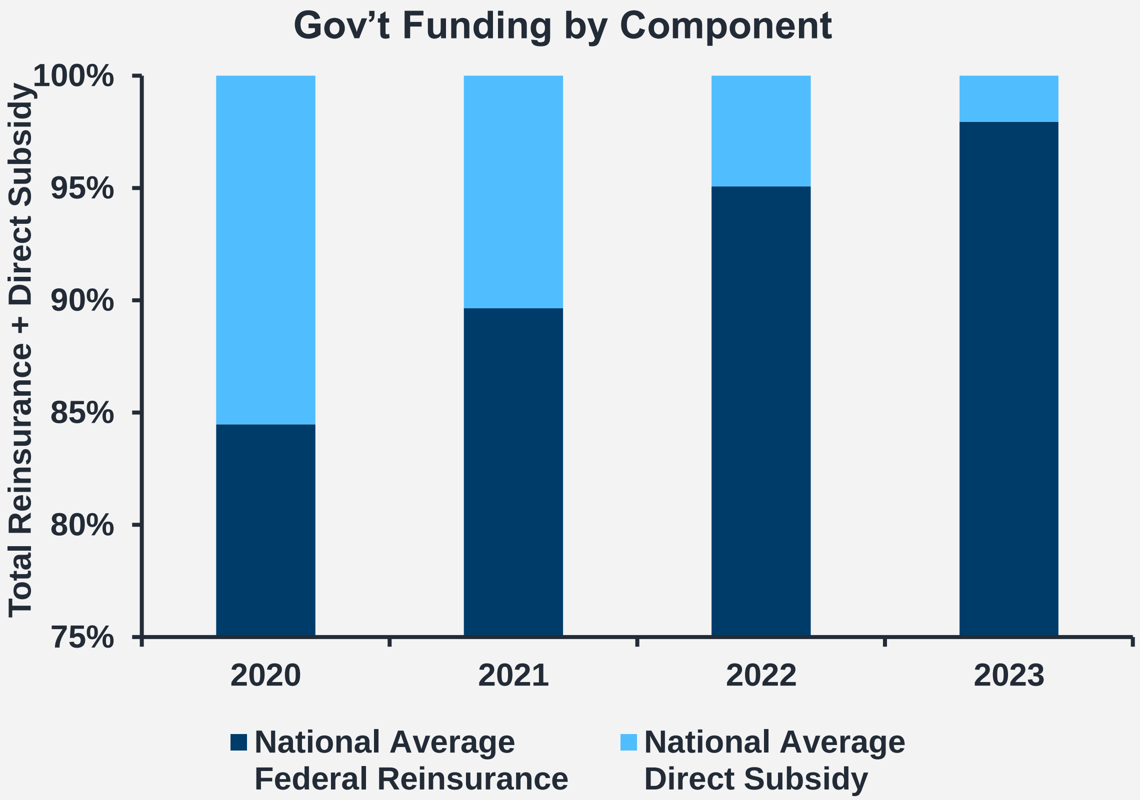
Part D Financing

Government pays plans a risk adjusted direct subsidy in addition to paying federal reinsurance
Direct subsidy based on competitive bids targets 74.5% gov't share (before additional gov't subsidies)
Pre-IRA trends: Federal Reinsurance Increasing, Direct Subsidy Decreasing





Additional government funding of risk corridors, low-income subsidies, BBP cap, and PDP push actual share much higher than 74.5%.

Along comes the IRA

(Inflation Reduction Act)

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IRA Redesigned Medicare Part D Defined Standard Benefit

Share of costs shift in 2025 due to IRA changes

- **Patient** cost **down**
- **Government** cost **down**
- **Payer** cost **up**
- **Manufacturer** cost **up**

Key changes

- Plan share in catastrophic increases to 60%
- Gov't reinsurance decreases
- Manufacturer discount in catastrophic
- Maximum out of pocket
- Elimination of gap

1 NLI and LI beneficiaries have different benefit design in coverage gap. Drug type specific benefit design reflects NLI beneficiaries
2 Both member and manufacturer liability accumulate toward True Out-of-Pocket (TrOOP)
3 Estimated catastrophic coverage limit corresponding to True Out-of-Pocket (TrOOP) spending of $8,000 (~92% of spend = brand)
4 Part D MOOP = Maximum Out-of-Pocket. $2,000 for 2025

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Part D Plan Liability for High-Cost Brand Drugs (post-2025)

Higher plan liability means more rebates needed to make plan whole

A much higher rebate is needed in 2025 for plans to breakeven on brand drugs

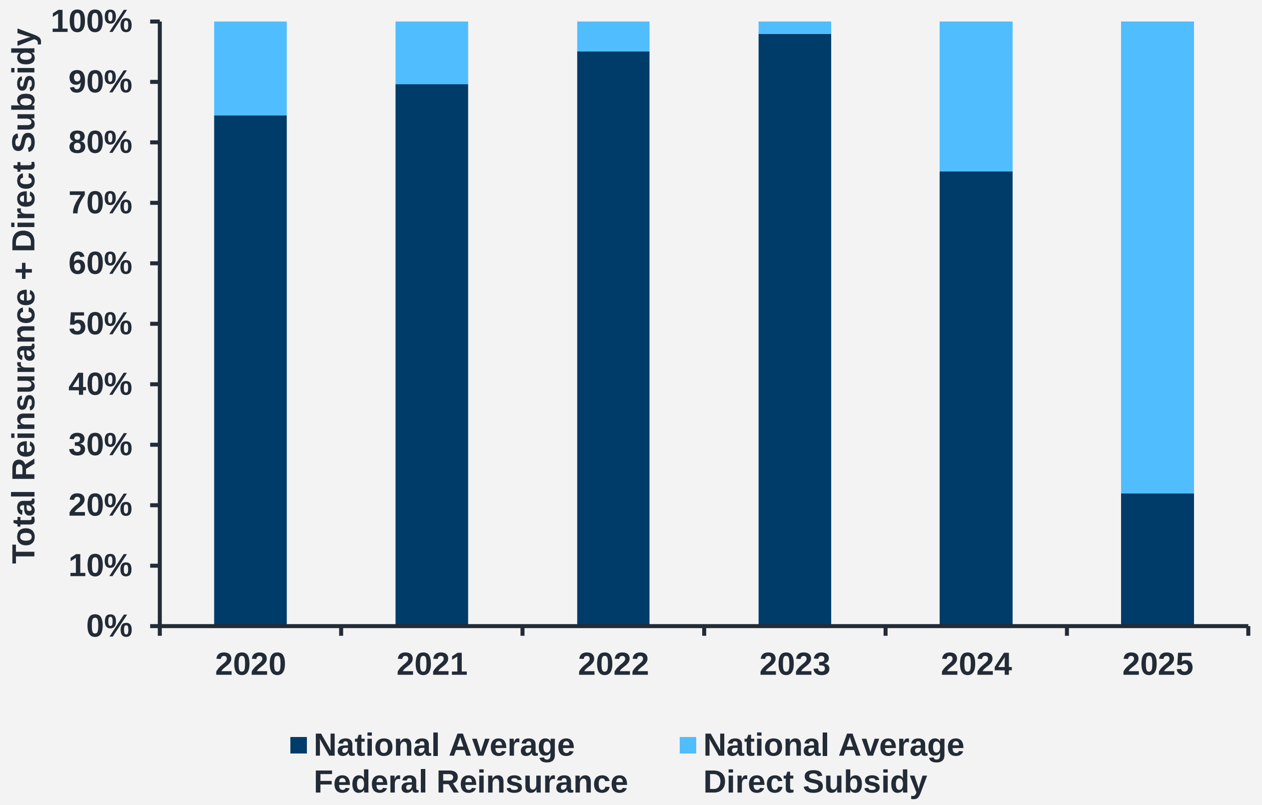
Net plan liability of $2,000 script in catastrophic phase by year

	2023	**2024**	**2025**	**2025 Breakeven**
Allowed Cost	$2,000	$2,000	$2,000	$2,000
Rebate (Percent)	**23%**	23%	23%	**71%**
Rebate (Total)	$460	$460	$460	$1,410
Rebate (Plan Retained)	$299	$299	$391	$1,199
Reinsurance/Cost Share	$1,700	$1,600	$800	$800
Plan Liability	**$1**	**$101**	**$809**	**$2**

Shift in Federal Subsidy Allocation

Federal government funding of Part D shifts to risk-adjusted Direct Subsidy payments in 2025

- Pre-IRA trends reversed
- Federal reinsurance shrinks
- Direct Subsidy becomes largest gov't outlay
- More risk shared with plans



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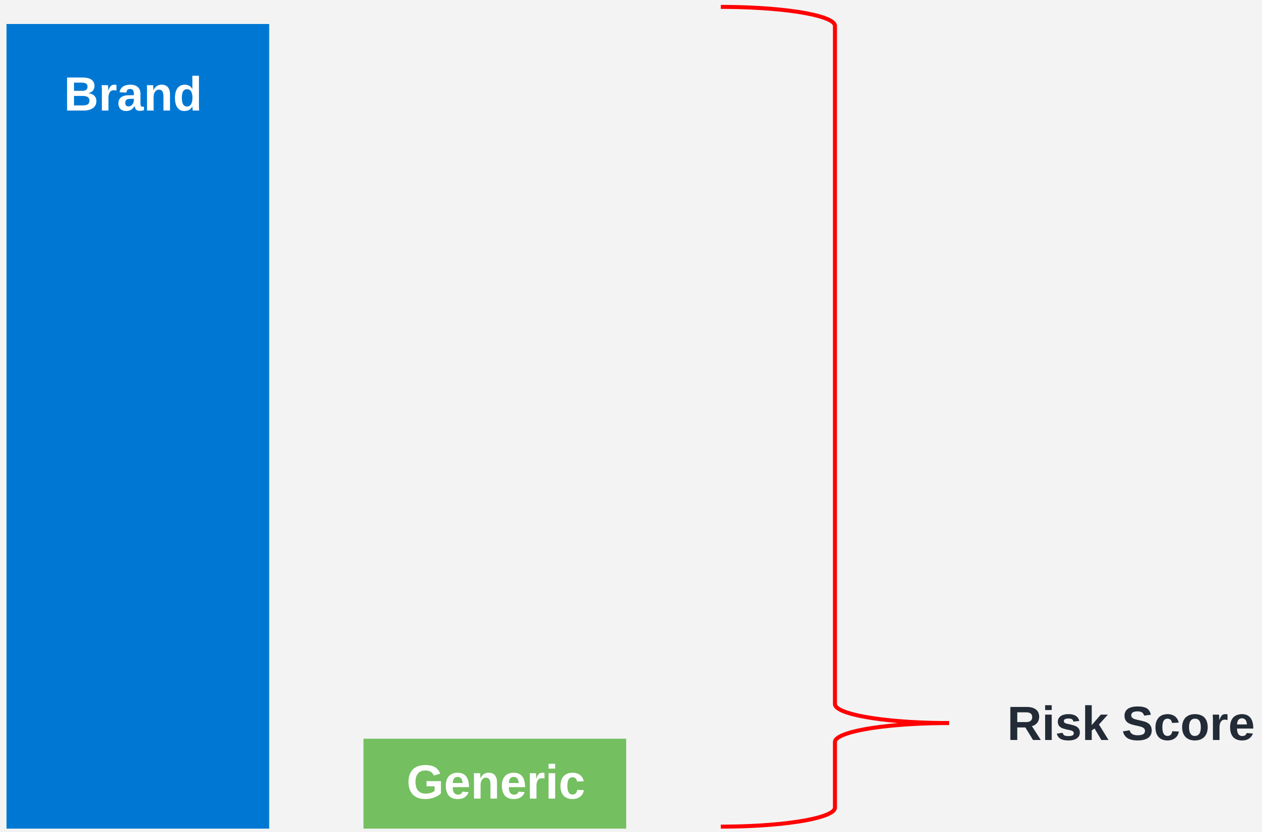
Risk Adjustment

Average payments underfund users of high-cost therapies

	Brand	Generic	Average
Cost	$2,000	$50	$148
Probability	5%	95%	100%



Selection Matters

Population mix can drive plan financial results

	Brand $2,000	Generic $50	Total Cost	
Total Population	5%	95%	$148	Risk score calibrated to total population
High-Cost Plan	10%	90%	$245	High-Cost plan underfunded
Low-Cost Plan	2%	98%	$89	Low-Cost plan overfunded

Medicare Plan Finder

Plan ranking can drive health plan adverse selection

Medicare.gov

BlueMedicare Complete Rx (PDP)

Florida Blue | Plan ID: S5904-002-0

Star rating: ★★⯪☆☆

MONTHLY PREMIUM

$167.00 Includes: Only drug coverage

TOTAL DRUG & PREMIUM COST (for 2025)

$3,563.04 Retail pharmacy: Estimated total drug + premiu

AARP Medicare Rx Preferred from UHC (PDP)

UnitedHealthcare | Plan ID: S5921-383-0

Star rating: ★★☆☆☆

MONTHLY PREMIUM

$92.20 Includes: Only drug coverage

TOTAL DRUG & PREMIUM COST (for 2025)

$120,703.41

Retail pharmacy: Estimated total drug + premium cost

Shoppers can enter drug costs and plans are ranked by total out-of-pocket spend. Plans covering high-cost drugs more likely to be selected by unprofitable utilizers.

https://www.medicare.gov/plan-compare/#/?year=2025&lang=en

Formulary coverage

Financial incentives and plan reactions

- IRA incentivizes tighter formularies, especially for standalone PDPs
- Many brands moved off formulary in 2025
- Hard to move drugs with high market share
- Drugs in protected class must be covered, but prior authorization can be a bargaining chip
- MOOP makes tiering less impactful
- Expect less access for new launches

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Medicare drug pricing negotiation

IRA maximum fair prices apply in 2026 for first 10 drugs

- First negotiated prices may increase net plan liability.
- Is there still room for PBMs to negotiate status within classes?
- Where can PBMs bring value?
- How are PBM rebate guarantees adjusted?
- Commercial spillover?
- Negotiated list will grow to 80 drugs by 2030 and include Part D and Part B.

Part D Negotiated Drug List for 2026

Product	PD Utilizers '23	Total Allowed '23	Negotiated Discount
Eliquis	3,928,000	$18.3B	56%
Jardiance	1,883,000	$8.8B	66%
Xarelto	1,324,000	$6.3B	62%
Farxiga	994,000	$4.3B	68%
Januvia	843,000	$4.1B	79%
Entresto	664,000	$3.4B	53%
Stelara	23,000	$3.0B	66%
Enbrel	48,000	$3.0B	67%
Novolog/Fiasp	785,000	$2.6B	76%
Imbruvica	17,000	$2.4B	38%

Source: CMS Fact Sheet

Drugs represent about 20% of Part D allowed and 50% of rebates

Part D dynamics

Part D Formulary Coverage

Payers and manufactures seek to navigate financial implications of the Inflation Reduction Act

Manufacturers seek to maximize sales, revenue, profit	Payers seek to offer competitive plans that maintain enrollment and profitability
Post-IRA payer financial incentives present market access challenges	Payer holds higher liability and impact of selection is amplified

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Thank you

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