

Benefits Insights

Brought to you by:
Sullivan Benefits

The Industry Impact of Medicare Drug Price Negotiations

The Biden administration recently [unveiled](#) the first 10 prescription drugs subject to Medicare price negotiations. The Medicare Drug Price Negotiation Program—part of the Inflation Reduction Act (IRA)—is the Biden administration's latest effort to combat rising health care costs. According to a Kaiser Family Foundation survey, more than 60% of the 65 million people on Medicare take prescription medication, and 25% take at least four prescriptions. Medicare drug price negotiation aims to lower out-of-pocket costs for millions of seniors and offer savings for taxpayers.

The first round of Medicare Part D drug negotiations will begin this year, with the new prices becoming effective in 2026. Over the next four years, Medicare plans to negotiate prices for up to 60 Part D and Part B drugs—and up to an additional 20 drugs every year after that. This article outlines the potential impacts of the Medicare Drug Price Negotiation Program on the health care industry.

Overview of Medicare Drug Price Negotiations

Under the IRA, the Medicare Drug Price Negotiation Program allows the federal government to negotiate directly with drug manufacturers to improve access to some of the costliest brand-name drugs. Many Medicare Part D enrollees depend on medications to treat life-threatening conditions, such as diabetes and heart failure, but may not be able to access them due to costs.

The following Medicare Part D drugs will be the first ones subject to these negotiations:

- **Eliquis**, for preventing and treating blood clots
- **Jardiance**, for treating diabetes and heart failure

- **Xarelto**, for preventing and treating blood clots; risk reduction for patients with coronary or peripheral artery disease
- **Januvia**, for treating diabetes
- **Farxiga**, for treating diabetes, heart failure and chronic kidney disease
- **Entresto**, for treating heart failure
- **Enbrel**, for treating rheumatoid arthritis, psoriasis and psoriatic arthritis
- **Imbruvica**, for treating blood cancers
- **Stelara**, for treating psoriasis, psoriatic arthritis, Crohn's disease and ulcerative colitis
- **Fiasp/Novolog**, for treating diabetes

These 10 drugs are among the highest costs in total spending in Medicare Part D. In fact, Medicare enrollees taking these drugs paid a collective \$3.4 billion in out-of-pocket costs in 2022 to obtain them. However, according to the Centers for Medicare and Medicaid Services' (CMS) guidelines, if a biosimilar enters the market and finds substantial buyers, the agency will cancel or adjourn negotiations for the corresponding name-brand drug listed for negotiations. For example, two biosimilar versions of Stelara are set to launch in 2025. If they are successful, the CMS will no longer be able to negotiate a lower price for Stelara.



Pharmaceutical companies have until Oct. 2, 2023, to present data on these drugs to the CMS. The CMS will then make initial price offers in February 2024, which will start the negotiation process. Negotiations are scheduled to end in August 2024, with the new prices becoming effective in January 2026. However, several pharmaceutical companies have filed lawsuits to stop the Medicare Drug Price Negotiation Program. Some of these lawsuits argue that the IRA's price negotiation process violates the U.S. Constitution by allowing the federal government to impose its preferred price unilaterally. According to legal experts, it's unclear whether these lawsuits will be successful since Medicare is a voluntary program for drug companies. However, these lawsuits could delay the timing of Medicare drug negotiations.

Impact of Medicare Drug Price Negotiations

Medicare has been setting prices for services as well as physician and hospital payments but has not been allowed to be involved in pricing prescription drugs, which Medicare started covering in 2006. Therefore, allowing Medicare to negotiate drug prices could have a significant impact on the health care industry. While the first 10 drugs subject to price negotiations are used by only 9 million Medicare beneficiaries, the CMS plans to negotiate prices for 50 drugs by 2029. These 10 drugs include some of the most expensive for Medicare, costing a combined \$50 billion in 2022; however, the impact of Medicare drug price negotiations may be slow at first but grow with time.

Short-term Impacts of Medicare Drug Price Negotiations

The initial impact of the Medicare Drug Price Negotiation Program may have muted financial impacts on manufacturers and the federal government, at least for the first round of negotiations, according to analysts. This is largely due to factors that impact the revenue and profits of the 10 drugs scheduled for negotiation. For example, many of these drugs currently face competition from other branded medications or patent expirations, which will allow generic alternatives to hit the market. Additionally, some of these drugs do not contribute significantly to pharmaceutical companies' businesses, so any decline in drug sales may have little impact on a company's overall business and profitability.

Moreover, Medicare Part D plans (prescription drug plans) and pharmacy benefits managers have already negotiated rebates for the first 10 drugs set for negotiation. Further, many of these drugs come with manufacturer discounts, decreasing their prices well below the list price. As a result, the negotiated prices for these first 10 drugs may not be significant or reduce what the federal government currently pays for them.

Long-term Impacts of Medicare Drug Price Negotiations

While the commercial impact of negotiations may be limited for the initial list of drugs, this could change in future rounds of negotiations. In 2028 and beyond, Medicare drug price negotiations will begin to target Medicare Part B drugs, which cover more specialized medications that are administered by health care providers rather than pharmacies. Many of these drugs offer fewer rebates than the ones currently listed for negotiation. Additionally, some of these drugs are biologics, which will likely have a more significant impact on drug companies because they are much more expensive and have a greater impact on the earnings and growth of these companies.

Pharmaceutical companies claim that the drug price negotiations will curb the development of new drugs. As a result, Medicare drug price negotiations may result in pharmaceutical companies altering their drug development strategies over time. However, according to the Congressional Budget Office's estimates, only a few drugs would not be developed each year because of Medicare drug price negotiations.

Impact on Individuals

Due to the high costs of these prescriptions, many Americans are forced to choose between paying for vital medications or buying food and other necessities. While some individuals may save money on their prescriptions because of price negotiations, the Medicare Drug Price Negotiation Program aims to lower overall Medicare costs. By doing this, the Medicare program and taxpayers could see significant savings. Moreover, starting in 2025, the IRA will deliver further relief to Medicare beneficiaries by limiting their drug spending to \$2,000.

However, the impact of drug price negotiations on individuals not receiving Medicare is currently unclear. Some experts

believe that by reducing how much drug companies can charge Medicare beneficiaries, they will increase prices for privately insured individuals. Others believe that Medicare drug price negotiations may enable private health plans to negotiate for lower drug prices for the medications they cover. Additionally, Medicare drug price negotiations could incentivize pharmaceutical companies to lower listed gross prices for medications, which could lower out-of-pocket payments for privately insured individuals.

Employer Takeaway

Medicare drug price negotiations allow the federal government to negotiate prices for a limited number of drugs to lower out-of-pocket costs for millions of seniors and offer savings for taxpayers. While the drugs scheduled for negotiation are among the most expensive, it will likely be some time before the impact of these negotiations is seen. Even if the negotiated prices do not result in large savings for the federal government and taxpayers, Medicare beneficiaries may still experience some savings. The ultimate savings will likely depend on how successfully the federal government negotiates prices.

Contact us for more health care resources.