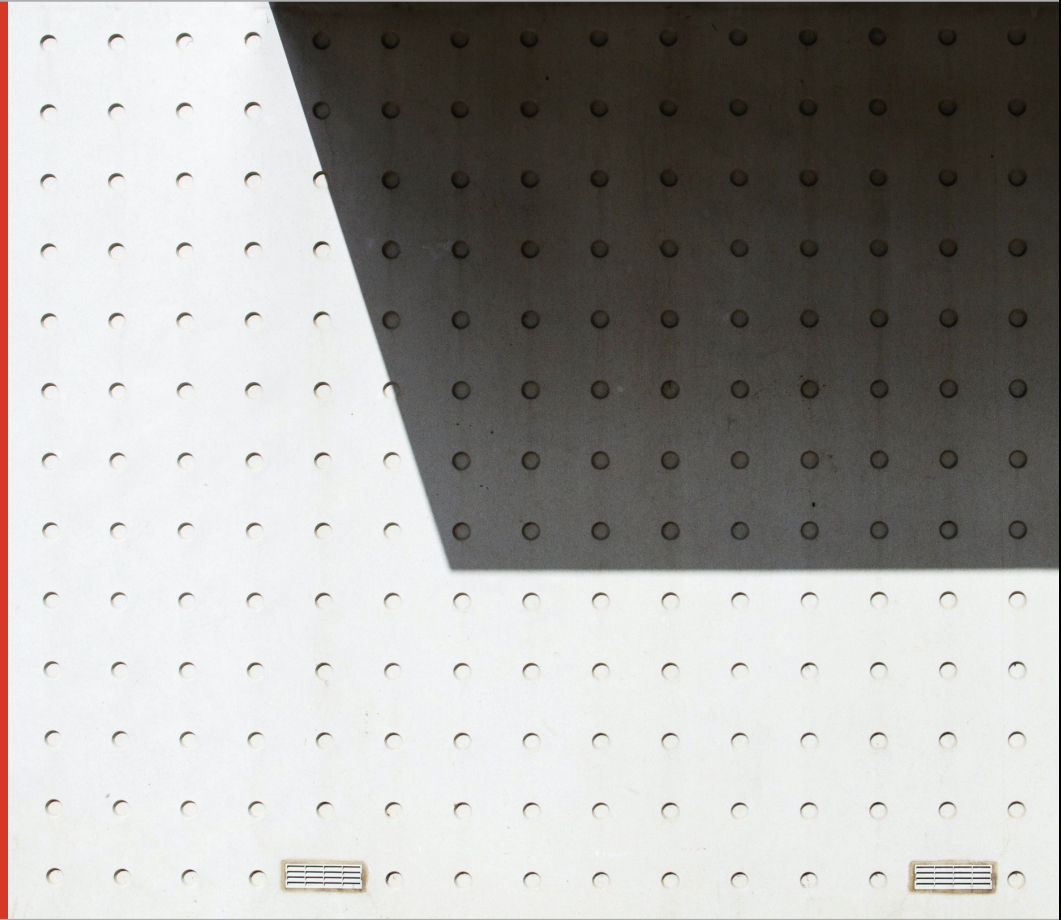


The Inflation Reduction Act: How it will affect drug prices and what it means for pharmacies

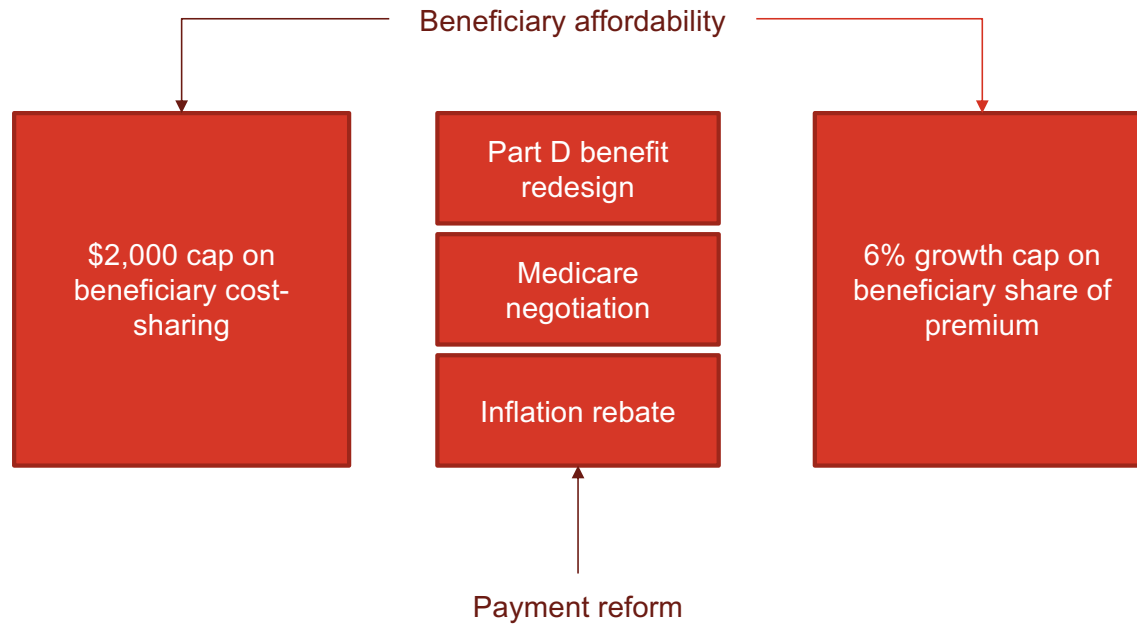
ATI Advisory



Agenda

- ***Key components of IRA reforms***
- Drivers of policy change
- Solutions: Payment reforms
- Implications for LTC pharmacy

The IRA includes 5 provisions that work together in a larger framework of changes



How do these changes work together?

Agenda

- Key components of IRA reforms
- ***Drivers of policy change***
- Solutions: Payment reforms
- Implications for LTC pharmacy

Poor affordability, especially for Seniors, created pressure to cap out-of-pocket costs

New Study Predicts More Than 1.1 Million Deaths Among Medicare Recipients Due to the Inability to Afford Their Medications

Beneficiaries skipping medications is causing early death and worsening medical conditions that will cost Medicare an extra \$177.4 billion over the next 10 years

WASHINGTON, DC and SAN DIEGO, CA – Nov. 19, 2020 – More than 1.1 million Medicare patients could die afford to pay for their prescription medications, according to a new study released today by the West Health policy research group.

Millions of Older Americans Can't Afford Their Prescriptions

New report finds Blacks, Latinos more likely to have problems paying for medications

by Dena Bunis, AARP, January 19, 2022

RESEARCH ARTICLE | PHARMACEUTICALS & MEDICAL TECH

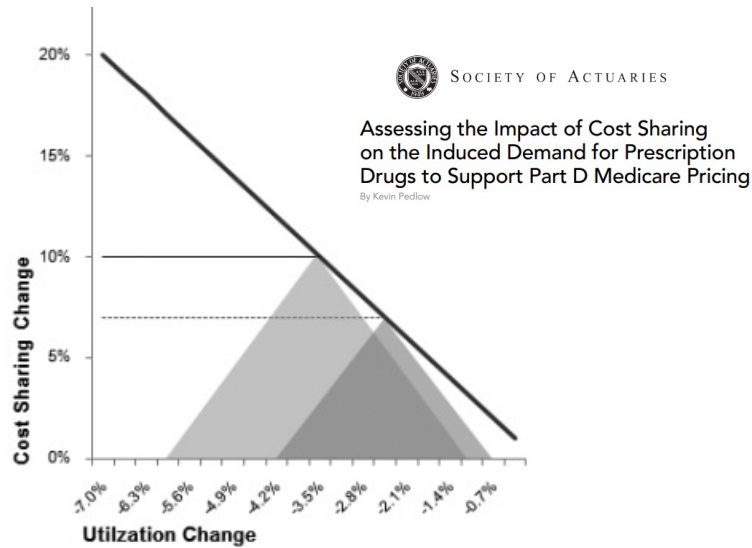
[HEALTH AFFAIRS](#) > [VOL. 41, NO. 4](#): ACCESS TO CARE, HOSPITALS & MORE

Many Medicare Beneficiaries Do Not Fill High-Price Specialty Drug Prescriptions

[Stacie B. Dusetzina](#), [Haiden A. Huskamp](#), [Russell L. Rothman](#), [Laura C. Pinheiro](#), [Andrew W. Roberts](#), [Nilay D. Shah](#), [Theresa L. Walunas](#), [William A. Wood](#), [Autumn D. Zuckerman](#), ... [See all authors](#) ▾

But a beneficiary cap on its own would add fuel to growing spending

New induced demand **x** **Existing price distortions = Spending ↑**



Part D Plan Preference for Higher-Cost Hepatitis C Drugs Led to Higher Medicare and Beneficiary Spending



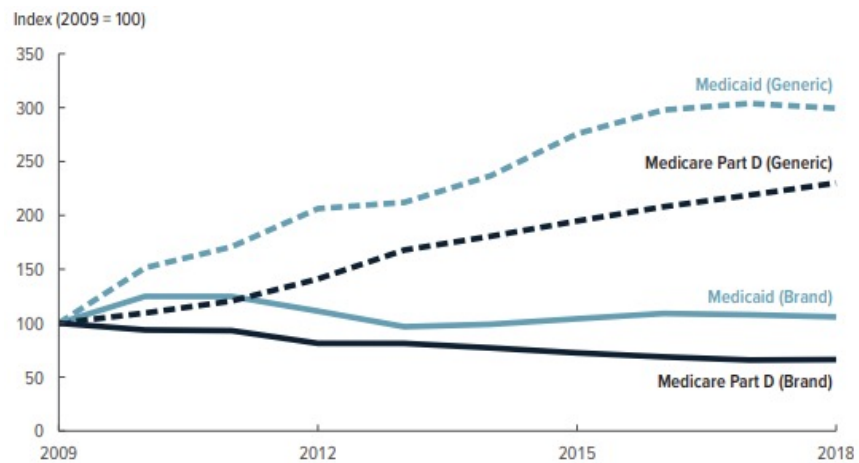
Chapter 13: The Medicare prescription drug program (Part D): Status report (March 2022 Report)

Brand discounts in the coverage gap distort relative prices

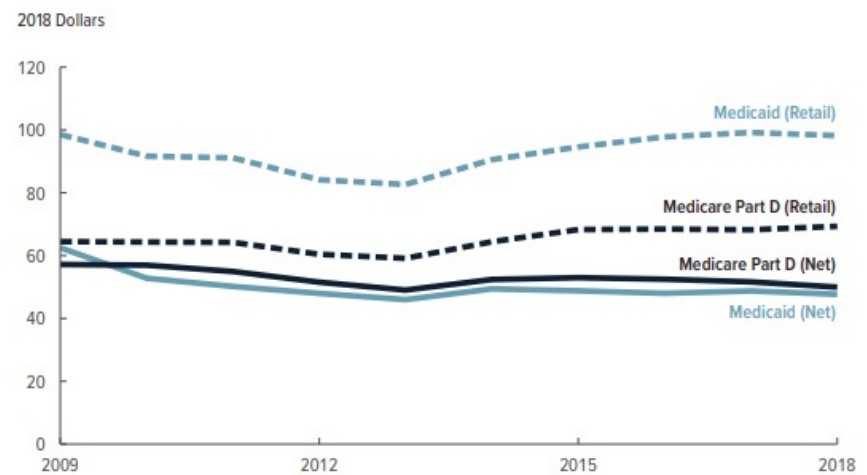
Reduced plan liability undermines plans' formulary incentives

And price growth among branded drugs has been enough to offset savings from generics

Changes in the Number of Brand-Name and Generic Prescription Drugs Dispensed Through Medicare Part D and Medicaid

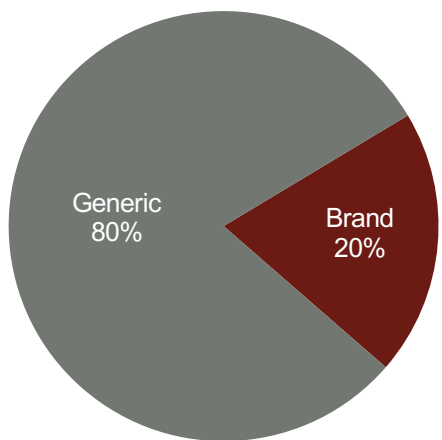


Average Price of a Prescription Drug Obtained Through Medicare Part D and Medicaid

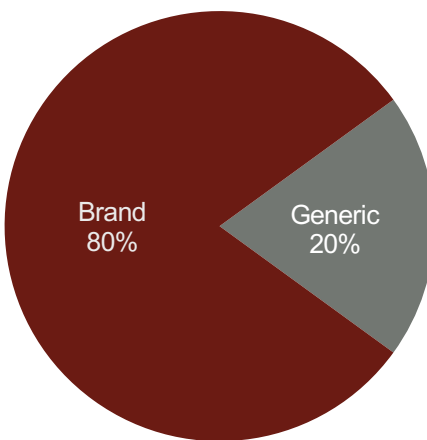


Price distortions are highly concentrated among a subset of specialty drugs

US share of prescription volume



US share of prescription spending



In Part D, 250 highest-spending drugs (7% of all covered drugs) = 60% of net total Part D spending

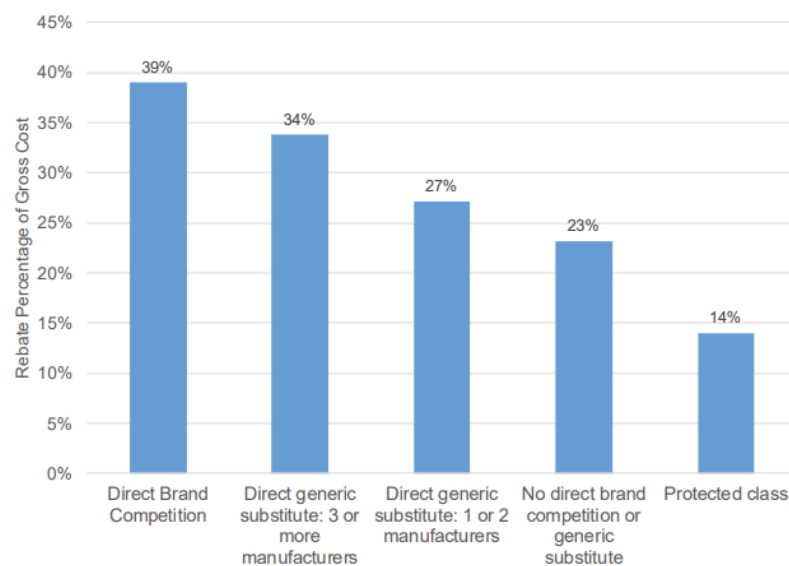
In Part B, 50 highest-spending drugs (8.5% of all covered drugs) = 80% of total Part B drug spending

One driver of price growth is competition on rebates, not list price

The Association Between Drug Rebates and List Prices

February 11, 2020 | By Neeraj Sood, PhD, Rocio Ribero, PhD, Martha Ryan and Karen Van Nuys, PhD

- Drug rebates and list prices are positively correlated: On average, a \$1 increase in rebates is associated with a \$1.17 increase in list price.
- The relationship between rebates and list prices persists when controlling for time trends by drug class, and when excluding drugs with high Medicaid share.
- Single-source drugs have higher average list prices and rebates than multi-source drugs, and show a stronger relationship between changes in rebates and list prices.
- Rebates play a role in increasing drug prices, and reducing or eliminating rebates could result in lower list prices and reduced out-of-pocket expenditures for some patients.

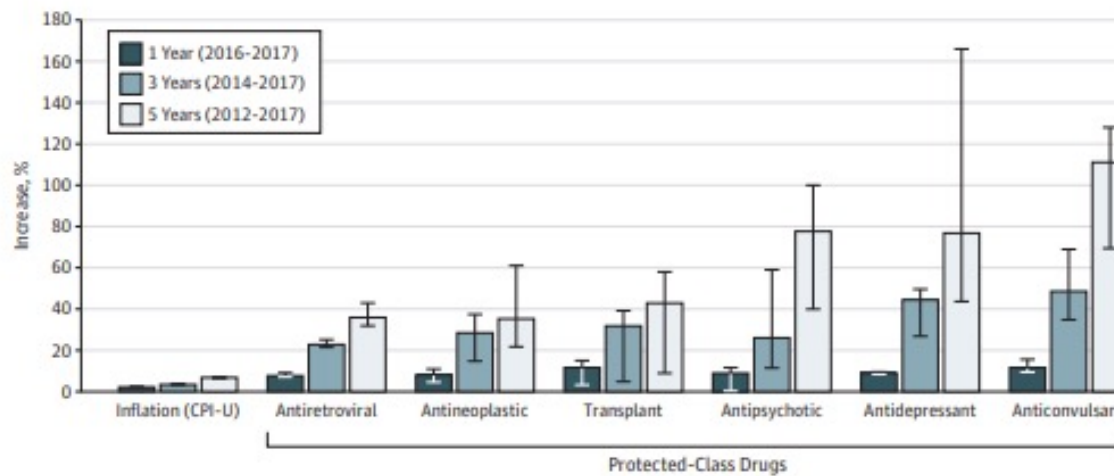


Another driver is monopoly power

Price Increases of Protected-Class Drugs in Medicare Part D, Relative to Inflation, 2012-2017

Thomas J. Hwang, AB¹, Stacie B. Dusetzina, PhD², Josh Feng, PhD³, et al

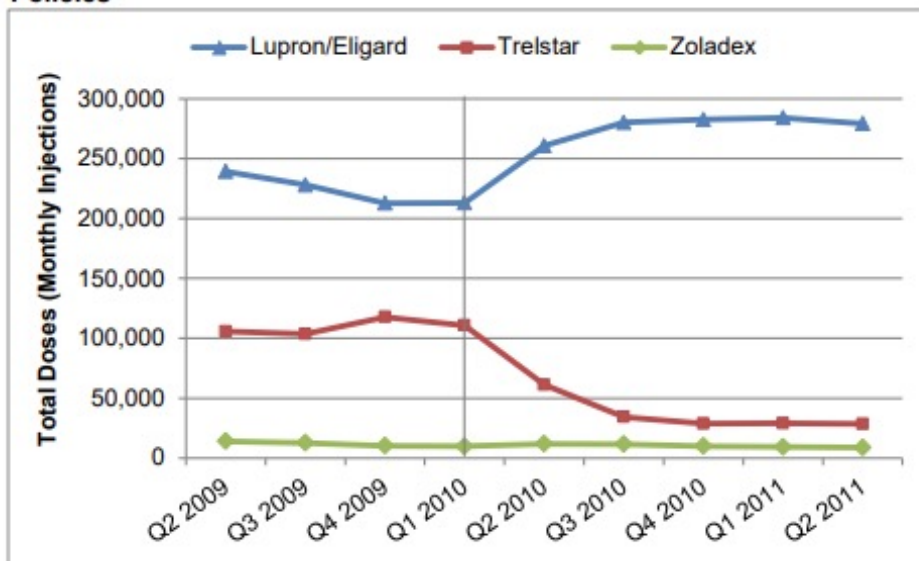
Figure. Median List Price Increases of Protected-Class Drugs in Medicare Part D, Relative to Inflation, 2012-2017



Median cumulative increase in prerebate (list) drug prices for Medicare is compared with inflation (based on the Consumer Price Index for All Urban Consumers [CPI-U]). Error bars indicate interquartile ranges. Transplant refers to immunosuppressants for transplant patients.

Meanwhile, in Part B... tying provider compensation to prices incentivizes higher prices

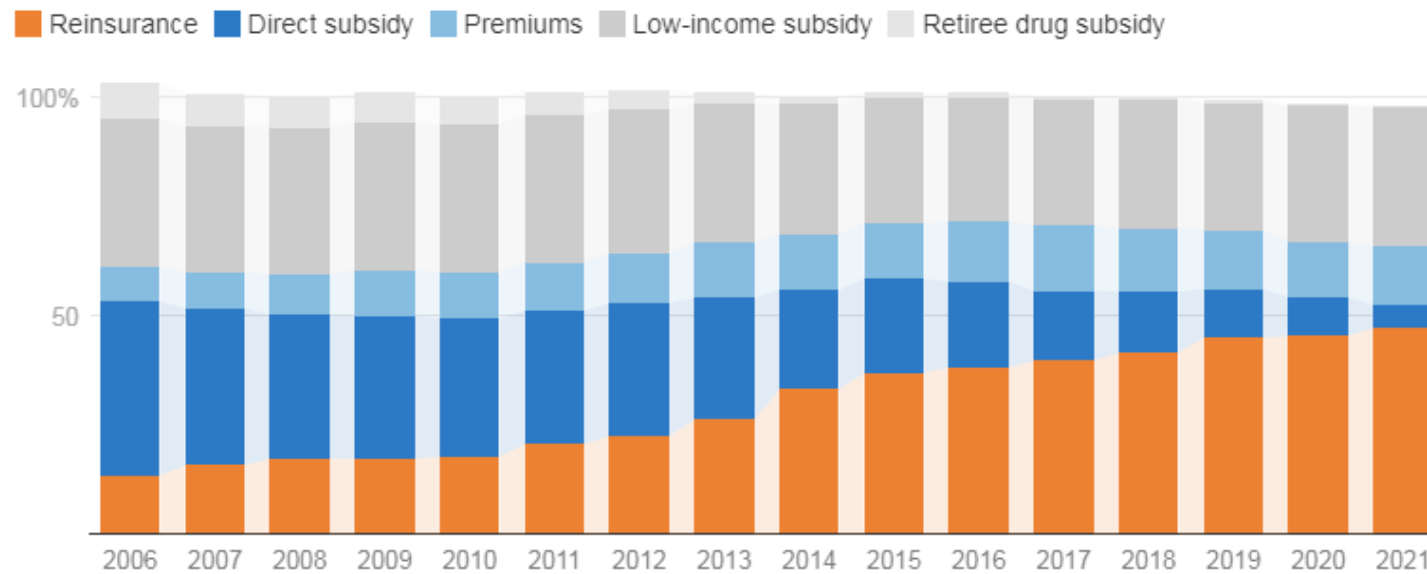
Figure 1: Utilization of Monthly Injections Before and After Removal of LCA Policies



OIG analysis of spending in Part B:

After Least Costly Alternative (LCA) policy was rescinded, use of high-priced prostate cancer drugs increased dramatically

And in Part D, liability for high drug spending is shifted away from plans and towards federal government



SOURCE: KFF analysis of data from the 2016-2022 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, Table IV.B10. • PNG



Agenda

- Key components of IRA reforms
- Drivers of policy change
- ***Solutions: Payment reforms***
- Implications for LTC pharmacy

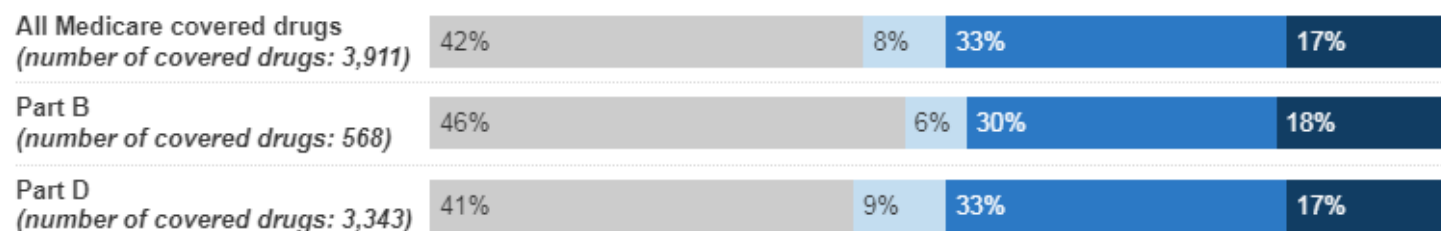
The monopoly problem is addressed through negotiation

- **Aggregates negotiating power for ~50 million covered lives, previously fragmented across plans**
- **Adds credible negotiating leverage**
 - 95% excise tax
 - Condition of participation
- **Selection is based on**
 - Number of years on the market (7 for small molecules, 11 for biologics)
 - Medicare gross spending
 - No generic or biosimilar
- **Price ceilings are informed by generic/biosimilar competition**
 - 9-12 years on market: 75% of NFAMP
 - 13-16 years: 65% of NFAMP (phased in)
 - >16 years: 40% of NFAMP
- **MFP must be provided to all participants in supply chain, and**
 - Not be duplicated with 340B discounts
 - Not be included in AMP
 - Be included in Best Price

Half of All Drugs Covered by Medicare Had Price Increases Between 2019 and 2020 Above the Rate of Inflation (1.0%)

Price change, 2019-2020:

■ Reduction ■ Increase below inflation ■ Increase between inflation and 7.5% ■ Increase \geq 7.5%

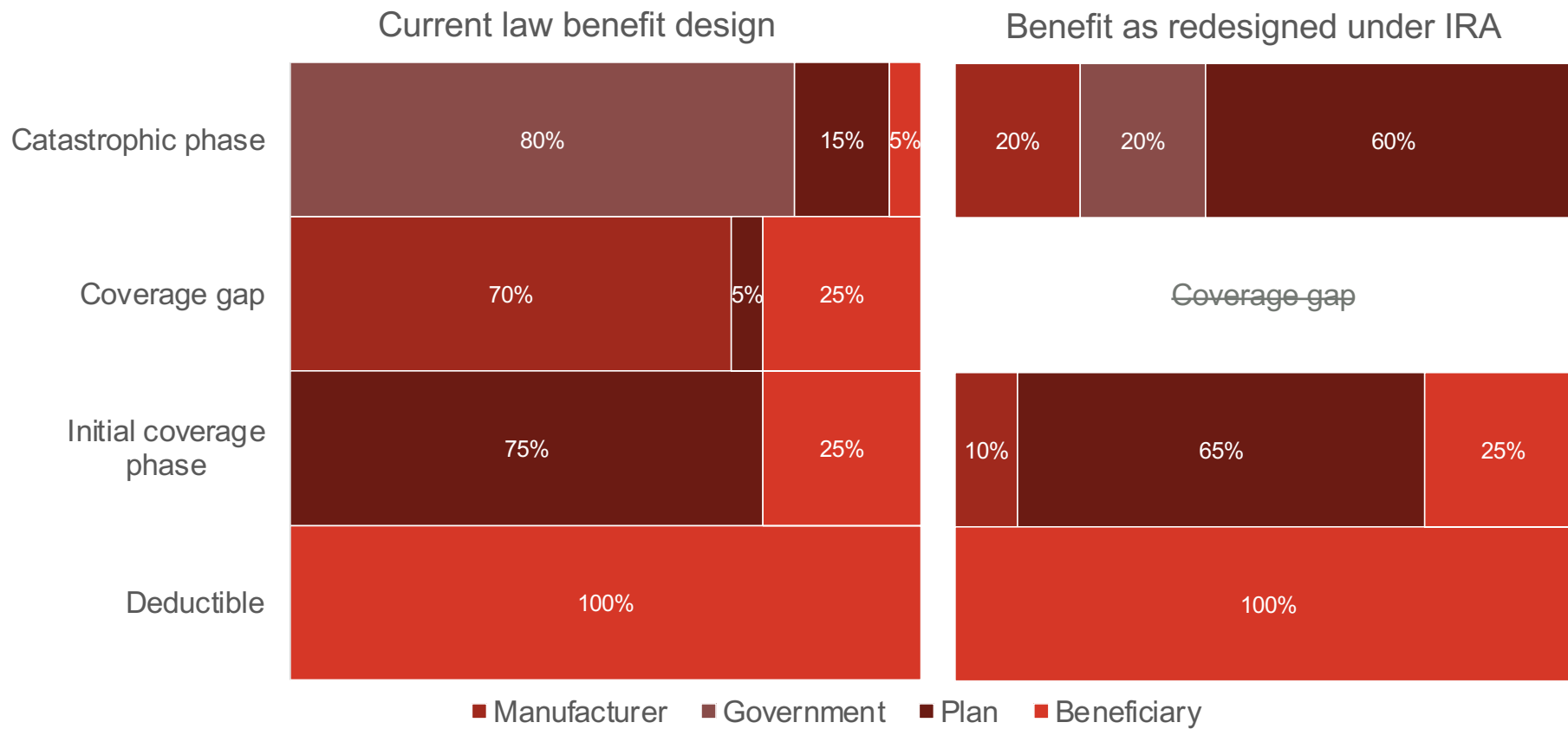


NOTE: Includes all drug products listed in the CMS Medicare drug spending datasets for Part D and Part B in both 2019 and 2020. Prices are based on average spending per dosage unit and do not account for rebates (in Part D). 2019-2020 price changes compared to the increase in the CPI-U between July 2019-July 2020.

SOURCE: KFF analysis of CMS Medicare Drug Spending Datasets and Bureau of Labor Statistics data • [PNG](#)



Finally, the IRA re-allocates liability in Part D to begin addressing distorted competition



Agenda

- Key components of IRA reforms
- Drivers of policy change
- Solutions: Payment reforms
- ***Implications for LTC pharmacy***

Together, these reforms will save the Medicare program and its beneficiaries a lot of money

→ Savings from

- Negotiation: \$99 B
- Inflation Rebates (Parts B & D): \$62B

→ Spending on

- Part D redesign: \$25B
- Part D OOP cap: \$0.125B

They can also be expected to alter drug pricing dynamics in ways that impact pharmacies

- MFP is pulled through supply chain → basis for net price concessions drops
- Manufacturers will change their pricing strategies
 - Price growth will slow for many older drugs
 - Inflation rebates (and 2024 obsolescence of AMP cap) → limit list price growth
 - Launch prices will go up for new drugs
 - Pharma companies will seek to replace revenue from old drugs by developing new ones
 - Manufacturers anticipate negotiation and inflation rebates → launch prices increase
- Demand for certain types of drugs may change as well
 - Part D plans will be more sensitive to high list prices because they face greater liability in catastrophic phase
 - Absent reforms in Part B, providers will most likely prefer higher priced new drugs over those with MFP
- Revenue for LTC pharmacy stakeholders may also be affected
 - Medicaid rebates will decline
 - 340B covered entities may see a drop in program discounts

Thank you

anna@atiadvisory.com