

How the Inflation Reduction Act Impacts Retirees

The Inflation Reduction Act will provide much needed prescription drug price relief for seniors.

By Rodney Brooks
Edited by Emily Brandon
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Capping out-of-pocket costs is likely to be beneficial to Medicare Part D beneficiaries who take high-priced drugs for conditions such as cancer or multiple sclerosis. (GETTY IMAGES)

The Inflation Reduction Act of 2022 provides many benefits for retirees and older Americans. If the legislation does slow inflation, it could be a huge benefit to low-income seniors and those living on fixed incomes. The bill will also help tackle skyrocketing health care [costs for seniors](#). However, many significant provisions don't go into affect for several years.

The Inflation Reduction Act of 2022 will:

- Enable Medicare to negotiate the price it pays for prescription drugs.
- Caps the cost Medicare enrollees pay for out-of-pocket drug expenses at \$2,000.
- Dramatically reduces the copay Medicare recipients pay for insulin.
- Provides no cost vaccines to Medicare Part D beneficiaries.

Negotiated Prescription Drug Prices

The [Medicare program](#) will soon be able to negotiate lower prescription drug prices for seniors on select medications. “Under the current law, the Medicare program is banned from negotiating drug prices. You have to pay the market price,” says Dick Pfister, CEO of AlphaCore Wealth Advisory in La Jolla, California. “But with the new law, they actually have to negotiate, and they think that will cause the prices of drugs to drop across the market.”

However, the negotiated prices will be phased in over time. [Medicare](#) can negotiate what it pays for 10 of the most expensive drugs in 2026, 15 in 2027 and 20 in 2029. “If you're on a cancer drug or multiple sclerosis, those drugs have gotten very expensive, even something more common like arthritis,” says Craig Ferrantino, founder of Craig James Financial in Melville, New York. “Some of those (prescription drugs) have put some severe cost pressures on the (Medicare) Part D program, and so now the government is going to get in there and negotiate the prices.”

A \$2,000 Limit on Medicare Out-of-Pocket Drug Expenses

Rising health care and prescription drug costs can be especially hard on retirees who are living on a fixed income. The new law limits the amount retirees will need to [pay out-of-pocket](#) for prescription drugs. “Prescription drug spending will be capped at \$2,000 a year for Medicare beneficiaries,” Pfister says. “Eventually that will be a good thing, but it's going to be another three years before that goes into affect.” The new provision limiting out-of-pocket prescription drug costs will start in 2025.

Capping out-of-pocket costs is likely to be especially beneficial to Medicare Part D beneficiaries who take high-priced drugs for conditions such as cancer or multiple sclerosis. The Kaiser Family Foundation estimates that 1.4 million Medicare Part D enrollees spent over \$2,000 out-of-pocket on prescription drugs in 2020.

An Insulin Price Cut for Medicare Recipients

Diabetes patients sometimes pay exorbitant prices for prescription drugs. “Diabetes is one of the most pervasive, deadly and expensive diseases in the United States,” according to the RAND Review. “More than 30 million people have it, and nearly a quarter of them use insulin to manage their symptoms and prevent life-threatening complications.”

The cost of diabetes medications have skyrocketed in recent years. Insulin costs an average of \$98.70 per vial in the U.S., compared to \$12 in Canada, RAND found. The Inflation Reduction Act caps the price [Medicare recipients](#) pay for insulin to \$35 a month.

No Cost Vaccines

Medicare will be required to provide any vaccine recommended by the CDC’s Advisory Committee on Immunization Practices at no cost to the beneficiary. This will make a wide range of vaccines available free to retirees, including the shingles vaccine and the annual flu shot.

Several other provisions of the new law may provide [cost savings to some retirees](#). There are incentives to buy energy-saving appliances and electric cars and an extension of health insurance subsidies for those who benefit from the Affordable Care Act.