

Major Changes Coming for Medicare Drug Program: Negotiated Prices, Cap on Out of Pocket and Creditable Coverage

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Some major changes are on the way for Medicare beneficiaries regarding drug costs. Due to the Inflation Reduction Act, the federal government now will have the ability to negotiate the prices of drugs for Medicare beneficiaries. After an initial set of negotiations, new lower prices have been announced for 10 expensive drugs. The discounts for some blood thinners and drugs for arthritis, cancer, diabetes, and heart failure result in costs as much as 79% lower. The new drug prices will go into effect starting in 2026. Just these 10 drugs make up about 20% of the program's drug spending, so the impact is huge for the medicinal market. The federal government will turn to negotiating another batch of drugs in 2025, with 15-20 drugs targeted annually.

Another major change under the Inflation Reduction Act will be the out-of-pocket maximum under all Medicare Part D plans of \$2,000 per year beginning January 2025. Beneficiaries will be able to prorate the cost monthly or pay it as the costs are incurred. This will be a game changer for many Medicare beneficiaries with high drug costs. In addition, certain drugs covered by Part B (typically those administered in a doctor's office or hospital) might incur a co-pay of less than the standard 20% if the prices have increased faster than inflation. The drugs subject to reduced copays will be published quarterly.

These changes may have an unintended consequence for Medicare-eligible individuals who are still working and therefore enrolled in employer plans, or other individuals enrolled in retiree or other private plans. Those who are Medicare eligible but are enrolled in non-Medicare plans must show that they have "creditable" coverage under Medicare standards. A plan is "creditable" if coverage is at least as good as or better than the Medicare drug benefit. Creditable coverage is based on a test that measures whether the expected amount of paid claims is at least as much as the standard Part D benefit. Non-Medicare plans must advise enrollees if their coverage is considered "creditable." It is crucial for coverage to be considered "creditable;" otherwise, the Medicare beneficiary can be subject to a Late Enrollment Penalty (LEP) for each month they are not enrolled in a plan providing creditable coverage.

It is unclear whether the \$2,000 cap coming to Part D plans or other changes in drug coverage will mean that non-Medicare plans that do not match the changes will continue to be considered creditable in the future. Beneficiaries need to be aware of this important issue when considering their

coverage options.

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