

Medicare Prescription Drug Costs: Early Evidence and Policy Considerations

New analysis from Pioneer Institute using 2025 data shows early effects on beneficiary costs are mixed and vary based on plan design and market responses.

The Inflation Reduction Act (IRA), enacted in 2022, introduced significant reforms to Medicare Part D aimed at improving prescription drug affordability. Key provisions include a **\$2,000 annual cap** on out-of-pocket (OOP) costs and a framework for government-set drug prices beginning in 2026–2027.

\$2,000

Annual cap on Medicare Part D out-of-pocket costs

\$463

Average annual OOP spending per beneficiary (2021 baseline, non-LIS)

24

Drugs analyzed — OOP costs increased for 14, decreased for 10

KEY FINDINGS

- Average out-of-pocket costs **increased** for many drugs
- More Medicare beneficiaries filling prescriptions **at no cost**
- Most beneficiaries do **not** reach the \$2,000 annual cap
- Patient costs vary significantly based on **plan design**, formulary structure, and PBM practices

WHAT CHANGED UNDER THE IRA

- **\$2,000 annual cap** on Medicare Part D out-of-pocket costs
- **No cost-sharing** for recommended vaccines under Medicare Part D
- Redesign of the **Medicare Part D benefit structure**
- Inflation penalties on drug price increases
- Medicare drug price negotiation for selected medicines (**effective 2026–2027**)

⚠ For 10 of the 24 drugs analyzed, Maximum Fair Prices (MFP) took effect **January 1, 2026**. Current cost trends reflect market and plan responses ahead of full implementation.

DRUGS INCLUDED IN THIS ANALYSIS

The following is a highlight of the 24 drugs analyzed. OOP costs increased for 14 of 24 and decreased for 10 of 24 in 2025.

↑ INCREASED OOP COSTS

Elquis	Stroke prevention / blood clots
Jardiance	Diabetes and heart failure
Farxiga	Diabetes and heart failure
Trelegy	COPD and asthma
Enbrel	Autoimmune diseases
Semaglutide products	Diabetes and weight management

↓ DECREASED OOP COSTS

Entresto	Heart failure (generic entry)
Stelara	Autoimmune (biosimilar competition)
Ibrance	Breast cancer
Januvia	Diabetes (price reduction)
Imbruvica	Blood cancers
Xtandi	Prostate cancer

Note: Insulin OOP costs are separately capped under federal law and were excluded from this analysis.

WHY COSTS MAY BE CHANGING

Beneficiary OOP costs are influenced by multiple policy and market factors:

- Medicare Part D **plan design** and benefit structure
- Drug tier placement and **formulary decisions**
- **PBM incentives** and contracting practices
- Availability of **generics or biosimilars**
- Shifts in financial liability across plans and intermediaries

Emerging evidence suggests changes in incentives across the drug supply chain — particularly among PBMs and plan sponsors — are influencing patient cost exposure.

POLICY CONSIDERATIONS

- **Uneven affordability:** Some benefit from \$0 prescriptions; others face higher average costs
- **Limited reach of OOP cap:** Most beneficiaries historically spend well below \$2,000 annually
- **Role of intermediaries:** PBMs and plan sponsors may offset intended savings
- **Plan variation:** Significant OOP cost differences across PBMs highlight the importance of plan-level decisions
- **Market dynamics:** Reductions in OOP costs are often associated with generic entry, biosimilars, or manufacturer price reductions
- **Innovation:** CBO has projected IRA provisions may affect incentives for developing new medicines

CONCLUSION

The IRA is reshaping Medicare prescription drug coverage, but early evidence indicates its impact on patient affordability is **complex and uneven**.

As additional provisions take effect in 2026–2027, ongoing oversight will be essential to ensure that policy goals related to affordability, access, and innovation are achieved.

For additional analysis, visit www.pioneerinstitute.org