

Here's how the inflation reduction act will lower the cost of health care

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President Joe Biden on Tuesday signed the [Inflation Reduction Act](#) into

law, making it the most significant health care legislation enacted in more than a decade.

How will it affect health care?

Millions of Americans covered by Medicare will see big reductions in costs for both health care and [prescription drugs](#). And those covered by the last major [health care](#) legislation, the [Affordable Care Act](#) (ACA), will also enjoy financial savings.

For those on Medicare, the many improvements include a cap that limits out-of-pocket drug costs at \$2,000 per year, the government's new ability to negotiate some prescription drug prices, and limits on the monthly cost of [insulin](#).

For the roughly 13 million people who have insurance under the ACA, the new law extends subsidies through 2025.

Stacie Dusetzina, a health policy professor at Vanderbilt University Medical Center, told *NBC News* that the changes are "significant," especially for people needing expensive medications.

While the U.S. government was previously prohibited from negotiating prices with drugmakers, it now will be able to do so for Medicare patients, in a process that will be phased in over several years. Under the new plan, the U.S. Health and Human Services Secretary will propose the government's price offer for certain drugs, Tricia Neuman, [senior vice president](#) with the Kaiser Family Foundation, told *NBC News*.

That will begin in 2026 with 10 drugs, a list of which will be available in 2023. An additional 15 drugs will be added in 2027 and 20 more in 2029 and beyond, the law states. This will be allowed for drugs covered under Medicare Part D that do not have a generic or comparable alternative.

Drugs under Medicare Part B will eventually be included.

Drugmakers who don't comply could face tax penalties unless they choose to withdraw the medication from the Medicare program.

Under the new law, [diabetes patients](#) on Medicare will also benefit from a specific drug cap. Insulin prices will be limited to \$35 a month, starting next year. This is considered significant because controlling [diabetes](#) adequately can require multiple vials of insulin—currently at great expense.

Medicare will still be able to choose what insulin products it covers and may not cover each insulin product, Neuman noted.

About 14% of Americans who use insulin face "catastrophic" spending on insulin, costing 40% of the income they have left after paying for housing and food, a [study](#) published recently in the journal *Health Affairs* found.

Starting in 2025, Medicare patients will benefit from a \$2,000 cap on out-of-pocket spending for prescription drugs, which Dusetzina called the most significant portion of the law.

About 1.4 million Medicare patients had out-of-pocket costs that exceeded \$2,000 in 2020, according to [Kaiser Family Foundation](#).

That \$2,000 benchmark is much lower than the \$7,000 limit to qualify for "catastrophic coverage" under previous arrangements, according to [Medicare](#). Patients who had reached that catastrophic coverage level would pay either a set copayment of typically \$10 to \$20 per prescription or a co-insurance percentage of 5% of the [drug](#) cost.

The new law eliminates that 5% co-insurance in 2024.

The out-of-pocket spending limit will apply to everyone on Medicare, without differences based on income, Juliette Cubanski, a Medicare expert with Kaiser Family Foundation told *NBC News*.

Dusetzina said patients with cancer or multiple sclerosis currently can spend tens of thousands of dollars a year on their medications. Most patients don't qualify for existing low-income subsidies.

Seniors on Medicare will also no longer have a co-pay for adult vaccinations starting next year. Drugmakers will also pay a rebate to Medicare starting in 2024 if their prices outpace inflation.

More information: The Congressional Budget Office has more on [costs of prescription drugs](#) in the United States.

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