

# 5 ways the Inflation Reduction Act could change life for retirees

By [Nathan Place](#)

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President Biden has signed the Inflation Reduction Act, which will allow Medicare to negotiate drug prices. Pexels/Paula Nardini

The Inflation Reduction Act, which President Biden signed on August 16, is a complex law that mainly addresses two issues: climate change and Medicare. The Medicare part has received less press coverage, but experts say it could change the lives of American retirees — in some cases by saving them thousands of dollars a month.

"To make it so that they don't face potentially catastrophic amounts of money coming out of a very limited budget — that's going to be world-changing for them," said Matthew Rutledge, a research fellow at the Center for Retirement Research at Boston College.

However much they've saved for their retirement, American seniors spend an enormous amount of money on healthcare. According to one [recent study](#) that Rutledge co-authored, a typical retiree spends about 25% of their Social Security on medical expenses, including Medicare

premiums and out-of-pocket costs for prescription drugs. And that's at the median of the study's sample; the top-spending 5% use up the entire benefit.

"The cancer of unaffordable drug prices is responsible for financial distress, worsening [people's] health and even killing the older Americans who don't have enough resources to pay the price of their prescription drugs today," said Mary Johnson, a Social Security and Medicare policy analyst at the [Senior Citizens League](#).

The Inflation Reduction Act aims to get those costs under control. Here's how the new law could affect retirees:

## Negotiating drug prices



For the first time in history, Medicare will have the power to negotiate drug prices — but not all of them. The Inflation Reduction Act will allow haggling over a limited number of highly expensive medicines, and then expand that number over time. For example, negotiations will begin for 10 drugs covered by Medicare Part D in 2026, then 15 in 2027 and then 20 in 2029. Some Part B drugs will eventually be included as well.

This could lead to big savings for the program — \$101.8 billion, by the [Congressional Budget Office](#)'s estimate — which could trickle down to retirees in the form of lower Medicare premiums.

"It's not just individuals' budgets that need that cost certainty. It's also the government," Rutledge said. "Getting some cost certainty on the government side is also going to be good for making sure premium growth is moderate and affordable."

## \$2,000 cap



Another part of the law could bring savings more directly to seniors: a \$2,000 cap on how much Medicare recipients spend out of pocket on drugs per year. Johnson called this measure "revolutionary."

"Right now there is no cap on what people can spend," Johnson said. "This cap is going to provide a real sense of security and a considerable amount of savings as well."

For seniors with the biggest medical bills — for example, those dependent on expensive cancer drugs — this could lead to thousands of dollars a year in savings. Such patients make up only a small percentage of Medicare's enrollees, but their numbers are not small. The [Kaiser Family Foundation](#) estimates that 1.4 million people spend more than \$2,000 out of pocket per year on medicine. For them, the spending cap could be life-changing.

"For most people, it's probably not going to have a huge effect," Rutledge said. "But for those people who are big spenders, it could potentially be a really big help."

## Insulin price limit



For Americans, the price of insulin has been skyrocketing in recent years. According to the [Mayo Clinic](#), the most common forms of insulin now cost 10 times more in the U.S. than in other developed countries. Since the risk of diabetes increases with age, retirees are particularly vulnerable to these exploding costs.

"When you have a chronic condition that requires a regular dose of insulin, that is pretty predictable and budgetable, but hard to fit in your budget if that price just keeps soaring," Rutledge said.

The Inflation Reduction Act takes direct aim at this problem. Under one of its measures, Medicare users will only pay a maximum of \$35 per month out of pocket for insulin.

"That was a huge relief," Johnson said. "There's nothing that feels more helpless than getting emails from people — 'Help, I was just told that my insulin is going to cost me \$1,800... I have no way to pay for it.'"

## Free vaccines



Aside from flu and COVID-19 shots, most vaccines in the U.S. are not free. In fact, some can cost hundreds of dollars.

"If you get told you need a shingles vaccine, you may be out of pocket for \$200 or more," Johnson said. "There are vaccines that we might need that can be very expensive."

Under the Inflation Reduction Act, all vaccines will be fully covered under Medicare Part D, and Medicaid and the Children's Health Insurance Program will also cover more adult vaccinations. This could cut costs for a large number of seniors. According to the Kaiser Family Foundation, 4.1 million Medicare enrollees received vaccines in 2020, most of which were for shingles.

## Peace of mind



Dustin Franz/Bloomberg

One of the biggest ways the law could benefit retirees, Rutledge said, is by reducing their anxiety about money. By containing the rise of drug prices within predictable limits, the Medicare reforms could allow seniors to more easily plan their budgets, leaving them both financially and emotionally more secure.

"Retirement is a hard time of life," he said. "It's scary for a lot of people because you have lots of really complicated decisions [to make].... Taking away some of that anxiety and limiting how expensive things can get is the biggest part of this deal."

Even now that the law has been signed, many of its provisions won't take effect for years. The \$2,000 spending cap, for example, will begin in 2025, and Medicare's drug price negotiations will unfold over several years, starting in 2026. But for many seniors struggling with high healthcare costs, Johnson said, the Inflation Reduction Act could put hope on the horizon.

"The number of people impacted will be relatively small at first," she said. "But what it does is give people, who maybe don't have high drug costs right now, far better protection to fall back on in years to come. It provides much stronger coverage for us — for everyone."

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