

Inflation has been escalating at a rapid pace in recent years. Retirees living on fixed incomes are impacted in different ways than working-age Americans, particularly when it comes to medical expenses significantly increasing. Prescription drugs, medical supplies, and medical devices have also been impacted by supply chain bottlenecks exacerbated by the pandemic and strained trade relations.

The federal government sets the baseline rates for Medicare Parts A, B, and D premiums, deductibles, and coinsurance. Private insurers set the prices for these items with Medicare Part C, Medicare Advantage. Inflation impacts both the public and private sectors, but Medicare beneficiaries are primarily affected by changes in Part B premiums.

External economic circumstances will always be a fact of life, but here's how current legislation will affect Medicare premiums and related expenses in 2023.

What is the Inflation Reduction Act (IRA)?

The Inflation Reduction Act of 2022 (IRA) is a landmark federal law that aims to reduce the federal deficit to rein in inflation. One of the main objectives of this goal is to reduce prescription drug prices by expanding Medicare benefits and putting more pressure on drug manufacturers.

[Key provisions of the IRA that affect Medicare include:](#)

- Immediately capped insulin prescription costs to \$35 per month, even if Part D deductible has not been met
- Annual caps (\$2,000 in 2025) on out-of-pocket prescription drug costs if they are covered under Medicare
- Expansion of the Extra Help prescription drug program for low-income beneficiaries, eligibility will be based on 150% of the federal poverty level as of 2024
- Part D premiums cannot increase by more than 6% per year
- Starting in 2026, Medicare can directly negotiate with drug manufacturers to reduce the prices of certain high-cost drugs
- Drug manufacturers must pay Medicare a rebate if they raise prices faster than inflation rates

How Does Inflation Affect Medicare Deductibles?

While a vast majority of Medicare beneficiaries do not pay a Part A premium, Part B premiums are affected by inflation as well as internal forces. This includes the Part B reserves in the Supplementary Medical Insurance Trust Fund and extraordinary events like the contingency margin for the Alzheimer's drug Aduhelm that was attached to 2022 premiums. [Medicare Part B premiums fell to \\$164.90 in 2023](#) after a large increase in 2022, and the annual deductible for Part B decreased by \$7 to \$226.

However, Medicare Part A deductibles and coinsurance have sharply increased because of runaway inflation. Part A deductibles increased by \$44 to \$1,600 for 2023. Coinsurance daily

rates for hospitalization and skilled nursing facility care have drastically increased, costing up to \$400 per day plus \$800 per day for lifetime reserve days.

Medicare experiences both demand-pull and cost-push inflation. With the younger end of the Boomer generation now approaching age 65, making for [1 in 6 US residents now being at least 65 years old](#), there is more demand for healthcare providers to accept Medicare. There is also higher demand for prescription drugs, medical devices, and durable medical equipment.

Cost-push inflation is also factoring in due to rising fuel prices, shortages of nurses and other skilled healthcare workers, and the cost of microchips and other inputs affecting device manufacturers.

Subsequently, these forces have led to Medicare premiums and deductibles rising while annual Social Security benefit COLA adjustments cannot keep pace with inflation.

How Does Prescription Drug Coverage Relate to Inflation?

Prescription drug pricing has long been subject to the whims of manufacturers, particularly if the drug is brand-name one and doesn't have any generic or biosimilar competition. By giving Medicare the power to negotiate drug prices, it can effectively lower them drastically because the federal government has far more purchasing power than individuals do on their own.

Additionally, because the IRA mandates that drug manufacturers pay rebates to Medicare if they increase drug prices used by Medicare beneficiaries faster than inflation, this doesn't create much incentive to raise prices.

[Because Medicare can only negotiate 10 Part D drugs in 2026](#), increasing to 15 in 2027 and more with each successive year (Part B drug negotiations are allowed starting in 2028), it has yet to be determined which drugs will now have massive cost savings. It depends on which drugs are chosen for negotiation based on the number of Medicare beneficiaries who use them.

META DESCRIPTION:

How does inflation impact Medicare premiums, deductibles, and prescription drugs? Learn how the Inflation Reduction Act can save money on your prescriptions.