

Many of the provisions in the Inflation Reduction Act may impact the cost of living for older Americans. Some of those changes include lower prescription costs and decreased Medicare premiums.

THE INFLATION REDUCTION ACT

Changes retirees and pre-retirees can expect in the coming years.

Overview

President Joe Biden signed the Inflation Reduction Act (IRA) into law on Aug. 16, 2022. While the primary focus of the act was reducing inflation and combating climate change, the \$750 billion bill also addressed other significant concerns for Americans, particularly concerning the cost of health care.¹

Retirees, and those approaching retirement age, are likely to be most affected by some of these changes. Among the most impactful portions of the act for retirees are expanded Medicare benefits, lowered health care costs and reduced energy bills.

Let's look at the headlining changes in the bill that are likely to have the most tangible changes for those in or approaching retirement.

Addressing Lower Health Care Costs

One of the most significant aspects of the bill includes changes intended to lower health and prescription drug costs for seniors. Currently, prescription drug prices in the U.S. average 2.56 times higher than those in 32 other countries.² For example, the average price for Liraglutide (a type-2 diabetic medication commonly marketed as Victoza) in the U.S. is \$766, compared to \$472 in other countries.³

The Inflation Reduction Act provides several solutions to help reduce the cost of medications for seniors, including:⁴

- Limiting the cost of prescription drugs for Medicare Part D beneficiaries to \$2,000 per year, starting in 2025.
- Restricting the cost of insulin to \$35 per month for Medicare beneficiaries
- Allowing Medicare to negotiate high-cost drugs and requiring drug manufacturers to pay a rebate when they raise prices faster than inflation
- Securing lower monthly premiums for health insurance through the Affordable Care Act



Reducing energy costs

Another primary focus of the bill addresses climate and energy issues. The bill creates incentives for businesses and homeowners to utilize energy-efficient tools like solar panels and energy-efficient water heaters and furnaces.

The U.S. has already made significant strides in energy efficiency over the past three decades. Between 1990 and 2020, the U.S. decreased greenhouse gas emissions by 7%. But there's a long way to go: Emissions of other gases from commercial, industrial and household uses increased by a whopping 90% in that same time frame.⁵

This new bill includes multiple financial incentives and programs designed to make energy efficiency more affordable. Some of the critical energy and climate policies in the bill include:⁶

- Up to 30% in tax credits when homeowners install energy-efficient systems using renewable energy like solar or wind
- Up to 30% in tax credits, capped at \$2,000, for the installation of new windows, doors, insulation and weatherization
- Tax credits for certain electric vehicles
- Direct rebates when consumers purchase energy-efficient heat pumps or other home appliances
- Funding for resources that make clean energy and improved air quality more accessible.

Final thoughts

The signed Inflation Reduction Act differs significantly from the bill first introduced to Congress. Some portions of the proposal — such as federal paid family and medical leave, funding for universal pre-K and subsidized childcare — were removed from the bill before moving forward.

However, many older Americans will have easier access to more affordable health care, particularly when obtaining necessary medications. Financially, retirees and future retirees can benefit by taking advantage of the cap limits on out-of-pocket prescription costs. Additionally, homeowners considering renovations can receive tax breaks if they choose energy-efficient options.

While the cap on pharmacy costs won't reach full fruition until 2025, older Americans may be able to start taking advantage of some expanded benefits next year. And although Medicare



changes may not be implemented in time for this year's open enrollment season, Medicare benefit recipients can most likely expect changes to their premiums and coverage in 2023.

Legislation such as the Inflation Reduction Act can directly impact your retirement plans, particularly through tax law changes and expansion (or contraction) of health care benefits. Your financial advisor can work with you to explore how the latest bill could affect you and help adjust your plan to make sure your retirement is still on track.

¹ Maegan Vazquez and Donald Judd. CNN. Aug. 16, 2022. "Biden signs Inflation Reduction Act into law." <https://www.cnn.com/2022/08/16/politics/biden-inflation-reduction-act-signing/index.html>. Accessed Aug. 19, 2022.

² Rand Corporation. Jan. 28, 2021. "Prescription Drug Prices in the United States Are 2.56 Times Those in Other Countries." <https://www.rand.org/news/press/2021/01/28.html>. Accessed Aug. 23, 2022.

³ Nisha Kurani, Dustin Cotliar and Cynthia Cox. Peterson-KFF Health System Tracker. Feb. 8, 2022. "How do prescription drug costs in the United States compare to other countries?" <https://www.healthsystemtracker.org/chart-collection/how-do-prescription-drug-costs-in-the-united-states-compare-to-other-countries/#Prices%20of%20select%20prescription%20drugs%20in%20the%20United%20States%20and%20for%20comparable%20countries,%202017>. Accessed Aug. 19, 2022.

⁴ Adam Hardy. Money. Aug. 16, 2022. "4 Ways the Inflation Reduction Act Will Save You Money." <https://money.com/inflation-reduction-act-save-you-money/>. Accessed Aug. 23, 2022.

⁵ Environmental Protection Agency. July 2022. "Climate Change Indicators: U.S. Greenhouse Gas Emissions." <https://www.epa.gov/climate-indicators/climate-change-indicators-us-greenhouse-gas-emissions>. Accessed Aug. 19, 2022.

⁶ Adam Hardy. Money. Aug. 16, 2022. "4 Ways the Inflation Reduction Act Will Save You Money." <https://money.com/inflation-reduction-act-save-you-money/>. Accessed Aug. 23, 2022.

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