The IRA’s First Real Scoreboard: Drug Pricing Enters Its Results Era and Insulin Enforcement Turns Into the Unexpected Referee

DEC 06, 2025

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Abstract

1. CMS reported roughly forty four percent net savings on fifteen high spend dru after the first cycle of Inflation Reduction Act price negotiations, amounting to a twelve billion dollars in expected federal savings.

2. The Federal Trade Commission moved forward with an action involving Caren and Zinc Health Services around insulin business practices, marking another ste broader pattern of enforcement against pharmacy benefit managers and the insu supply chain.

3. The Inflation Reduction Act’s maximum fair price process is finally producing actual numbers instead of theoretical debate, which lets us map real budget imp into formularies, low income subsidy programs, and plan bids for twenty twenty seven.

4. The same logic can be projected forward to future negotiation cycles, which g investors a sense of how specialty pharmacy margins and drug launch strategies shift under repeated price compression.

5. The insulin enforcement wave is acting like a secondary form of price regulati because it narrows the corridor in which pharmacy benefit manager rebate tacti operate, independent of the Inflation Reduction Act's official price caps.

6. Put together, these two developments show how federal pricing policy is evolv into an active control system rather than a symbolic lever, which makes it essent reading for anyone investing in health tech infrastructure, drug benefit optimiza pharmacy tooling, or alternative care delivery.

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Why this moment in drug pricing is different

Every few years Washington announces some sweeping drug pricing reform that sounds dramatic but mostly ends up as a bargaining chip in the next budget cycl Inflation Reduction Act originally looked like another one of these because the e conversation was almost entirely theoretical. There were charts about maximum prices, negotiation timelines, manufacturer fees, and all the usual rhetoric about balancing innovation with affordability. It was all very clean and bloodless and conceptually tidy in a way that made you suspect the real thing would end up endlessly delayed, watered down, or tied up in litigation.

But then CMS released the first actual numbers from the negotiation cycle. Not projections, not models, not political messaging. Actual negotiated price change fifteen drugs and an estimate of twelve billion dollars in federal savings that cou traced directly to those negotiations. That snapped everyone back into reality, be it showed the program was not only alive but capable of extracting meaningful concessions from manufacturers. For policymakers, that was validation. For plar pharmacy benefit managers, it was a warning shot. For investors, it was the first concrete feedback signal that future drug pricing scenarios are going to be shap a real, functioning negotiation process rather than a hypothetical one.

At the exact same moment, the Federal Trade Commission escalated an action involving Caremark and Zinc Health Services related to insulin distribution prac This sounds like a narrow case, but it plugs directly into the entire rebate driven insulin economy. Insulin pricing has been propped up for years by opaque rebat structures, accumulator adjustment programs, spread pricing, list price inflation a whole series of tactics that depend on having a wide corridor between the manufacturer list price and the net price paid by plans. When the Federal Trade Commission steps into that world and says some of those flows look like anticompetitive conduct, it implicitly narrows the ability of pharmacy benefit managers to play the margin game.

Now place these two developments next to each other. On the left you have Medi extracting large, quantifiable savings through maximum fair price negotiations. the right you have the Federal Trade Commission kneecapping some of the prici tactics that make insulin and similar drugs profitable for pharmacy benefit mana Together they create something new, which is a two sided pressure system that v on both the manufacturer side and the intermediary side. Instead of relying on a single policy mechanism, the federal government is now acting through multiple coordinated paths to compress drug pricing from both directions. It is the closes United States has come to a functional drug price control system, even if nobody wants to call it that out loud.

How CMS reached forty four percent savings on fifteen drugs

To understand why the savings number is so large, you have to unpack how the maximum fair price system actually works. The public narrative makes it sound haggling exercise over a conference table, but it is closer to a formula driven budgeting mechanism that takes advantage of the United States market structur

The baseline for most of these drugs was an average gross price that had been climbing steadily for years. Manufacturers tend to raise list prices annually, ofte mid single digits or higher, not because net prices necessarily rise but because tl entire supply chain is built on the spread between list price and the various reba fees, and discounts. These fifteen drugs include several oncology agents, autoim therapies, and chronic disease drugs with large Medicare populations. They have durable demand, limited generic competition, and long pricing histories.

The maximum fair price calculation incorporates international reference points, clinical value assessments, comparative effectiveness, and net price data across p programs. It is not a formula in the rigid sense, but it produces a range that CM justify. The negotiation then tends to land near the lower end of that range beca CMS has more leverage than any individual plan. When you take a drug with a g price that has grown for a decade and compress it toward a lower internationally

informed benchmark, the net savings for the federal government can be dramati because the volumes are so high.

Another factor that helps produce that forty four percent savings rate is the stru of Medicare Part D. Part D plans have historically allowed manufacturers to rais prices in exchange for larger rebates, which lowered net prices but created a hug between what Medicare spent and what patients paid. The Inflation Reduction A out of pocket caps, combined with the ability to negotiate prices, reduces the ne high list prices as a rebate optimization strategy. Once CMS pushes the negotiat price down, plans do not gain much from keeping list prices inflated. That redu the entire rebate stack and directly feeds into lower spending.

This is how you get to twelve billion dollars in savings on fifteen drugs. It is the compound effect of large historical prices, high utilization, and a negotiation pr that finally has enough authority to force meaningful price reductions. The significance for investors is that future cycles will likely follow similar dynamics High spend drugs with long price histories and vulnerable international compar are now at the front of the line for enforced price compression.

What those savings actually mean for formularies and plan bids

The interesting part is not just that Medicare saves money. The real action is ho these savings ripple through the plan design and bidding ecosystem. Medicare P plans bid every year based on projected drug spending, risk scores, reinsurance l and competitive market positioning. When the federal government pulls billions of the top of the drug spending stack, plans have to recalibrate everything downstream.

Formularies are no longer optimized around maximizing rebate flows. They now to reflect the negotiated maximum fair prices, which changes the relative pricing therapeutic alternatives. A drug that used to sit on a preferred tier because it generated strong rebates might lose its position if its new negotiated price chang

the economics. This produces unusual competitive effects for manufacturers wh not expect their drug to get repositioned late in its lifecycle.

The low income subsidy population also behaves differently when out of pocket are capped and when price negotiation reduces net spending. Plans that target tl income subsidy population tend to rely heavily on the difference between low lis premiums and back end reinsurance payments for catastrophic spending. If catastrophic spending falls because negotiated pricing reduces the size of catast claims, the entire subsidy model shifts. Plans will have to rethink how they price for twenty twenty seven and beyond because their ability to arbitrage the catastr phase becomes limited.

For investors, this matters because the pharmacy benefit segment of the health t ecosystem often assumes that formulary management and utilization optimizatic continue to be shaped by rebates and historical pricing patterns. Now those assumptions are unstable. Tools that help plans recalculate optimal formularies the new negotiated pricing environment could become essential infrastructure f plan bidding. Companies that rely on optimizing around legacy rebate flows mig find their value proposition eroding quickly.

How the maximum fair price logic appl to the next wave of high spend drugs

One of the most important and least appreciated aspects of the Inflation Reducti Act is that the first wave of drug negotiations sets a precedent for the remaining waves. Manufacturers have been trying to argue that the first cycle is a trial run will be revised after lawsuits and operational challenges. But once CMS demonst its ability to extract substantial price reductions on fifteen drugs, it establishes a reference point for future cycles.

Future negotiation cycles will target drugs that have similar characteristics to th cohort. These include high gross prices, heavy Medicare utilization, limited gene alternatives, and long market durations. Specialty drugs for oncology, immunolo and rare diseases fit this profile. Once these drugs hit their negotiation year, the

logic that produced forty four percent savings the first time will apply with min adjustments. Even if the actual savings percentage is lower in later cycles, the direction is clear.

Manufacturers are already modeling how maximum fair price logic will affect th revenue curves for drugs launched today. If a drug enters the market with a high and strong early uptake, it will likely face negotiation pressure once it meets the eligibility criteria. This forces manufacturers to consider earlier price declines t they would have faced in the past. It also weakens the historical strategy of laun at a very high price and relying on annual price increases to maintain margin.

For investors who focus on pharmacy benefit optimization, this is a big shift. It r the specialty pharmacy margin pool may shrink more quickly than expected. It a means that companies whose business models depend on arbitraging high price specialty drugs will need to adapt quickly. The winners will be companies that h plans and providers adapt to compressed pricing and optimize care pathways ba net clinical value instead of rebate economics.

The insulin mess and why the Federal Trade Commission is suddenly part of drug pricing

Insulin is one of the strangest pricing stories in American healthcare. It is over a century old, has stable production processes, and is essential for millions of peo By every intuitive logic, insulin should be cheap. Instead it became one of the m notorious examples of a drug with spiraling list prices, massive rebate flows, opa supply chain arrangements, and patient cost burdens that made no sense.

This happened because insulin became the perfect substrate for pharmacy benef manager pricing tactics. Pharmacy benefit managers make money on the spread between the list price and the net price. The larger that spread is, the more roon have to negotiate rebates and fees with manufacturers, which they can retain a p of. Insulin became a high spread drug because manufacturers kept raising list pr

and pharmacy benefit managers kept demanding higher rebates. Patients paid ba on list prices, so they were stuck with the worst part of the system.

The Federal Trade Commission's action involving Caremark and Zinc Health Se emerged from this ecosystem. At a high level, the Commission appears to be arg that some of the business practices around insulin distribution and rebate struc distort competition and inflate prices. This is not just a legal fight over one com behavior. It is a signal that the Commission is willing to treat pharmacy benefit manager pricing tactics as anticompetitive conduct when they produce outcome harm consumers.

If the Commission continues down this slope, it becomes an enforcement regime compresses the pricing corridor available to pharmacy benefit managers. They w have the same freedom to sustain high list price, high rebate models that defined insulin economy for years. Even if the Commission does not establish formal rul chilling effect alone reduces the maneuvering room.

How enforcement pressure reshapes pharmacy benefit manager behavior

If pharmacy benefit managers face real antitrust scrutiny for spread pricing, reb structures, and accumulator programs, they will have to rethink how they gener margin. Historically they have relied on the rebate stack because it is dependabl can be optimized algorithmically. But if that corridor narrows, they will look for margin in other parts of the system. This might include administrative fees, pref network arrangements, white bagging programs, specialty pharmacy dispensing, utilization management.

There is also the possibility that pharmacy benefit managers will shift more aggressively into integrated benefit designs where they control both the medical benefit and the pharmacy benefit. That allows them to convert some pharmacy sa into medical savings and claim shared value. The downside is that integrated ben structures are more complex to manage and require deeper coordination with providers.

For investors, this means the entire pharmacy benefit manager enablement ecosy is about to change. Companies that help pharmacy benefit managers maximize r economics will become less relevant. Companies that help pharmacy benefit mar manage integrated medical and pharmacy benefits, model care pathways, and ha prior authorization may gain new relevance. But the overall margin pool will be tighter, and the competition for revenue will be more intense.

Why this combination behaves like a federal price control system

The Inflation Reduction Act on its own is a blunt instrument. The maximum fai mechanism is powerful, but it only applies to certain drugs and only after they m eligibility criteria. It does not touch the entire drug market. The Federal Trade Commission on its own is also limited. It can target specific business practices b cannot set prices.

When these two forces operate at the same time, however, they create something closer to a coordinated price control system. The Inflation Reduction Act compr the manufacturer side of the price curve for drugs that meet negotiation criteria Federal Trade Commission compresses the intermediary side of the price curve l making rebate spread tactics more dangerous. Together they reduce the ability c manufacturers and pharmacy benefit managers to sustain high prices.

This does not mean we have a European style price control regime. But it does m the United States is moving in the direction of active federal management of dru pricing, even if the mechanisms are indirect. For investors and founders, this me the drug pricing landscape is no longer a free form negotiation space. It has gua now, and those guardrails are getting tighter.

The practical impact for health tech founders and the investors backing the

Founders building products that rely on pharmacy economics need to assume th old world of steady price inflation and robust rebate pools is fading. They need t design for a world where drug prices face structural downward pressure and wh intermediaries are more cautious about aggressive pricing tactics.

This means products built on optimizing rebate flows are going to have a shorte life. Products built on modeling net clinical value, optimizing care pathways, or coordinating benefit structures will be more durable. It also means founders sho build tools that help plans adapt to the changing pricing environment rather tha trying to preserve legacy rebate driven practices.

For investors, the question is where the margin will go. Price compression at the level means margin has to shift somewhere. It will not disappear. It might show u new integrated benefit structures, new care delivery models, or new operational that help plans and providers navigate more complex pricing systems.

Where the real investment opportuniti sit in a world of shrinking drug price corridors

There are a few clear opportunity zones for angels and early stage investors. Too help plans and providers recalculate formularies under negotiated pricing rules going to be essential. Companies that help pharmacy benefit managers coordina with medical benefit structures will find new demand as existing pharmacy bene manager revenue models get squeezed. Products that help providers manage hig patients under compressed drug pricing will also be valuable, because providers increasingly responsible for outcomes and total cost of care.

There is also a growing opportunity in patient level affordability tools. When lis prices come down and out of pocket caps stabilize, patients still need help navig formulary tiers, pharmacy networks, and prior authorization requirements. A ne generation of tools that simplify the patient experience while also optimizing pl economics could become indispensable.

The most interesting opportunity might be in modeling and pricing infrastructu
Plans need better forecasting because the Inflation Reduction Act and Federal T
Commission actions create price volatility and uncertainty. Accurate modeling t
could become the backbone of drug benefit strategy.

The drug pricing landscape is no longer a theoretical policy debate. It is a functi
system with measurable impacts, and the combination of Inflation Reduction Ac
negotiation and Federal Trade Commission enforcement is pushing the industry
new equilibrium. Investors who understand how these forces interact will be bet
positioned to back the next wave of companies that operate in the drug benefit
universe.

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