New NPC Analysis Illustrates How IRA's Medicare Drug Price Negotiation Program May Reshape Pharmaceutical R&D Incentives

Study signals IRA's widespread potential effects for long-term innovation incentives across disease states & disproportionate impact on small molecule drugs.

WASHINGTON, DC, UNITED STATES, October 16, 2025 /EINPresswire.com/ -- A new analysis from the National Pharmaceutical Council (NPC) in Value in Health provides evidence that the Inflation Reduction Act (IRA)'s Medicare Drug Price Negotiation Program (DPNP) is likely to alter investment incentives for pharmaceutical research and development across disease states, with pronounced potential impacts on post-approval indications, particularly in small molecule drugs.

"The Impact of the Inflation Reduction Act's Drug Pricing Negotiation Program on Incentives for Clinical Development of New Drugs," offers detailed scenario modeling to explore the potential magnitude of impact across disease areas, development stages, and mitigation strategies.

The DPNP authorizes Medicare to set prices for select high-expenditure drugs. Other survey-based research has found that investors report changing behavior based on the incentives of the law. NPC's research provides more insight into what might be behind that changed behavior, by modeling how the policy reduces anticipated returns on R&D investment, especially for small molecule drugs.

• In modeled scenarios, risk-adjusted net present values (NPVs) for small molecule drugs decreased by as much as 95% (with at least a 22% reduction), while biologics experienced reductions of as much as 45% (with at least a 14% reduction) when evaluated at the beginning of Phase 1 development.

• Potential mitigation strategies — such as delaying or resequencing post-approval development — do not restore investment incentives to pre-DPNP levels, though they may partially offset losses relative to a post-DPNP baseline.

While short-term effects on ongoing late-stage development may be limited, the study indicates that longer-term impacts are expected to grow as changes in early-stage investment decisions flow through the drug development pathway. The analysis also suggests the possibility of broader changes in development incentives if price pressures extend beyond Medicare

negotiations into the commercial sector or within DPNP-selected drug classes. Over time, manufacturer responses to the changing incentives — such as delaying launches, resequencing indications, and canceling long-term follow-up studies — may mitigate the IRA's impact, particularly if made early in development.

"This research incorporates numerous elements of real-world decision-making to provide a broad picture of the IRA's potential impact," said Dr. Patterson, Senior Director of Research and Director of the Enterprise Lab at NPC. "We found that the DPNP reduced NPVs across all disease states, molecule types, and decision points. The long-run impact is particularly concerning for earlier stage decisions — with the potential to reshape the drug development ecosystem."

"I applaud the authors' persistence and efforts to publish these policy-relevant findings in a reputable and peer-reviewed journal. This novel research is unique in terms of the breadth of included therapeutic areas and investment decision timepoints and the depth of DPNP impacts," added Dr. Campbell, Chief Science Officer. "It is essential for policymakers to recognize the DPNP's potential long-term risks to innovation and to consider adjustments — such as extending the small molecule eligibility timeline — to help sustain future investment in drug development."

About the National Pharmaceutical Council
NPC serves patients and society with policy-relevant research on the value of patient access to innovative medicines and the importance of scientific advancement. We envision a world where advances in medicine are accessible to patients, valued by society, and sustainably reimbursed by payers to ensure continued innovation. For more information, visit www.npcnow.org and follow NPC on LinkedIn.

Michael Pratt
National Pharmaceutical Council (NPC)
+1 202-827-2088
media@npcnow.org
Visit us on social media:
LinkedIn
YouTube
X