

The New Medicare Part D Drug Benefit Program and its Effects on Medicaid



Medicare Program

Program Definition:

Medicare is a federal health insurance program that covers people age 65 and older and disabled persons under age 65. It is administered by the Centers for Medicare and Medicaid Services (CMS).



Medicare Program

Who Medicare Serves in Nebraska:

2003

- # of people in NE over age 65 - 226,820
- # of people disabled - 30,351
- # of people covered in state - 257,171



Medicare Program

Services Covered by Medicare include:

Part A: The Hospital Insurance Program

It covers:

- Inpatient hospital care
- Skilled nursing home care (limited)
- Home health care
- Hospice care

Part A is provided without premium to most Medicare-eligible persons. It is financed by a 1.45% payroll tax paid by employees and employers.



Medicare Program

Services Covered by Medicare include:

Part B: The Supplementary Medical Insurance Program

It covers:

- Physician & other practitioner services
- Outpatient hospital procedures
- Imaging services (MRI, CT, echo, etc.)
- Laboratory & other tests
- Chemotherapy
- Ambulance services
- Chiropractic services
- Other medical services (vision, hearing, speech therapy)

Part B is financed by beneficiary premiums (25%) and general revenues (75%). The monthly Part B premium is \$78.20 in 2005.



Medicare Program

Services Covered by Medicare include:

Part C: Medicare Advantage

Medicare Advantage (MA) plans contract with Medicare to provide both Part A and Part B services to enrolled beneficiaries. These are managed care plans.



Medicare Part D Prescription Drug Benefit

New Law

The Medicare Prescription Drug, Improvement and Modernization Act (MMA) of 2003 was signed by President Bush on 12/8/03.

Part D is the new outpatient prescription drug benefit that will be effective January 1, 2006.



Medicare Part D

Dual Eligibles:

Low-income elderly and disabled who are enrolled in both Medicare and Medicaid

Fully Dual Eligible: Client eligible for Medicare and complete Medicaid coverage.

Partially Dual Eligible: Client eligible for Medicare but not full Medicaid. Medicaid pays only the Medicare Part B monthly premium (Buy-in).



Medicare Part D

Dual Eligibles

<u>Description</u>	<u>Fully</u>	<u>Partially</u>
Income	<100% FPL	100-135% FPL
Medicaid pays Medicare Co-insurance and deductible	Yes	No
Medicaid currently covers drug Costs	Yes	No



Medicare Part D

Issues

Fully Dual Eligibles in State Fiscal Year 2004

	<u>Elderly</u>	<u>Disabled</u>
Number of dual eligibles	17,050	13,950
Percent of dual eligibles	55%	45%
Average monthly drug cost	\$260/person	\$310/person
Medicaid annual drug cost	\$53.2 million	\$51.9 million

Prescribed drug costs for dual eligibles represent approximately 48% of the Nebraska Medicaid prescription drug cost.



Medicare Part D

Purpose of the law is to provide basic drug coverage
Program is to begin January 1, 2006
Voluntary Enrollment, except for dual eligibles

Benefits include:

- Coverage of a wide range of drugs with some formulary limitations
- Prescriptions dispensed by local pharmacy or mail order

Financing by non-subsidized enrollees:

- Monthly premium
- Deductible
- “Doughnut hole”
- Co-pay

Financing for Subsidized enrollees:

- Subsidies available for some or most enrollee costs, except co-pay; depends on income and assets



Medicare Part D

Medicaid Issues

No Medicaid FFP is available to states for dual eligibles for:

- Out-of-pocket costs paid for co-pays, deductibles, etc.
- Drugs coverable by the Part D plan that are not on the formulary
- Drugs for clients that fail to enroll or voluntarily disenroll



Medicare Part D

Medicaid Issues

Drugs that Medicaid may elect to continue to cover with FFP include:

- Benzodiazepines (e.g. Alprazolam, Lorazepam, Diazepam)
- Barbiturates (e.g. Secobarbital)
- Prescribed over-the-counter drugs (e.g. Tylenol generic),
Docusate Sodium (Colace generic)
- Cough and cold preparations



Medicare Part D

Medicaid Issues

- State will maintain existing Medicaid drug coverage for children, families and other persons not eligible for Medicare (e.g., disabled adults, pregnant women).



Impact on Nebraska HHSS

Unfunded Mandate

- Nebraska HHSS must participate in the application process for determining eligibility for low-income Part D applicants.
- An estimated 100,000 Nebraska Medicare beneficiaries do not currently have drug coverage prior to implementation of Part D on 1/1/2006.
- HHSS projects that up to 50,000 of these beneficiaries may inquire about eligibility. Beneficiaries may apply at HHS offices or Social Security Administration offices.
- HHSS projects that up to 32,000 may apply or require assistance at HHSS offices.



Impact on Nebraska HHSS

Additional Administrative Costs

- To meet the administrative burden a potential of 32,000 new applicants, HHS estimates that 60 additional staff would be required.
- Estimated cost would be \$3 million (\$1.5 million general funds)
- Information technology costs are estimated at \$300,000 (\$150,000 general funds)



Impact on Nebraska HHSS

“Clawback”

- The State must reimburse the Federal government (Medicare) for a projected amount (“clawback”) of what Medicaid would have spent for these fully dual eligible persons in 2006.
- Beginning in 2006, the State must pay 90% of projected drug expenditure costs for fully dual eligible persons. This amount will lower progressively in subsequent years to 75%.
- Depending on projections of future drug expenditures, the State may have to pay more to compensate Medicare than what it would have paid if these persons were to remain covered under the Medicaid pharmacy system (in other words, they take more than we save).



Impact on Nebraska HHSS

“Clawback” Formula

- Clawback amounts are based on calendar year 2003 Nebraska Medicaid net drug costs per person inflated with national drug price indicators (may greatly overstate Nebraska’s own drug cost increase projections).
- National projections show a three-year increase of 38% for drug costs.
- Nebraska’s projections are 25% to 30% for the same time period.



Impact on Nebraska HHSS

“Clawback” Formula

- HHSS currently estimates the clawback will be budget neutral. Inflated projected pharmacy costs would be offset by the 90% factor.



Impact on Nebraska HHSS

“Woodwork” Effect

- While determining the eligibility for many low-income Part D applicants, HHSS estimates that 900 additional persons will be found eligible for Medicaid at an **annual cost of \$3 million** (\$1.2 million GF).
- Other HHSS aid programs may also be impacted by this effect and are not included in this analysis.



Summary of Expected Costs

One-time Costs:	State Share	Total Cost
Computer changes	\$150,000	\$300,000
Annual Costs:		
“Woodwork Effect”	\$1.2 million	\$3 million
Eligibility workers	\$1.5 million	\$3 million
Total Annual Costs:	\$2.7 million	\$6 million
Total First Year Cost:	\$2.85 million	\$6.3 million



Medicare Discount Card Program

June 2004 - December 2005

Must be Medicare Eligible

- Must have Medicare Part A (Hospital) AND/OR Part B practitioner
- Cannot be on Medicaid
- No other meaningful drug coverage

Benefits

- Discounts of 10%-25% off “usual”
- \$600 per year credit

