Medicare: Today's Issue

February 3, 2004

BETTER BENEFITS – MORE CHOICES

Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!

Federal Assumption of Medicaid Prescription Drug Costs for Dually Eligible Beneficiaries–Phased Down State Contribution:

- Background: States currently pay for prescription drugs for full dual eligibles (Medicare beneficiaries who are eligible for a state's full range of Medicaid benefits). The Federal Government contributes toward the cost of prescription drugs at the state's specific Federal medical assistance percentage (FMAP), that is, the Federal matching rate for states' medical assistance expenditures under their Medicaid programs. These expenditures are significant, amounting to approximately $7 billion in state spending in 2002.

New Provisions in the MMA:

- Federal Assumption of Medicaid Prescription Drug Costs Provides Relief to States: The federal assumption of Medicaid prescription drug costs for the "dual eligibles" will **provide significant fiscal relief to the states.** The Congressional Budget Office estimates total state savings at $17.2 billion over 10 years. The law provides for a continued state contribution to the cost of providing prescription drug benefits to these individuals through a monthly payment from the states to the federal government similar to the mechanism through which states pay Medicare Part B premiums on behalf of dual-eligible individuals.

- Calculation of State Contribution
  - The state contribution is based on each state's own drug spending on behalf of dual eligibles. By October 15, 2005, the Secretary will determine a per capita amount for each state based on calendar year (CY) 2003 data. This per capita amount will reflect the state share, its net of rebates, and will be increased over time to reflect growth in the cost of prescription drugs.
  - Starting January 1, 2006, each state will make a monthly payment to the federal government for each dual eligible.
    - For example, if the state share per capita amount is $1,200 per year, and the state has 10,000 dual eligibles, the state would pay $1,000,000 per month. This amount is further reduced by 10% for 2006. So the net state contribution in that month would be $900,000 ($1,200/12 x 10,000 x 90%), and the state saved $100,000 compared to what it otherwise would have spent under current law. The state contribution is reduced each subsequent year by equal amounts to 75% of the calculated per capita amount in 2015

where it remains thereafter.

- State contributions will be deposited in the prescription drug account of the Supplemental Medical Insurance (SMI) Trust Fund. For purposes of computing state contributions, the Secretary is required to perform periodic data matches to identify the full-benefit dual eligibles. States will make contributions only on behalf of individuals who would otherwise be eligible for prescription drug benefits under Medicaid. In other words, states would NOT make contributions on behalf of individuals such as Qualified Medicare Beneficiaries (QMBs) and Specified Low-Income Medicare Beneficiaries (SLMBs) for whom the state would pay only Part B premiums and Medicare cost sharing on their behalf.

- To assist states in their budget planning, the Secretary is required to notify states each year by October 15 of the per capita calculation for the next calendar year. The per capita amount will be indexed by the change in the Medicare drug spending.