

## Part D and the States: Implications for 2006 and Beyond

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## Objectives of Presentation:

- Why Part D matters to states
  - Medicaid, SPAPs, and Employer Subsidies
- State concerns Pre-Part D
  - Fiscal, administrative, & beneficiary impacts
- Actual experience: Initial implementation
- Current assessment of impact
- Outlook for the future

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## State Pharmacy Assistance Programs: States Responded to Rx Needs of Seniors

- SPAPs assured Rx for low-income seniors with all state funds
- A total of 41 states enacted pharmacy assistance or discount plans
  - 34 states had SPAPs in operation as of December 2005
  - 5 of the 34 states ceased operations in January 2006
- SPAPs can wrap around, pay premiums, deductibles, coinsurance, pay for the coverage gap for Part D

Source: NCSL.org, accessed August 2006

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## State as an Employer: Retiree Rx Subsidies

- States qualify for a Rx subsidy for their retirees on Medicare who do not enroll in Part D
- The subsidy is 28% of drug costs between \$250 and \$5,000 and applies only to Medicare retirees
- States (and other employers) cannot receive the subsidy for current employees who may also have Medicare coverage.

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## Medicaid Plays a Significant Role in U.S. Health Spending, including Drugs

Before Part D, Medicaid was the largest single purchaser of prescription drugs, accounting for 1/5 of all U.S. drug spending.

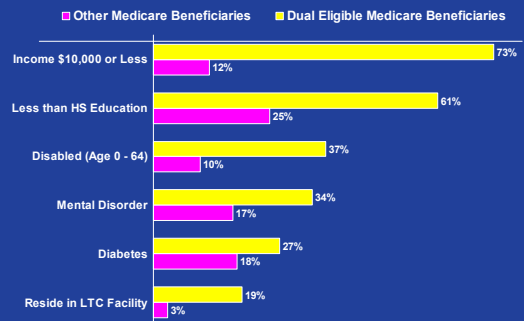


SOURCE: Cynthia Smith, et al., "National Health Spending in 2004," *Health Affairs*, January/February 2006. Based on National Health Care Expenditure Data for 2004, CMS, Office of the Actuary, 2006

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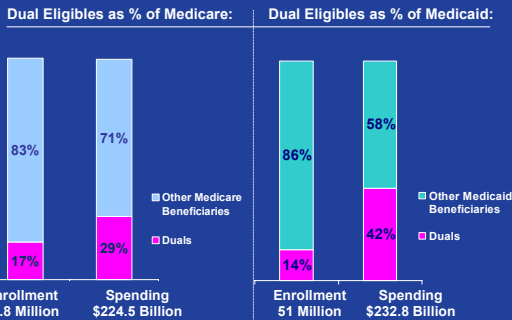
## Characteristics of Dual Eligible Medicare Beneficiaries



Number of Dual Eligible Medicare Beneficiaries = 7.0 million

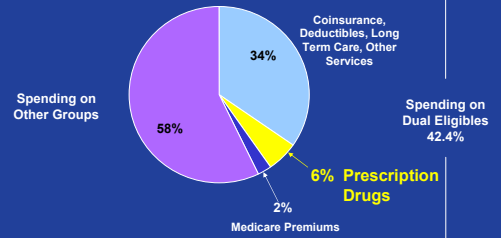
HEALTH MANAGEMENT ASSOCIATES SOURCE: Centers for Medicare and Medicaid Services, Medicare Current Beneficiary Survey 2002 Access to Care File Smith 5

## Dual Eligibles as % of Medicare and Medicaid: Enrollment and Spending, 2002



SOURCE: Medicare data - KFF analysis of MCBS 2002 Cost and Use File. Medicaid data - KCMU estimates based on CMS data and Urban Institute estimates based on an analysis of 2000 MSIS data applied to CMS-64 FY2002 data.

## Drugs for Dual Eligibles Accounted for 6% of Total Medicaid Spending Before Part D



Total Spending on Benefits = \$232.8 Billion

SOURCE: Brian Bruen and John Holahan, *Shifting the Cost of Dual Eligibles: Implications for States and the Federal Government*, prepared for the Kaiser Commission on Medicaid and the Uninsured, November 2003.

## State Issue 1: Enrollment into Part D and Low-Income Subsidy

- Could CMS transition 6.4 million “full-benefit dual eligibles” flawlessly from Medicaid to Part D on January 1, 2006?
  - Allowing choice
  - Allowing changes
  - Using data matches and auto-assignment
  - Accounting for changes in a timely way
  - Recognizing enrollment in Low-Income Subsidy
  - Avoiding gaps in coverage and inappropriate copays, coinsurance and premiums

Source: Vernon Smith, Kathleen Gifford, Sandy Kramer and Linda Elam, *A Medicaid Perspective on Part D Implementation: Findings from a Focus Group Discussion with Medicaid Directors*, Kaiser Commission on Medicaid and the Uninsured, December 2005.

## State Experience and Current Status:

- In many states, January 2006 was chaos
- States jumped in to address issues and provide temporary coverage
- Pharmacists saved the day on the front lines
- CMS provided a “Demo” program to reimburse states for coverage through transitional period
- Many issues were resolved as beneficiaries were enrolled in PDPs and systems recognized LIS status

Source: Vernon Smith, Kathleen Gifford and Sandy Kramer, *The Transition of Dual Eligibles to Medicare Part D Prescription Drug coverage: State Actions during Implementation*, Kaiser Commission on Medicaid and the Uninsured, February 2006

## Ongoing Operational Issues:

- Accuracy in data exchange
  - Timeliness of enrollments
- Anticipating upcoming dual eligible status
  - Turning age 65
  - End of 24-month disability waiting period
- Dealing with other insurance coverage
- Retro-active eligibility and payments
- Anticipating impact on spend-down cases who lose LIS January 1, 2007
  - Must be on Medicaid at least one month July – Dec 2006 to be deemed LIS for calendar 2007
  - Those not on July 06 file will receive August letter indicating end of LIS status on 12/31/2006

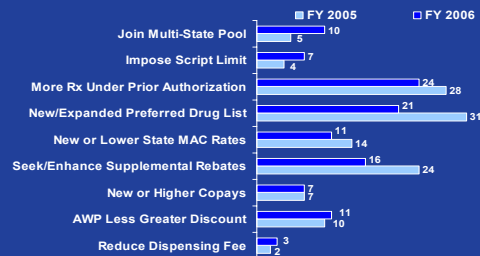
## State Issue 2: Coverage under Medicare Part D

- Coverage Issues:
  - PDP formularies are less comprehensive than Medicaid
  - Some dual eligibles had no copay under Medicaid
- State Responses
  - States continue to pay for drugs covered by Medicaid but not by Part D
  - Some states have elected to “Wrap-Around” to cover copays and non-covered drugs

### State Issue 3: On-Going Concerns About the Clawback

- Significant on-going concern that the clawback is inappropriate
- The formula and technical issues
  - 2003 as the base year
  - The treatment of rebate receipts
  - No provision to recognize wide-ranging state actions to control pharmacy spending

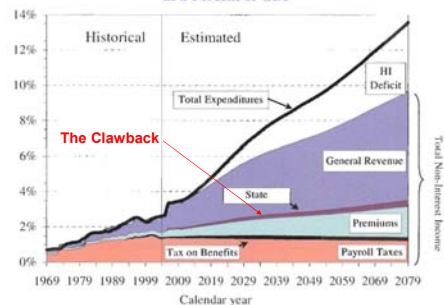
### Medicaid Prescription Drug Policy Changes FY 2005 and FY 2006



SOURCE: Vernon Smith, Kathleen Gifford, Eileen Ellis, Amy Wiles, Robin Rudowitz and Molly O'Malley, *Medicaid Budgets, Spending and Policy Initiatives in State Fiscal Years 2005 and 2006: Results from a 50 State Survey*, Kaiser Commission on Medicaid and the Uninsured, October 2005. <http://www.kff.org/medicaid/7392.cfm>

### State Clawback Now Helps Finance Medicare

Chart D—Medicare Expenditures and Non-Interest Income by Source as a Percent of GDP



Source: 2005 Medicare Trustees Report.

### The “Clawback” Fiscal Implications

- The 2006 Clawback is generally less per dual eligible than states initially expected
- CMS accommodated states by allowing a delayed interest-free payment plan, when initial billing was delayed
- Many Medicaid officials still believe their state will not see savings compared to what they would have spent
  - notwithstanding the phased-down percentage and adjusted amounts

### Other State Fiscal Issues

- Potential Woodwork Effect: CBO projected 1.0 million new dual eligibles
  - Most states cannot yet isolate a ‘woodwork effect’ on the number of Dual Eligibles
  - Some states have seen an offsetting reduction in the number of “Medically-needy / Spend-down” cases that had previously qualified due to drug costs
- Potential for lower supplemental rebates due to diminished Medicaid market share
  - States have not yet observed an impact, but it remains a potential issue

### Prospect for the Rest of 2006

- New premiums for 2007
- New benchmarks
- New benchmark plans
- New formularies
- Potential need to transition some persons to new benchmark plans
- Issues of data exchange
- Assuring timely transitions and avoiding gaps in coverage

## Part D and the States: Summary and Outlook for the Future

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- States (with the help of pharmacists) assured access and continuity of care when the system was overwhelmed in January
- The Clawback remains a sticking point
- Issues of early implementation have largely been addressed
- States anticipated the significant issues which occurred with Part D initial implementation
- Problems may re-occur in 2007 – if issues are not fully resolved
  - No one expects problems on the scale of 2006