Colorado
Legislative
Council
Staff

ISSUE BRIEF

Number 05-06 | A Legislative Council Publication | November 3, 2005

THE MEDICARE PRESCRIPTION DRUG ACT: IMPLICATIONS FOR COLORADO

by Elizabeth Burger

In 2003, Congress passed the Medicare Prescription Drug, Improvement, and Modernization Act (MMA). Among other initiatives, the legislation created a prescription drug benefit for Medicare participants. Although Medicare is administered by the federal government, the new drug benefit has many implications for states. This Issue Brief describes Colorado's financial and administrative obligations with regard to the implementation of the MMA. Companion Issue Brief Number 05-05: *The Medicare Prescription Drug Act: Description and Resources*, offers a description of the new drug benefit and provides resources for Medicare beneficiaries who need assistance and information regarding the new benefit.

Medicare and Dual Eligibles

Dual eligibles are Medicare recipients who, because of their low income or disability, are also eligible for Medicaid. In Colorado, an estimated 39,220 individuals are dually eligible for Medicare and full Medicaid benefits.

Prior to the implementation of the MMA, dual eligibles' prescription drug costs were covered under Medicaid. When the MMA prescription drug benefit takes effect on January 1, 2006, dual eligibles will no longer receive coverage of their drugs through Medicaid; instead, like other Medicare recipients, they will receive their drugs through the new Medicare Part D benefit. This change has a number of implications for dual eligibles, including the following.

- The Medicare drug benefit will be implemented through private prescription drug plans (PDPs). Dual eligibles will be required to enroll in a PDP by December 31, 2005, or they will automatically be enrolled in a plan. Dual eligibles can change plans at a later time if they wish.

- Each PDP will limit the drugs covered under the plan, and the drugs that are covered will likely vary from plan to plan. Under the MMA, each plan must guarantee coverage of at least two drugs in every drug category. Dual eligibles in Colorado who receive prescription drugs through Medicaid have not previously been subject to such strict coverage limitations, and may find that they do not have access to certain drugs through their PDP. States are not permitted to use Medicaid funds to cover drugs for dual eligibles, except in certain circumstances.

- Dual eligibles will not have to pay a premium or deductible for Medicare Part D drug coverage; however, they will be required to pay co-payments ranging from $1 to $5 for their prescriptions. Unlike in the Medicaid program, a pharmacist can refuse to fill a prescription if the beneficiary cannot pay the co-payment. Dual eligibles residing in nursing homes will not have to pay co-payments.

Colorado has certain administrative responsibilities with regard to dual eligibles and the MMA. The state is responsible for identifying individuals who may benefit from certain low-income subsidies under the MMA. In addition, the state must identify the number of dual eligibles monthly in order to calculate the state's "clawback" payment described in detail below. The new responsibilities will require additional staff and changes to computer information systems, including the Colorado Benefits Management System. In FY 2005-06, $533,961 was appropriated to cover these new administrative responsibilities.

The "Clawback"

States will experience significant Medicaid cost savings once dual eligibles' drug costs transfer to Medicare. The Joint Budget Committee staff estimates that Colorado's share of savings from the transfer of dual eligibles' drug costs from Medicaid to Medicare will total $31.2 million in FY 2005-06. However, pursuant to the MMA, states are required to send a large portion of these savings to the federal government to finance the new Part D benefit. This "clawback" payment is calculated in the following manner.

- The state calculates a base amount for dual eligibles' prescription drug costs. The base amount is the average monthly per capita expenditures for prescription drugs for dual eligibles in 2003.

- The base amount is increased annually by a factor representing growth in national prescription drug costs. This new figure is multiplied by the monthly dual eligible caseload. This figure estimates the amount that would have been spent to provide prescription drug coverage to dual eligibles under Medicaid.

- The total is multiplied by a specified percentage. In 2006, the percentage is 90 percent of the total. This "take back percentage" phases down to 75 percent of the total by 2015.

The "clawback" payments to the federal government begin January 1, 2006. In FY 2005-06, $31.0 million was appropriated for Colorado's first "clawback" payment. This payment will likely double in the next fiscal year because, since the payments begin in January, the impact on the state is for only half of the current fiscal year.

The "Woodwork Effect"

Under the MMA, low-income individuals will receive additional subsidies to pay for the prescription drug coverage. States are required to implement processes to screen individuals for those subsidies. At the same time, the states must screen individuals for their eligibility for other public assistance programs. The "Woodwork Effect" refers to the additional costs that state will bear if, when screening individuals for Medicare Part D subsidies, the state finds the individuals to be eligible for other programs funded in part by the state, such as Medicaid.

The Joint Budget Committee staff estimates that the "Woodwork Effect" will add approximately 176 individuals to Colorado's Medicaid program who will receive full benefits, and another 541 who will receive partial benefits in FY 2005-06. For FY 2005-06, $629,825 was appropriated to cover the state cost of this enrollment increase. Like the clawback payment, these figures will double in the next budget cycle.

Total State Costs

According to Joint Budget Committee staff figures, the state will save approximately $212,000 in Medicaid costs in FY 2005-06 once dual eligibles' prescription drug costs transfer to Medicare. However, these savings are offset by the state's new administrative responsibilities and increased Medicaid enrollment due to the MMA. In total, the new Part D benefit will actually cost the state almost $1 million in FY 2005-06.