

Impact of the Medicare Part D Program on the NC Medicaid Program



**Fiscal Research Division
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What is Impact of the Medicare Part D Program on the NC Medicaid Program?



- The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) created a new Medicare Part D prescription drug benefit effective January 1, 2006.
- Medicare Part D is available for all Medicare recipients including persons eligible for both Medicare and Medicaid – commonly called dual eligibles.
- Currently, state Medicaid programs pay for outpatient prescription drug coverage for dual eligibles.

What is Impact of the Medicare Part D Program on the NC Medicaid Program?



- Effective January 1, 2006, state Medicaid programs will no longer be able to request federal matching funds for outpatient prescription drug claims because the Medicare Part D Program will begin paying for these benefits.
- In expectation that states would enjoy a fiscal windfall from the federal government's assumption of what has been shared Medicaid costs, the MMA requires a state payment to the federal government supporting the Medicare Part D program.
- This payment to federal government is called the phased down state contribution by the federal government, but it is popularly known as the "clawback".



How Does the Clawback Work?

- The state clawback is a monthly payment from the states to the federal government to reduce net Medicare Part D costs.
- To ensure that states make the monthly payments, the MMA requires that states pay interest on any unpaid amount of the monthly clawback.
- Any unpaid amount plus interest will be offset against the federal matching Medicaid payments that states otherwise receive during the quarter in which the clawback payment is due.
- Each payment is made after the cost is accrued, so the first payment is due February 1, 2006.



How Does the Clawback Work?

- The clawback is designed to be 90% of estimated state savings for 2006, and it will decline 1.67 percentage points until reaching 75% of estimated state savings in 2015.
- The Congressional Budget Office estimates that the clawback from all states will total \$6 Billion for 2006 and \$9 Billion for 2007.
- These clawback payments mark a significant change in the federal-state fiscal relationship because the federal Medicare program finances a significant portion of the new drug benefit using state funds.



The Clawback Formula

The monthly state clawback for 2006 is determined using the following formula:

Monthly State Clawback Payment	=	Per Capita Medicaid Expenditures for Drugs for Dual Eligibles (Based on 2003 expenditures and inflated 35.54% to reflect growth in national per capita prescription drug spending.)	X	Full Dual Eligibles Enrolled in a Medicare Part D Each Month	X	Phased Down Percentage (90% for 2006)
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North Carolina's Clawback for 2006

2003 Baseline Total Per Capita Drug Expenditures for NC Dual Eligibles	\$214.69
2006 Total Per Capita Drug Expenditures for NC (Baseline times 35.54%)	\$290.98
2006 NC Per Capita Drug Cost (Jan. – Sept.)	\$106.24
2006 NC Per Capita Drug Cost (Oct – Dec.)	\$103.24
2006 Clawback Percentage	90%
Final 2006 NC Per Capita Clawback (Jan. – Sept.)	\$95.61
Final 2006 NC Per Capita Clawback (Oct – Dec.)	\$92.92



North Carolina's Clawback for 2006

North Carolina's monthly clawback payment will be
\$20.6 million

Estimated Monthly Clawback Payment For NC	=	Monthly Per Capita Medicaid Expenditures for Drugs for Dual Eligibles	X	Monthly Full Dual Eligibles (Based on October 2005 Dual Eligibles)	X	Phased Down Percentage
\$20.6 Million		\$106.24		216,600		90%



North Carolina's Clawback for 2006

State Fiscal Year	Annual Clawback Payment
2005-06 (Five Months)	\$103.6 Million
2006-07 (Twelve Months)	\$245.7 Million

Note: The clawback payment for SFY 2006-07 is estimated because NC's 2007 per capita clawback will not be issued by the federal government until October 2006. The annual clawback estimate for SFY 2006-07 uses NC's 2006 per capita clawback to calculate the twelve month impact.



Will Medicare Part D Reduce the NC Medicaid Budget?

YES!

The Fiscal Research Division estimates that the annual cost of the Medicare Part D clawback during the 2005-07 biennium will be less than the annual cost of outpatient prescription drugs for dual eligibles based on a 15.3% annual growth rate for outpatient prescription drug costs.



How Much will NC Save?

	2005-06	2006-07
Estimated State Cost for Outpatient Prescription Drugs for Dual Eligibles	\$128,930,459	\$320,791,197
Estimated Clawback Payment	\$103,554,143	\$245,704,115
Estimated Total Savings for NC	\$25,376,316	\$75,087,082
State Share of Savings	\$21,569,869	\$63,824,020
County Share of Savings	\$3,806,447	\$11,263,062

Note: Section 10.11(b) of the 2005 Budget Bill requires counties to pay 15% of the federal Medicare Part D clawback payments required under the Medicare Modernization Act of 2003.



Impact of the Medicare Part D Program on Medicaid Eligibility

- Medicare recipients with income greater than 100% of the federal poverty level can “spend down” to qualify for Medicaid by using incurred out-of-pocket medical expenses.
- Medicare recipients have used their prescription drug costs to meet their “spend down” and become eligible for Medicaid.
- Medicare recipients living in a private residence (including CAP-DA recipients) may not qualify for Medicaid unless they have other medical expenses to meet their “spend down”.
- Medicaid eligibility for Medicare recipients who live in nursing facilities or receive State/County Special Assistance will not be affected.



Impact of the Medicare Part D Program on Medically Needy Eligibility

Note: To qualify for Medically Needy Eligibility, Jane must "spend down" To \$242 each month.	Today	With Medicare Part D
Monthly Income 100% Federal Poverty Level	\$739	\$739
Jane's Monthly Income	\$842	\$842
Jane's Required "Spend Down"	\$500	\$500
Jane's Drug Costs	\$450	\$25
Jane's Other Medical Costs	\$50	\$50
Jane's Total Medical Costs	\$500	\$75
Meets "Spend Down" Requirements?	YES	NO



Impact of Medicare Part D Issues to Consider

- **Additional Budget Savings in FY 2006-07:**
 - Enacted budget assumes \$22 million in savings related to the implementation of Medicare Part D.
 - FRD estimates indicate that additional savings (up to \$40 million) may be available.
- **Lack of Control:**
 - Required to pay the clawback.
 - Cannot control the fiscal impact of the clawback unless NC chooses to reduce the number of optional dual eligibles.
 - As costs for Medicare Part D increase, Congress may increase the cost-sharing requirements for states.