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policy brief

MEDICARE MODERNIZATION ACT:

IMPLICATIONS OF THE NEW MEDICARE PRESCRIPTION DRUG COVERAGE PROGRAM FOR CONNECTICUT

KEY QUESTIONS FOR CONNECTICUT

The new Medicare prescription drug coverage program has significant implications for the more than half a million Medicare beneficiaries in Connecticut. Particularly for those who currently have no drug coverage, the program may offer substantial assistance with prescription drug costs. At the same time, more than one in five Connecticut Medicare beneficiaries already are enrolled in Medicaid and ConnPACE, the state's publicly-financed prescription drug program for seniors and people with disabilities (see Figure 1). In the absence of state action, these individuals face a risk that their coverage could deteriorate when the new program begins.

In the absence of further state action, Connecticut Medicare beneficiaries who are on Medicaid or ConnPACE are at risk of being worse off under the new Medicare drug program.

Connecticut Health Foundation

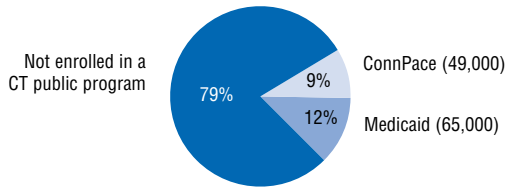
To make the most of this new program, Connecticut policymakers will need to determine:

- What steps will the state take to help low-income seniors and people with disabilities enrolled in both Medicare and Medicaid ("dual eligibles") when they lose their current Medicaid drug coverage on Dec. 31, 2005?
- To what extent will the state ensure that dual eligibles and ConnPACE participants do not face new cost-sharing obligations or gaps in coverage under the new program?
- What outreach, education, and assistance will be provided to Connecticut's Medicare population, including people with disabilities?

Figure 1

Enrollment in Publicly-Financed Prescription Drug Programs Among Connecticut's Medicare Beneficiaries

Total Medicare Beneficiaries = 536,000



Source: ConnPACE and Medicaid data are from the Connecticut Department of Social Services (DSS) and reflect enrollment in March 2005. Medicaid includes only full benefit dual eligibles. Medicare data are from the Centers for Medicare & Medicaid Services (CMS).

OVERVIEW

Adopted in December 2003, the Medicare Modernization Act of 2003 (MMA), created a new prescription drug program in Medicare (Part D) beginning on Jan. 1, 2006. Nationally and in Connecticut, implementation will be complicated by two of the program's key features.

- Medicare Part D is complex and relies on a still-to-be established network of private plans to deliver the drug benefit, and a multi-tiered subsidy program to make it affordable to low-income Medicare beneficiaries.
- The program is being implemented rapidly, requiring states to make decisions without knowing some key details about the program's workings.

BASIC PLAN PROVISIONS

Beginning Nov. 15, 2005, Medicare beneficiaries will have the option to sign up for prescription drug coverage through the new prescription drug program. The coverage, which will be provided by private plans, can be effective as early as Jan. 1, 2006. People will have a choice of at least two plans, and Medicare beneficiaries in Connecticut may have access to as many as ten or more.

Participation in this new program is voluntary. However, current beneficiaries without prescription drug coverage will face financial penalties if they fail to enroll by May 15, 2006 (end of the initial enrollment period for Part D), and then later change their minds and sign up for coverage.[1]

Key Dates for MMA Implementation

Date	Activity
May 2005 – August 2005	Social Security Administration (SSA) notifies people who appear eligible for the low-income subsidy program.
July 1, 2005	SSA and CT's Medicaid offices begin processing low-income subsidy applications.
Mid-September 2005 (tentative)	Final decisions on which plans can offer Medicare drug coverage.
Oct. 1, 2005	Drug plans begin marketing to potential enrollees.
Oct. 13, 2005	Detailed information becomes available on plans offering coverage in Connecticut.
Late October 2005	Dual eligibles receive information about transition from Medicaid to Medicare drug coverage and are given the name of a plan into which they will be autoenrolled if they do not choose one by Jan. 1, 2006.
Nov. 15, 2005	"Initial enrollment" starts.
Dec. 31, 2005	Last day of Medicaid prescription drug coverage for dual eligibles.
Jan. 1, 2006	Medicare drug coverage begins. Autoenrollment of dual eligibles into Medicare drug plans takes effect.
May 15, 2006	Last day of "initial enrollment" period. Late penalties apply after this date.

Sources: CMS, "Key Dates in the Implementation of Title 1 and Title 2," updated May 11, 2005, and "Medicare Prescription Drug Improvement and Modernization Act Implementation Timeline: January 2005 - December 2006 Key Dates," Kaiser Family Foundation.

WHICH DRUGS WILL BE COVERED?

It will not be until the fall of 2005 that detailed information will be available on the prescription drugs that each plan will cover and under what circumstances. While the MMA allows Medicare drug plans to cover all prescription medications, many are not expected to do so.[2] As part of controlling costs and ensuring that they provide appropriate and safe drugs, most Medicare drug plans are expected to use a "formulary," a list of covered drugs.[3] If a medication is not included, a person may still be able to secure it by requesting an "exception" and filing additional paperwork. Along with formularies, plans are expected to use "prior authorization" and other strategies to limit access to some classes of medications. With prior authorization, a plan typically requires medical justification before agreeing to cover a drug even when it is "on formulary." Formularies, prior authorization, and related tactics may create barriers to needed medications. Many ConnPACE and Medicaid beneficiaries may find that their current medications are not covered by their new plans — or are available only if they navigate an exceptions process or comply with additional rules.[4]

WHAT IS THE COST TO BENEFICIARIES?

Generally, people will need to pay a premium to enroll in a Medicare drug plan; to meet a deductible; and to pick up a share of their drug costs. One much-noted aspect of the plan is a requirement that people pay out of pocket for 100 percent of any drug expenses over $2,250 until their costs hit a catastrophic level ($5,100). This so-called "doughnut hole" was created to keep the federal government's costs down.

Table 1 shows that a person's cost-sharing obligations will depend on numerous factors. These include: the particular plan in which they are enrolled; the amount they spend on medications in a given year; and whether they qualify for Medicare's new low-income subsidy program. Now referred to by the federal government as "extra help," this program will assist those with limited income and assets to pay the premium, deductible, and other cost-sharing obligations associated with the Medicare drug benefit. In general, it will serve Medicare beneficiaries with incomes below 150 percent of the federal poverty level (FPL) — $14,355 per single person in 2005 — and assets below $10,000 per single person/$20,000 per couple.

Both the Social Security Administration and Connecticut's Medicaid offices will take applications for the low-income subsidy program beginning in the Summer of 2005.

For many ConnPACE participants the cost of securing medications under the new plan will likely exceed current levels, raising the issue of the extent to which the state will help pay for their cost-sharing obligations — particularly since over 40 percent of ConnPACE beneficiaries will be ineligible for the new low-income subsidy program.

Table 1

The Cost of Using the New Medicare Drug Program

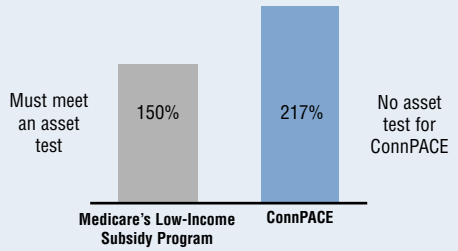
	Premium	Deductible	Other Cost-Sharing
Medicare beneficiaries who do not qualify for a low-income subsidy*			
	$37 per month (estimated national average)	$250 deductible	• 25 percent of drug costs between $250 and $2,250 • 100 percent of drug costs between $2,250 and $5,100 • $2 to $5 per prescription when total drug costs exceed $5,100
Medicare beneficiaries who qualify for the low-income subsidy program			
Enrolled in Medicaid	$0**	$0	• No co-payments if in a nursing home • $1 to $3 per prescription if income is below 100 percent of poverty • $2 to $5 per prescription if income at or above 100 percent of poverty
Income below 135 percent of poverty and assets below $6,000 per individual/ $9,000 per couple	$0**	$0	$2 to $5 per prescription
Income below 150 percent of poverty and assets below $10,000 per individual/ $20,000 per couple	Receive some assistance with premium payments	$50 deductible	15 percent of drug costs between $50 and $5,100. Then, $2 to $5 per prescription

*Based on standard Medicare drug benefit. Plans can design alternative benefit structures within federal guidelines.
**Premiums are fully subsidized only for average and low-cost plans.

Figure 2

Eligibility Rules for ConnPACE and Medicare's Low-Income Subsidy Program

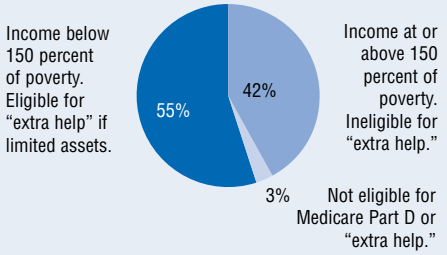
Income Eligibility Threshold as a Percent of the Federal Poverty Line



Based on a single person. For a couple, the ConnPACE income eligibility threshold currently is equivalent to 219 percent of poverty.

Eligibility for Medicare Part D and "Extra Help" Among ConnPACE Beneficiaries

Total ConnPACE Beneficiaries = 50,322



Source: Health Policy Institute calculations based on data provided by DSS. Data are from March 2005.

HOW WILL MEDICARE DRUG COVERAGE AFFECT DUAL ELIGIBLES?

Connecticut residents enrolled in both Medicare and Medicaid ("dual eligibles") face major changes in their prescription drug coverage as a result of the MMA. Currently, these 65,000 low-income individuals receive prescription drugs and other services not covered by Medicare (e.g., long-term care or LTC) through Medicaid.[5] On Dec. 31, 2005, when their current Medicaid drug coverage ends, they are expected to obtain coverage by enrolling in one of the new prescription drug plans. Dual eligibles can sign up for a Medicare drug plan on their own but if they do not do so, the federal government will assign them randomly to an average or low-cost plan. Once enrolled, they will be expected to pay up to $5 per prescription and may find that not all of the medications that Connecticut's Medicaid program covers are included in their plans' formularies.

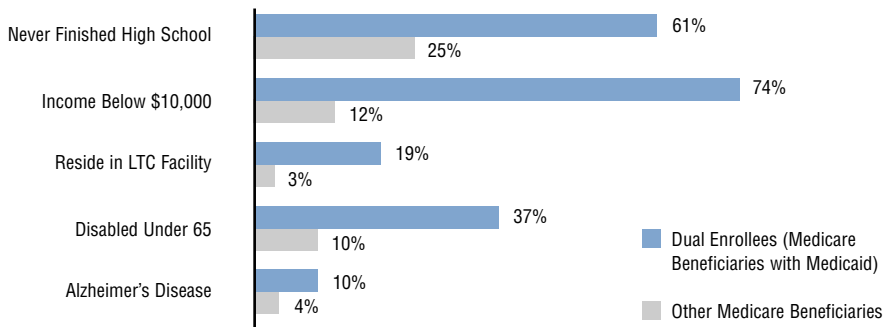
Unlike most other Medicare beneficiaries, dual eligibles are automatically enrolled in the low-income subsidy program and can switch Part D plans at any time.

The transition to Medicare drug coverage is likely to prove particularly challenging for Connecticut's dual eligibles. Many dual eligibles have impairments that will make learning about and using the new system difficult (see Figure 3).

If they are confused about the shift in coverage or encounter transitional problems using their new plans, many are likely to have little or no capacity to buy drugs on their own. Once accustomed to their new plans, they may still have trouble making the co-payments required under Medicare or encounter difficulties securing medications from private Medicare drug plans.

Figure 3

Characteristics of Dual Enrollees Compared to Other Medicare Beneficiaries, 2002



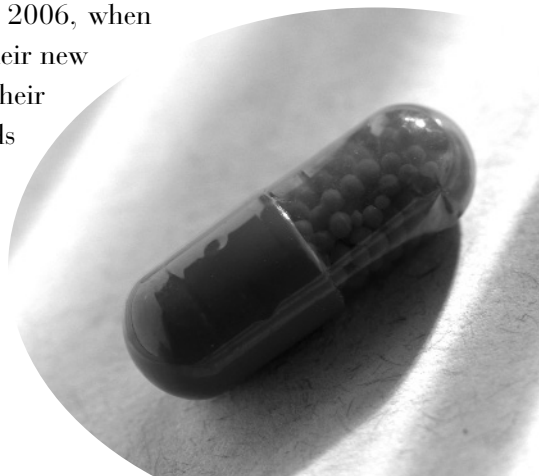
Source: Medicare Current Beneficiary Survey, 2002

MAJOR POLICY ISSUES

To ensure smooth implementation of the law in Connecticut, three major policy issues demand particular attention:

How will the state assist dual eligibles when they lose their current Medicaid drug coverage on Dec. 31, 2006?

If dual eligibles are not successfully enrolled in Medicare drug plans by Jan. 1, 2006, when their Medicaid drug coverage ends, or if they have transitional problems using their new plans, their limited incomes and assets will make purchasing medications on their own difficult, even temporarily. The state may wish to consider using state funds to maintain prescription drug coverage for dual eligibles for a temporary period beyond Jan. 1, 2006.[6] Such "backup" coverage will be unnecessary and inexpensive if the transition works well, but could prove essential if problems arise.



To what extent will the state ensure that dual eligibles and ConnPACE participants do not face any new cost-sharing obligations or gaps in coverage under the new prescription drug program?

In many respects, the Medicare drug program is less generous than ConnPACE (Table 2) and Connecticut's Medicaid program. While the state will likely ensure that ConnPACE beneficiaries will not face higher cost-sharing as a result of the new program, other questions remain unanswered, including: If ConnPACE beneficiaries cannot secure a medication through their Medicare drug plans, will the program help them obtain it?[7] Will the state include dual eligibles in ConnPACE and address coverage gaps, such as more restrictive formularies or new cost-sharing?

What outreach, education, and assistance will be provided to the Medicare population in Connecticut, including non-elderly people with disabilities?

The state has allocated federal grant resources to the Choices program, which permits all five Area Agencies on Aging (AAA) offices in Connecticut to add staff to assist Medicare beneficiaries. While the AAAs' primary constituency is low-income seniors, they also are working to address the needs of Medicare beneficiaries under age 65 with disabilities. Nonetheless, disability-focused organizations will need to become actively engaged in outreach. As it has done for the low-income senior population, the state also may wish to consider providing financial resources to community-based organizations working with people with disabilities and chronic medical conditions.

Table 2

ConnPACE v. Medicare Part D: Potential Gaps in Coverage in the Absence of State Action

	ConnPACE	Medicare Part D	Potential Coverage Gaps
Who is eligible?	Seniors and people with disabilities whose annual incomes are $20,800 per single person (217 percent of FPL) and $28,100 per couple (219 percent of FPL). No assets test.	Open to all Medicare beneficiaries. Low-income subsidy ("extra help") is available to those with annual income below 150 percent of FPL ($14,355 per single/$19,245 per couple) who can meet an asset test ($10,000 per single/$20,000 per couple).	The low-income subsidy will not be available to ConnPACE beneficiaries with incomes between 150 percent of FPL and 217 percent of FPL (219 percent of FPL per couple) or assets over $10,000 per person/ $20,000 per couple. Without this "extra help," they face cost-sharing in excess of ConnPACE levels.
What is the cost of signing up for coverage?	$30 per year	Premiums are expected to average $37/month in 2006. Those qualifying for "extra help" will not pay premiums or will pay on a sliding scale.	ConnPACE beneficiaries who do not qualify for "extra help" will need help paying monthly premiums.
Is there a deductible?	No	Most people will have to meet a $250 deductible. People who qualify for "extra help" will face a deductible of $0 or $50, depending on circumstances.	ConnPACE beneficiaries may need help meeting Part D deductible.
How much will prescriptions cost?	$16.25 per prescription	Variable, depending on prescription cost, prescription drug spending to date, and eligibility for "extra help." After meeting the deductible, most people will have to pay 25 percent of drug costs until spending reaches $2,250 and then 100 percent until they reach a catastrophic level.	Some ConnPACE participants could end up owing substantially more than $16.25 per prescription.
Which medications will be covered?	With some exceptions, ConnPACE covers medications that require a prescription. It currently has a limited prior authorization program.	Depends on plan. Using a formulary, private Medicare drug plans may limit covered medications. They also may use strategies such as prior authorization to control access to medications.	ConnPACE beneficiaries may find that some medications are not covered by their Medicare drug plans. They also may face procedural hurdles in obtaining medications even if drugs are on a plan's formulary.

**This table identifies potential gaps in coverage for ConnPACE beneficiaries if the state does not take any action. It already is clear that the state will fill at least some of these gaps through ConnPACE.*

CONCLUSION

The Medicare prescription drug program offers a chance for beneficiaries to secure potentially significant assistance with prescription drug costs. But this program is complicated and many details about implementation will not be known until shortly before it goes into effect. Adding to the complexity in Connecticut, the Medicare drug benefit will be layered on top of existing, popular programs that generally have provided affordable drug coverage to many low-income seniors and people with disabilities. The state will need to draw on its extensive experience in assisting low and moderate income seniors and people with disabilities to find the best way to make the new Medicare drug program work for its Medicare beneficiaries.

GLOSSARY

ConnPACE. The Connecticut Pharmaceutical Assistance Contract to the Elderly and Disabled. A state-funded assistance program for seniors and people with disabilities. ConnPACE currently helps pay for the medications of more than 50,000 Connecticut residents, 97 percent of whom qualify for the new Medicare drug program.

Dual eligibles. Low-income seniors and people with disabilities enrolled in both Medicare and Medicaid. Medicare provides their primary health care coverage, but Medicaid helps fill gaps in Medicare's benefits and helps with its cost-sharing requirements. "Full benefit" dual eligibles qualify for all Medicaid-covered services, including prescription drugs and long-term care. "Partial benefit" dual eligibles receive help only with Medicare cost-sharing obligations. Of Connecticut's 83,000 dual eligibles, 65,000 qualify for the full Medicaid benefit package.

Low-income subsidy program (also called "extra help"). The federal subsidy program included in the Medicare Modernization Act (MMA) to help make the new Medicare Part D benefit more affordable for low-income seniors and people with disabilities. It offers assistance with Part D premiums, deductibles, and cost-sharing obligations to Medicare beneficiaries with limited income and assets.

Medicaid. A federal-state program providing health care coverage to low-income children, families, seniors, and people with disabilities. Connecticut has some 405,000 Medicaid beneficiaries, of whom 83,000 are seniors and people with disabilities also enrolled in Medicare ("dual eligibles").

Medicare. National health care program for seniors and people under age 65 with disabilities. It provides care, including hospital and physician services, to more than half a million Connecticut residents.

Part D. A new part of Medicare. Created by the MMA, Part D helps beneficiaries purchase prescription drugs. Coverage, which will be offered through private Medicare drug plans, may be provided on a stand-alone basis or as part of a managed care plan.

REFERENCES

1. People with prescription drug coverage can delay enrollment without the risk of financial penalties as long as their coverage is at least as good as that provided by Medicare Part D (and, thus, considered "creditable coverage").

2. Specifically, Part D provides coverage for prescription drugs, biologicals (e.g., insulin), related supplies (e.g., insulin test strips) and some other discrete categories of medications (e.g., vaccines). Medicare Parts A and B already pay for some narrow categories of drugs, such as those that must be administered in a physician's office. These drugs cannot be covered by Medicare drug plans, but will continue to be available under Medicare Parts A and B. Certain classes of drugs, known as "Medicaid excludable drugs" cannot be covered, except for smoking cessation products.

3. Plans must cover at least two medications within any "therapeutic class." Federal officials also have indicated that they will require plans to cover most or all drugs in six classes: antidepressants, antipsychotics, anticonvulsants, antiretrovirals, immunosuppressants, and antineoplastics.

4. ConnPACE and Medicaid operate limited prior authorization programs. ConnPACE, for example, requires prior authorization for brand name drugs that have at least three equivalents available and for prescriptions costing more than $500 for up to and including a 30-day supply. Over the upcoming year, the state has plans to expand prior authorization programs in Medicaid and ConnPACE.

5. Data were provided by the Connecticut Department of Social Services and are current as of March 2005. An additional 17,800 Connecticut Medicare beneficiaries also are enrolled in Medicaid to secure assistance with Medicare cost-sharing obligations under Parts A and B. These "partial dual eligibles" do not currently receive prescription drugs through Connecticut's Medicaid agency and thus are not affected in the same way by creation of Medicare Part D.

6. The federal government would not match the cost of providing transitional prescription drug coverage to dual eligibles under Medicaid, but the state could use 100 percent state funds to provide such assistance.

7. Presented by Michael P. Starkowski, Deputy Commissioner, Department of Social Services, Medicare Part D: A Legislative Overview, March 15, 2005.

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