New Medicare Part D Presents Challenges and Opportunities for Texas

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The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), Public Law 108-173 (2003), will offer both challenges and opportunities for Texas. Section 101 of the MMA establishes a new Part D of Medicare providing for outpatient prescription drug benefits. Effective January 1, 2006, Medicare beneficiaries will be eligible to enroll in Part D for a premium of approximately $35 per month. Beneficiaries must pay for the first $250 in drug costs annually. After such deductible is met, Medicare will then pay 75% of drug costs between $250 and $2,250, with beneficiaries responsible for a co-payment of 25%. Beneficiaries must then pay for 100% of drug costs above $2,250 up to $5,100 (the $2,850 so-called “donut hole”). Therefore, beneficiaries are responsible for a total of $3,600 in out-of-pocket costs (including their deductible, co-payments and their 100% share of costs in the “donut-hole” gap in coverage) for their prescription drug costs up to $5,100. Medicare will then provide catastrophic coverage of 95% of the drug costs exceeding $5,100. See Facts about Upcoming New Benefits in Medicare at http://www.medicare.gov/MedicareReform/ (visited April 23, 2004). See also MMA § 101.

Medicare beneficiaries who qualify for Medicaid are sometimes referred to as dual eligibles. During the public debate on the MMA, states argued that prescription drug coverage should be provided to dual eligibles through Medicare rather than Medicaid. Under the MMA, dual eligibles will receive their prescription drug coverage
under Part D of Medicare. Once their application is accepted, states will not be eligible for Medicaid matching funds for drug benefits provided to dual eligibles; and states will no longer be able to spend federally subsidized Medicaid funds on prescription drug coverage for dual eligibles. If dual eligibles need more drugs than those provided by Part D, states can provide coverage for those drugs only with state funds, and the federal government will not provide any matching Medicaid funds for the additional drugs. *See* The Kaiser Commission on Medicaid and the Uninsured, Issue Brief, *Implications of the New Medicare Prescription Drug Benefit for State Medicaid Budgets* (Dec. 15, 2003) available at [http://www.kff.org](http://www.kff.org).

The MMA provides an additional subsidy to low-income beneficiaries who can meet both a means and asset test. The subsidy will help defray some of the premium, deductible and cost sharing obligations for such beneficiaries. States will assume a larger administrative burden under the MMA, because the law provides that state Medicaid agencies and Social Security Offices will process Medicare beneficiaries’ applications for the subsidy program. While processing the Medicare applications, states must also enroll eligible (but not previously enrolled) applicants in Medicaid, which will likely increase the number of state Medicaid recipients. *See id.*

Although states will no longer have to provide prescription drug coverage through Medicaid, states will continue to be fiscally responsible for most of the cost of providing drug coverage to dual eligibles. This is done under “clawback” provisions that require states to pay the federal government a percentage of the amount states would have spent to provide coverage for dual eligibles. In 2006, states must pay the federal government 90% of such amount. The percentage will be reduced to 75% by 2015. The actual
amount of the clawback payment depends on a number of factors, including the amount spent by the state on prescription drugs for dual eligibles in 2003, the number of dual eligibles who enroll in Part D, and the extent that the state may supplement Part D benefits. In 2002, Texas had 363,000 dual eligibles who were entitled to full Medicaid benefits and spent $654 million on prescribed drugs for dual eligibles. See id.

Legislators and state agencies will need to understand both the policy and budgetary implications arising from the MMA. Texas will need to carefully analyze the net budgetary effects of the MMA on state finances. For example, Texas should eventually benefit fiscally from the new provisions covering dual eligibles through Medicare Part D, but Texas will incur significant expenses in administering the new low-income Part D subsidy.