Fact Sheet from Families USA

President Bush's Medicare Drug Proposals

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As part of his fiscal year 2003 budget proposal, President Bush included three initiatives he says will improve Medicare beneficiaries' access to prescription drugs. The details of these proposals have not been announced. This fact sheet is based on the information available to date.

Medicare-Endorsed Rx Discount Card Program

The first of the President's three prescription drug initiatives is the Medicare-Endorsed Rx Discount Card program. Originally introduced last summer, the discount card program was halted by a temporary injunction. The Administration plans to submit the discount card proposal to the formal rule-making process it bypassed last year. The White House says the proposal has been improved but does not say what has been changed.

Advocates for the elderly have raised a number of concerns about the discount card:

- Discounts offer little or no improvement over existing cards and internet pharmacy programs. They may, in fact, be smaller than discounts currently available from other sources. Low-income individuals and people with high drug costs will still find many prescriptions unaffordable.
- A beneficiary will be allowed to use only one Medicare-endorsed card, which may not offer discounts on all the medications taken by that individual.
- Many beneficiaries and advocates are concerned that the discount card program will offer seniors little meaningful assistance but will slow momentum towards enactment of a comprehensive benefit.

Under the original discount card proposal, those who appeared to gain the most were the private drug management companies that would contract with the government to manage the card program.

Pharmacy Plus Model Waiver

The second of the President's proposals is the Pharmacy Plus Model Waiver. Under this initiative, the Administration encourages states to seek waivers of federal Medicaid laws and/or regulations in order to provide drug coverage for low-income seniors who are otherwise ineligible for Medicaid. These waivers will only be approved if there is no additional cost for the coverage.

No details of the Pharmacy Plus waiver have been made available, but the White House news release explicitly mentioned Illinois, which recently gained HHS approval for a Medicaid drug waiver. The Illinois waiver proposal offers some insight into the kinds of changes states may propose, as well as what changes the Administration may approve.

The Illinois Pharmacy Plus waiver provides for cost-sharing that is significantly higher than permitted under current law but, perversely, imposes that higher cost-sharing only on seniors who have high drug costs. Under the Illinois waiver, there is little or no beneficiary cost-sharing for prescriptions until Medicaid expenditures for an individual's drugs reach a threshold amount, estimated to be $1,750. Once the $1,750 threshold is reach, a 20 percent copayment will be added. If program costs are higher than expected, Illinois's waiver application said the state may increase the copayment from $3 to as much as $10 and may lower the threshold amount at which the 20 percent copayment is required from $1,750 to $1,000. The Illinois waiver also permits the state to charge beneficiaries an enrollment fee of $5 or $25, depending on income, to participate in the program.

The Pharmacy Plus waiver is essentially a block grant to the states and, as such, is a break with the historic guarantee of coverage for all who qualify that has been a hallmark of the Medicaid program. In the case of Illinois, the state explicitly caps the number of people enrolling in this program at 370,000. Furthermore, the state also promised that, under the waiver program, combined total growth in Medicaid expenditures for all seniors enrolled in Medicaid plus those in the drug-only program will be no higher than expenditures for seniors in Medicaid would have been without the waiver. If the costs exceed this expenditure cap, despite increased cost-sharing, Illinois has a variety of options available, including cutting benefits for low-income seniors or curbing nursing home coverage, hospital days, or provider reimbursement.

The White House release describing the Pharmacy Plus program says the waivers will allow states to employ "private sector cost control mechanisms like preferred drug lists [formularies] and prior authorization" to curb spending. According to the Administration, federal law and regulations have discouraged use of these drug management tools. However, this proposal does not permit states to use mechanisms they cannot use already; what it does is strip from current law the safeguards states now must employ to protect beneficiaries when they do use formularies or prior authorization. These existing protections include the following:

- A requirement that all drugs be covered;
- A requirement that, when pre-authorization is required, notification of approval or denial must be received within 24-hours; and
- A requirement that, in emergency situations, a 72-hour supply of a drug must be distributed, even without prior-authorization.

Medicare Low-Income Drug Assistance Program

The President's third drug proposal, the Medicare Low-Income Drug Assistance Program, seemingly fails to lay the foundation for a Medicare drug benefit. The language is vague enough to suggest that states could use the money to expand Medicaid, to add a subsidy to the Rx Discount Card, or to design a plan of their own.

Under this proposal, states would receive federal funds toward the cost of providing drug coverage for lower-income seniors. For seniors with incomes below poverty, the state would receive its current Medicaid matching rate. For seniors with incomes between 100 percent and 150 percent of poverty, the federal government would pay 90 percent and the states would pay the remaining 10 percent of costs.

The Low-Income Drug Assistance Program is optional; states are not required to participate. States already have the option of covering Medicare beneficiaries up to 100 percent of poverty, but only 17 states and the District of Columbia have elected to do so-most states set eligibility limits lower. In order to take advantage of the Low-Income Drug Assistance Program, 33 states would need to expand their current Medicaid programs to cover people with incomes up to 100 percent of poverty; the federal government would help fund that expansion, but only at the current matching level, which averages 56 percent of program costs. This expansion would cost states millions of dollars. In light of current budget concerns, few states are likely to be interested in a proposal that will require additional state expenditures.

What is perhaps worse is that the President's proposal does not include any requirement that states use Low-Income Drug Assistance funds to provide drug coverage to new people who are not currently covered. In fact, the White House release notes that states may use these funds to replace state funds in existing programs, "easing the fiscal pressures on states."

Medicare beneficiaries who lack drug coverage need immediate assistance. This assistance, however, should be substantial, real, and not erode existing programs such as Medicaid. Additional details on the Administration's proposal will allow more complete comment. However, the outline presented thus far raises significant concerns about whether this is a step towards a real benefit, or, in some cases, a step backwards.

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