

Implications of the Deficit Reduction Act of 2005 on Medicaid

The Deficit Reduction Act (DRA) of 2005 is estimated to reduce federal Medicaid contribution by \$4.8 billion over the next 5 years and \$26.1 billion over the next 10 years. Medicaid provides health coverage to nearly 39 million low-income families, the elderly and individuals with disabilities. The DRA will certainly have a significant impact on the operations of the Medicaid program and its 39 million enrollees. With such drastic reductions in federal contributions, the DRA proposes to change Medicaid policy through the following initiatives: cost sharing, documentation requirements, provider taxes, and changes to Medicaid benefits, asset transfer rules, and prescription drug payments.¹

Cost Sharing

Under the DRA, cost sharing is based on the enrollee's annual income. For enrollees with incomes above 150 percent of the federal poverty line (FPL), states are allowed to charge co-payments up to 20 percent of the cost of healthcare services and unlimited premiums. For enrollees with incomes between 100 percent and 150 percent of the FPL, states can charge up to 10 percent of the cost of healthcare services. States, however, are not allowed to impose cost sharing on mandatory children and pregnant women.

The DRA also permits increases in co-payments for non-emergency services and non-preferred prescription drugs. Individuals with incomes below 150 percent of the FPL could possibly face minimal cost sharing for non-preferred drugs and individuals with incomes over 150 percent of the FPL could be responsible for up to 20 percent of the cost of non-preferred prescription drugs. The DRA also allows states to "enforce" co-payments, which allows the states to refuse services or access to drugs if an enrollee is unable to pay.

It is estimated that 20 percent of Medicaid enrollees will be affected by cost sharing by 2015 and researchers have demonstrated that cost sharing provisions can create disparities in access to health coverage for the Medicaid population due to the financial burdens of paying premiums, co-insurances and deductibles.¹

Documentation Requirements

The DRA outlines the requirement of new Medicaid applicants and current enrollees to show documentation of their citizenship. With this condition, it is estimated that approximately 35,000 Medicaid enrollees could lose their eligibility since many of them do not keep track of their documentation records.¹

Provider Taxes

States raise money for their share of Medicaid expenditures by revenue obtained from taxes on hospitals, nursing homes, managed care organizations, and other healthcare providers. The DRA imposes a restriction on provider taxes by not allowing states to exceed three percent of a health provider's gross revenues, a reduction from a previous six percent prior to the implementation of the DRA. If states continue to impose provider taxes between three and six percent, the revenue raised from these taxes will be disregarded as a state's matching contribution. This has significant implications for the states because they are forced to find other mechanisms to generate revenue to help count

towards their matching contribution or spend a greater portion of their general revenue to help cover the escalating costs of Medicaid.²

Changes to Medicaid Benefits

The DRA can potentially obtain \$1.3 billion in federal spending reductions over the next five years and \$6.1 billion in the next 10 years by giving states the incentives to change the benefits package offered by their Medicaid program. The DRA offers “benchmark” coverage and states will be required to “wrap around” this. The “benchmark” coverage, however, is limited in its benefits and could result in inadequate health coverage for Medicaid enrollees.

Changes to Asset Transfer Rules

The DRA makes changes to the penalty period, treatment of home equity and annuities. Under the new regulation, if individuals transfer assets for less than fair market value within five years of applying for Medicaid nursing home, their eligibility is delayed. Prior to the DRA, this “look back” period was only three years. Also, individuals with home equities valued more than \$500,000 are ineligible for Medicaid nursing home benefits. Furthermore, states are given the permission to raise this ceiling to \$750,000. Of these changes to asset transfer rules, the most significant is the extension of the “look back” period since it would cause an average delay of three months for eligibility for nearly 15 percent of new Medicaid nursing home enrollees.

Changes to Drug Payment Changes

The regulations outlined under the DRA change the method in which pharmacists are paid for prescriptions. Previously, pharmacists were reimbursed for Medicaid pharmaceuticals at average wholesale price (AWP). The DRA, however, will require pharmacists to be reimbursed at average manufacturer price (AMP). In addition, the DRA changes the federal upper limit from 150 percent of the lowest published price for drugs to 250 percent of AMP. The change from AWP to AMP will reduce reimbursement payments to pharmacists because AMP is considerably lower than AWP.¹ Reductions in net payments to manufacturers and limits on reimbursements for pharmacists can potentially impact their ability to provide appropriate drugs for Medicaid enrollees.

With these proposed changes, the DRA can potentially reduce federal and state spending and maybe even create fiscal solvency in the Medicaid program. The DRA, however, has serious implications for Medicaid enrollees since healthcare access and coverage could be significantly reduced. It is important to note that the real impact of the DRA is dependent upon whether each state implements all or some of the proposed changes into its own Medicaid program.

¹ Deficit Reduction Act of 2005: Implications for Medicaid. The Kaiser Commission on Medicaid and the Uninsured, February 2006.

² Orris, A and Schneider, A. (June 2006). Administration Medicaid Rule Would Put Pressure on States to Reduce Benefits or Eligibility or To Lower Payments to Providers. Center on Budget and Policy Priorities.