

**Schedule 13**  
**Funding Request for the 2012-13 Budget Cycle**

Department: Health Care Policy and Financing  
 Request Title: Medicare Modernization Act State Contribution Payment  
 Priority Number: R-4

Dept. Approval by: John Bartholomew *JTB 10/20/11*  
 Date

OSPB Approval by: *David N. ... 10/24/11*  
 Date

- Decision Item FY 2012-13
- Base Reduction Item FY 2012-13
- Supplemental FY 2011-12
- Budget Amendment FY 2012-13

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	5
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items	Total	\$91,156,720	\$0	\$91,156,720	\$5,518,142	\$5,518,142
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$66,146,615	\$0	\$60,127,929	\$5,518,142	\$5,518,142
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$0	\$0	\$0	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$25,010,105	\$0	\$31,028,791	\$0	\$0
(5) Other Medical Services; Medicaid Modernization Act of 2003 State Contribution Payment	Total	\$91,156,720	\$0	\$91,156,720	\$5,518,142	\$5,518,142
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$66,146,615	\$0	\$60,127,929	\$5,518,142	\$5,518,142
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$0	\$0	\$0	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$25,010,105	\$0	\$31,028,791	\$0	\$0

Letternote Text Revision Required? Yes:  No:  If yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and COFRS Fund Number:

Reappropriated Funds Source, by Department and Line Item Name:  
 Approval by OIT? Yes:  No:  Not Required:

Schedule 13s from Affected Departments: N/A

Other Information:



# DEPARTMENT OF HEALTH CARE POLICY & FINANCING

John W. Hickenlooper  
Governor

*FY 2012-13 Funding Request  
November 1, 2011*

Susan E. Birch  
Executive Director

**Department Priority: R-4**  
**Medicare Modernization Act of 2003 State Contribution Payment**

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
MMA State Contribution Payment	\$5,518,142	\$5,518,142	0.0

### Request Summary:

This request is for additional General Fund totaling \$5,518,142 in FY 2012-13 for the Medicare Modernization Act of 2003 State Contribution Payment line item. This request is the result of a projected increase in the caseload of dual-eligible individuals in conjunction with a projected increase in the per-member per-month (PMPM) rate paid by the State as required by federal regulations. The Department estimates that the General Fund need in FY 2011-12 will be \$2,356,099. This estimate is provided for informational purposes only.

On January 1, 2006, the federal Centers for Medicare and Medicaid Services (CMS) assumed responsibility for the Medicare Part D prescription-drug benefit that replaced the Medicaid prescription-drug coverage for dual-eligible clients (individuals eligible for both Medicare and Medicaid). In lieu of the states' obligation to cover prescription drugs for this population, CMS began requiring states to pay a portion of what their anticipated dual-eligible drug cost would have been had this cost shift not occurred.

In January 2006, states began to pay CMS these "clawback" payments. The payments were calculated by taking 90% of the federal portion of each state's average PMPM dual-eligible drug benefit from calendar year 2003, inflated to 2006 using the average growth rate from the National

Health Expenditure (NHE) per-capita drug expenditures. This inflated PMPM amount is then multiplied by the number of dual-eligible clients, including retroactive clients, back to January 2006. As each calendar year passes, the 90% factor is lowered by 1.67% each year – which is known as the phase-down percentage – until it reaches 75%, where it will remain beginning in 2015. In addition, CMS inflates each state's PMPM rates based on either NHE growth or actual growth in Part D expenditures.

With new data available, the Department has recalculated its estimate for FY 2011-12 and projects the MMA clawback payment will total \$93,512,819, which is \$2,356,099 higher than the FY 2011-12 appropriation.

For FY 2012-13, the Department estimates the total clawback payment will equal \$96,674,862, which is \$5,518,142 more than the base request. This difference is a result of a projected increase in caseload and a projected increase in the PMPM rate.

On July 26, 2011, CMS released the National Health Expenditure Projections for 2010-2020, which the Department is currently analyzing to determine the impact these projections may have on the MMA State Contribution Payment line item. While the Department's analysis is ongoing, initial results indicate that MMA FY

2012-13 total expenditures could increase by as much as 6.5%.

**Anticipated Outcomes:**

Approval of this request would allow the Department to meet its obligation to the federal government and ensure the Department would not have the amount of payment plus interest deducted from the federal funds received for the Medicaid program. Such a deduction could cause the Department to be under-funded to provide services and would necessitate a General Fund appropriation or program cuts to make up the difference, as Medicaid is an entitlement program in which the Department cannot cap enrollment.

**Assumptions for Calculations:**

The Department assumes the changes in the PMPM rate paid by the Department will be based on the growth in the 2009 NHE prescription-drug per-capita estimates between years 2012 and 2013 and offset by the corresponding phase-down percent. The Department further assumes the changes in dual-eligible caseload will follow a trend of 3.75% annual growth, as has been evidenced historically.

Tables detailing these calculations are attached in Appendix A.

**Current Statutory Authority or Needed Statutory Change:**

42 C.F.R. §423.910 (a) (2011) General rule: *Each of the 50 States and the District of*

*Columbia is required to provide for payment to CMS a phased-down contribution to defray a portion of the Medicare drug expenditures for individuals whose projected Medicaid drug coverage is assumed by Medicare Part D.*

25.5-5-503, C.R.S. (2011) (1) *The state department is authorized to ensure the participation of Colorado medical assistance recipients, who are also eligible for medicare, in any federal prescription drug benefit enacted for medicare recipients. (2) Prescribed drugs shall not be a covered benefit under the medical assistance program for a recipient who is eligible for a prescription drug benefit program under medicare; except that, if a prescribed drug is not a covered Part D drug as defined in the “Medicare Prescription Drug, Improvement, and Modernization Act of 2003”, Pub.L. 108-173, the prescribed drug may be a covered benefit if it is otherwise covered under the medical assistance program and federal financial participation is available.*

## Appendix A: Medicare Modernization Act of 2003 State Contribution Calculation

The Department estimates the per-member per-month (PMPM) rate for CY 2012 to be \$125.58 and \$128.49 for CY 2013. To estimate the 2012 PMPM rate (Table 1), the Department followed the procedure outlined by the Office of the Actuary at the Centers for Medicare and Medicaid Services (CMS) using the National Health Expenditure (NHE) estimates of per-capita drug-expenditures growth for the period 2005 to 2008 listed in CMS's NHE Projections from 2008 and from 2009. This estimate also includes the CY 2012 annual percentage increase in the average per-capita aggregate Part D expenditures from CMS. That figure is then multiplied by the phasedown rate for CY 2012, once the state share is taken into account.

<b>Table 1: CY 2012 PMPM Rate</b>		
From NHE Projections 2008-2018 (Table 11)		
	Estimated 2005 Per-Capita Prescription Drug Expenditures	\$674
	Projected 2008 Per-Capita Prescription Drug Expenditures	\$772
	Percentage Growth	14.54%
From NHE Projections 2009-2019 (Table 11)		
	Estimated 2005 Per-Capita Prescription Drug Expenditures	\$675
	Estimated 2008 Per-Capita Prescription Drug Expenditures	\$769
	Percentage Growth	13.93%
<b>Change in Percentage Growth</b>		<b>-4.22%</b>
From Announcement of CY 2012 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies		
	Annual % Increase in Avg. Per Capita Aggregate Part D Expenditures for 2011 (Attachment V, Table III-2)	2.96%
<b>FINAL Percentage Change in Rate Prior to Applying Phasedown for CY 2012</b>		<b>-1.26%</b>
2011 PMPM Rate Prior to FMAP and Phasedown		\$317.97
FINAL Percentage Change in Rate Prior to Applying Phasedown for CY 2012		-1.26%
Projected CY 2012 PMPM Rate Prior to FMAP and Phasedown		\$313.96
FMAP State Share		50.00%
Projected CY 2012 PMPM Rate Prior to Phasedown		\$156.98
CY 2012 Phasedown Percentage		80.00%
<b>Projected CY 2012 PMPM Rate</b>		<b>\$125.58</b>

Sources: Centers for Medicare & Medicaid Services, NHE Projections 2008-2018, Table 11; Centers for Medicare & Medicaid Services, NHE Projections 2009-2019, Table 11; and Announcement of CY 2012 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies, Attachment V, Table III-2.

To estimate the PMPM rate for CY 2013 (Table 2), the Department used the projected annual percentage increase in prescription drug expenditures between 2012 and 2013 from the 2009-19 NHE projections, followed by the corresponding phasedown percentage for CY 2013 after the state share was included in the calculation.

<b>Table 2: CY 2013 PMPM Rate</b>		
From NHE Projections 2009-2019 (Table 11)		
	Projected 2012 Per-Capita Prescription Drug Expenditures	\$911
	Projected 2013 Per-Capita Prescription Drug Expenditures	\$952
<b>Percentage Growth</b>		<b>4.50%</b>
Projected CY 2012 PMPM Rate Prior to FMAP and Phasedown		\$313.96
FINAL Percentage Change in Rate Prior to Applying Phasedown for CY 2013		4.50%
Projected CY 2013 PMPM Rate Prior to FMAP and Phasedown		\$328.09
FMAP State Share		50.00%
Projected CY 2013 PMPM Rate Prior to Phasedown		\$164.04
CY 2013 Phasedown Percentage		78.33%
<b>Projected CY 2013 PMPM Rate</b>		<b>\$128.49</b>

Source: Centers for Medicare & Medicaid Services, NHE Projections 2009-2019, Table 11.

The Department notes the projection of PMPM rates is based on the growth in the NHE drug expenditures; however, federal law states the growth factor for 2007 and succeeding years will equal the annual percentage increase in average per-capita aggregate expenditures for covered Part D drugs in the United States for Part D-eligible individuals during the 12-month period ending in July of the previous year. Since actual expenditure data is not available for 2012 and beyond at the time of this request, the actual per-capita rate growth may differ from the Department's projection.

### Caseload Calculation

To estimate caseload, the Department analyzed data from January 2006 through June 2011 and concluded a 3.75% historical trend is the most reasonably accurate forecast method for this population. This method estimates caseload by increasing the figure from the same month during the previous year by 3.75%. Because clients are able to be retroactively enrolled and disenrolled for up to 24 months, retroactivity is also considered in this forecast. Historical data shows current month enrollment accounts for approximately 95% of the final caseload figure including retroactivity. This data also shows a decay rate that spreads the remaining 5% out over the first 12 retroactive months.

The Department has recalculated its estimate for FY 2011-12 (see Table 3). Based upon the updated forecast, the Department anticipates caseload will increase in FY 2011-12 from 59,563 in July 2011 to 62,711 in June 2012. As a result, the revised expenditure estimate totals \$93,512,819, which is \$2,356,099 higher than what was estimated last year.

<b>Table 3: FY 2011-12 Projected MMA Caseload and Expenditures</b>				
	<b>CY 2010</b>	<b>CY 2011</b>	<b>CY 2012</b>	<b>FY 2011-12 TOTAL</b>
<b>July 2011</b>	298	59,265	0	59,563
<b>August 2011</b>	209	59,611	0	59,820
<b>September 2011</b>	150	59,905	0	60,055
<b>October 2011</b>	90	60,233	0	60,323
<b>November 2011</b>	61	60,591	0	60,652
<b>December 2011</b>	30	60,715	0	60,745
<b>January 2012</b>	0	3,054	58,020	61,074
<b>February 2012</b>	0	2,005	59,692	61,697
<b>March 2012</b>	0	1,398	60,751	62,149
<b>April 2012</b>	0	933	61,247	62,180
<b>May 2012</b>	0	626	61,945	62,571
<b>June 2012</b>	0	439	62,272	62,711
<b>CY Client Total</b>	838	368,775	363,927	
<b>CY Rate</b>	\$101.49	Varies*	\$125.58	
<b>Expenditures</b>	<b>\$85,049</b>	<b>\$47,724,962</b>	<b>\$45,702,808</b>	<b>\$93,512,819</b>

\* CY 2011 Rates: CQ1 \$107.07; CQ2 \$111.98; CQ3 \$129.84; CQ4 \$129.84.

Based upon the same forecast, the Department anticipates FY 2012-13 caseload will increase from 61,796 in July 2012 to 65,062 in June 2013 (see Table 4). As a result, the total projected expenditure for the Medicare Modernization Act of 2003 State Contribution Payment for FY 2012-13 is \$96,674,862.

<b>Table 4: FY 2012-13 Projected MMA Caseload and Expenditures</b>				
	<b>CY 2011</b>	<b>CY 2012</b>	<b>CY 2013</b>	<b>FY 2012-13 TOTAL</b>
<b>July 2012</b>	309	61,487	0	61,796
<b>August 2012</b>	217	61,846	0	62,063
<b>September 2012</b>	156	62,151	0	62,307
<b>October 2012</b>	94	62,492	0	62,586
<b>November 2012</b>	63	62,863	0	62,926
<b>December 2012</b>	32	62,992	0	63,024
<b>January 2013</b>	0	3,168	60,196	63,364
<b>February 2013</b>	0	2,080	61,931	64,011
<b>March 2013</b>	0	1,451	63,029	64,480
<b>April 2013</b>	0	968	63,544	64,512
<b>May 2013</b>	0	649	64,268	64,917
<b>June 2013</b>	0	455	64,607	65,062
<b>CY Client Total</b>	871	382,602	377,575	
<b>CY Rate</b>	Varies*	\$125.58	\$128.49	
<b>Expenditures</b>	<b>\$113,091</b>	<b>\$48,047,159</b>	<b>\$48,514,612</b>	<b>\$96,674,862</b>

\* CY 2011 Rates: CQ1 \$107.07; CQ2 \$111.98; CQ3 \$129.84; CQ4 \$129.84.