



MEDICARE PART D CLAWBACK PAYMENTS

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Defining Dual Eligible

Individuals eligible for both Medicare and Medicaid are generally referred to as "dual eligibles" or "dually eligible."

However, not all dual eligibles are the same. All dual eligibles receive full Medicare benefits but the amount of Medicaid benefits they receive can be partial or full. "Partial duals" may qualify to have Medicaid pay for their Medicare premiums. "Full duals" have full Medicaid benefits.

The dual eligibles referenced in this report are "full duals."

ISSUE

This report discusses Medicaid payments that states must make to the federal government related to Medicare Part D prescription drug coverage.

SUMMARY

The 2003 Medicare Prescription Drug, Improvement, and Modernization Act (MMA) ([P.L. 108-173](#)) created Medicare Part D and transitioned, from Medicaid to Medicare, prescription drug coverage for those who were eligible for Medicare and full Medicaid benefits. It also required states to make payments to cover the cost of Medicare Part D benefits.

These payments, known as phased-down state contributions or clawback payments, are calculated based on prescription drug costs, the state's share of most Medicaid costs, a phased-down adjustment factor, and the number of full Medicaid benefit dual eligibles in the state. The federal Centers for Medicare and Medicaid Services (CMS) have announced an 11.93% increase this year in prescription drug costs. This follows an 11.61% increase last year. According

to [Stateline](#), this is the second year of double-digit increases of the growth rate and the largest annual increase since Part D began.

In 2015, Medicare clawback payments ranged from a low of \$11 million in Wyoming to a high of \$1.5 billion in California. Connecticut paid \$139 million.



TRANSITION OF PRESCRIPTION COVERAGE FOR DUAL ELIGIBLES

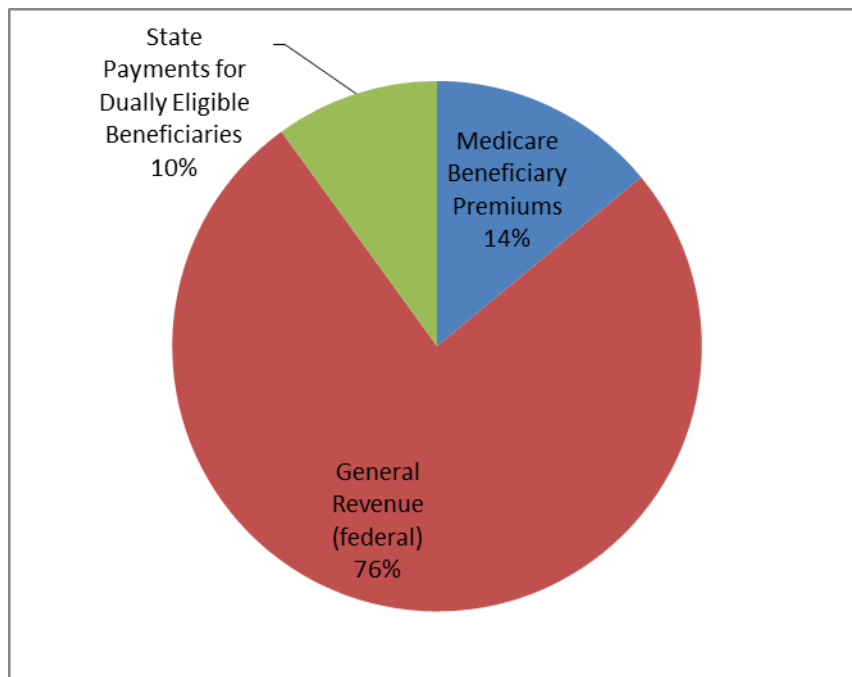
The 2003 Medicare Prescription Drug, Improvement, and Modernization Act (MMA) ([P.L. 108-173](#)) created Medicare Part D, which allows a Medicare beneficiary to enroll in a private prescription drug plan if he or she is entitled to Medicare Part A or enrolled in Medicare Part B (coverage under both is not required).

Prior to the passage of MMA, individuals enrolled in Medicare and receiving full Medicaid benefits (certain “dual eligibles”) generally received prescription drug coverage through Medicaid. The 2003 MMA transitioned prescription drug coverage for these dual eligibles from Medicaid to Medicare, beginning in 2006. It also created a mechanism through which states would partially finance Medicare Part D benefits for dual eligibles by requiring each state to pay a phased-down state contribution (i.e., a “clawback” payment). In other words, after the MMA, Medicaid was no longer directly responsible for paying for most prescription drugs used by dually eligible beneficiaries, but states still pay for part of the cost of Medicare Part D coverage for these individuals through clawback payments.

STATE PAYMENTS FOR MEDICARE PART D

Medicare Part D benefits for all enrolled beneficiaries are funded in part by these clawback payments, as shown in Figure 1.

Figure 1: Sources of Medicare Part D Funding (2015)



Source: [Kaiser Family Foundation](#)

A state’s monthly clawback payment is determined through a formula, as shown in Figure 2.

Figure 2: Formula to Calculate State Monthly Payments

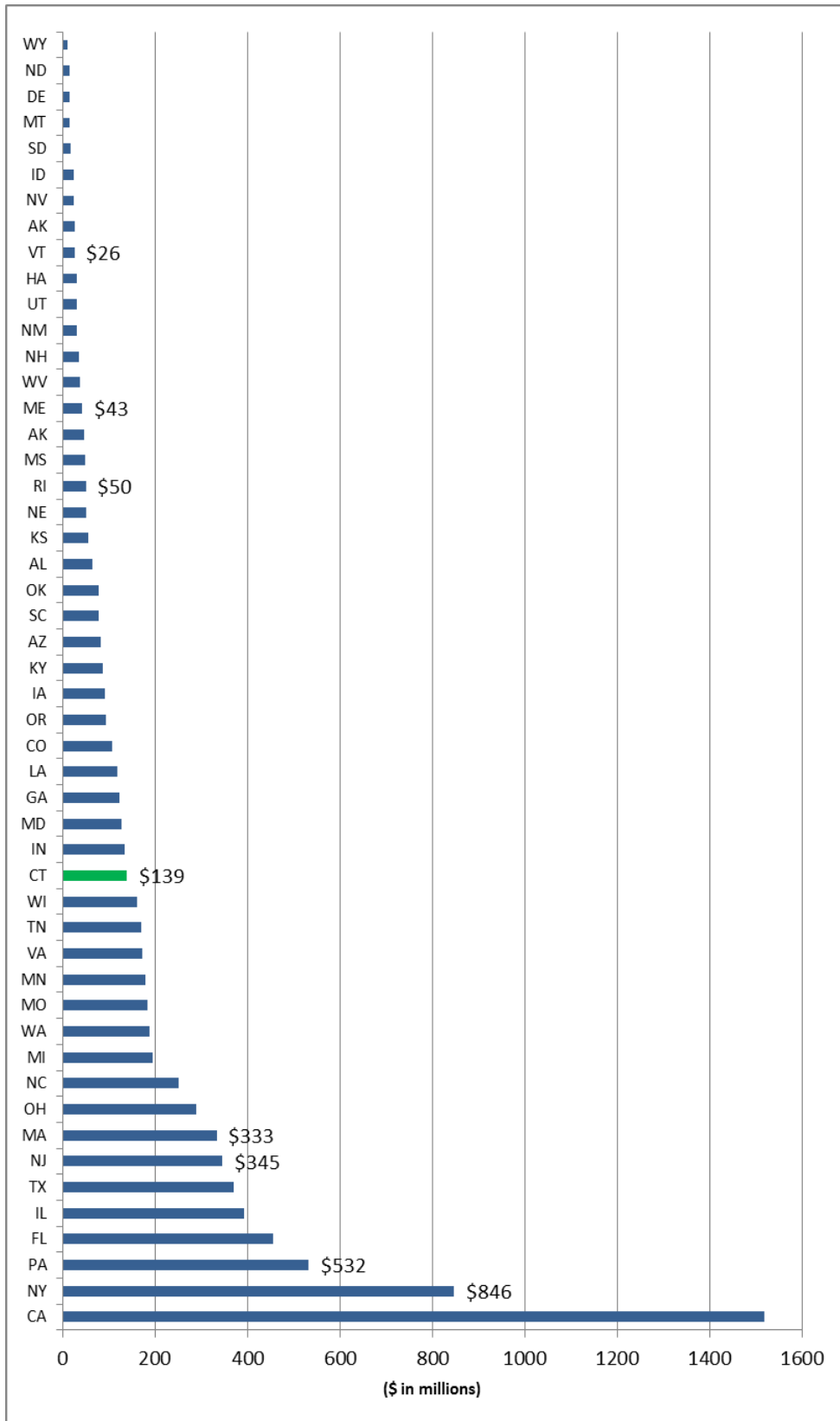
State’s monthly clawback payment	=	2003 per capita dual eligible drug expenditures, trended forward to the current period	X	State share of costs for most Medicaid services (i.e., 100% - federal medical assistance percentage (FMAP))	X	Phased-down adjustment factor (75% since 2014)	X	State’s current number of dual eligibles receiving full Medicaid benefits
		<div style="display: flex; justify-content: space-between; align-items: center;"> </div>						
		12 (months)						

Source: [Medicaid and CHIP Payment and Access Commission](#)

CMS annually notifies states of their payment amount for the following year. To adjust the per capita drug expenditures for each year, CMS uses the annual percentage increase (API) in per capita Part D drug expenditures for the next year and adjusts for revisions to prior year estimates. [For 2017](#), the API (11.75%) and the adjustment for 2016 (0.16%) result in a total increase of 11.93%. There is no change in the phased-down adjustment factor. Other factors (state share of Medicaid costs, number of dual eligibles) vary by state.

Figure 3 shows Medicare Part D clawback payments made by states in 2015. The payments range from \$11 million in Wyoming to \$1.5 billion in California. Connecticut paid \$139 million. Figure 3 also shows payment totals for states in the northeast region. Vermont, Maine, and Rhode Island paid less than Connecticut, while Massachusetts, New Jersey, Pennsylvania, and New York paid more.

Figure 3: Medicare Part D “Clawback” Payments in 2015



Source: [National Association of State Budget Officers \(NASBO\)](#)

RESOURCES

CMS: ["RE: Calendar Year \(CY\) 2017 Jan-Sep Phased-down State Contribution Final Per-Capita Rates,"](#) Letter to State Medicaid Directors, October 28, 2016.

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Ollove, Michael, ["Drug Prices, Senior Programs May Deliver Blow to State Budgets,"](#) Stateline, November 23, 2016

Schneider, Andy ["The Clawback: State Financing of Medicare Drug Coverage,"](#) Kaiser Family Foundation, June 2004.

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