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WEDNESDAY, MARCH 9, 2005



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Medicare drug plan backfires on states

Seniors' switch from Medicaid will boost costs by millions

SUSAN JAFFE
Plain Dealer Reporter

The Medicare prescription drug benefit is backfiring on states — running up millions of dollars in extra drug bills instead of the savings promised by its Republican supporters.

Under the new drug benefit that starts in January, seniors enrolled in state Medicaid programs will get their drugs instead from Medicare, the federal health plan that covers 41 million older Americans. States will have to pay nearly all the cost.

Ohio will owe Medicare \$55.7 million more in 2007 than the state would have paid without the new benefit, estimated Barbara Edwards, Ohio's Medicaid director.

"It's pretty disturbing," she said.

That's enough to restore the proposed cuts in dental and vision coverage for nearly 1 million adults receiving Medicaid, Edwards said. Medicaid provides health insurance for low-income families paid for by state money with a 60 percent federal matching contribution.

More than 200,000 Ohio seniors on Medicaid will have to switch to Medicare for drugs.

California will spend roughly \$215 million more in the first year of the program, said Medicaid Director Stan Rosenstein. He said that amount will only increase in the future.

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FROM A1

Drug benefit backfires on states

The payment formula is based on states' 2003 drug bills, which don't reflect the latest cost-savings, among other things. It also doesn't allow states to negotiate prices with drug makers, as they do now to get bargains on Medicaid drugs.

The extra costs couldn't come at a worse time: the Bush administration wants to cut \$60 billion from its share of Medicaid. Gov. Bob Taft wants to tame what he calls the Medicaid "monster" by

trimming \$2.3 billion in the next two years. The state's Medicaid spending is outpacing growth in state revenue and consumes the largest portion of the general budget, exceeding the cost of primary and secondary education.

The day before Sen. George Voinovich voted for the Medicare drug benefit in 2003, his spokesman said the legislation would save Ohio's Medicaid program \$700 million over eight years. Messages left with the senator's staff were not returned Tuesday.

What happened? How did the savings turn into a multimillion-dollar liability?

Look in the fine print.

The law requires states to continue to pay 90 percent of their share of drug costs for Medicaid-

eligible seniors. But instead of paying actual costs, the drug bill is based on what the states paid in 2003 — when the seniors were still in Medicaid — plus an extra adjustment to reflect the annual rise in medical costs, explained Edwards, who has a national reputation as an expert on Medicaid intricacies.

That's a terrible year to base costs on, according to Edwards. It doesn't include rebates from pharmaceutical companies for drugs purchased that year but received in the following year. It doesn't include additional rebates that Ohio negotiated with drug makers that took effect in 2004, along with other measures that reduced costs that year.

"We're not going to get credit

for that," Edwards said. "They're starting with a base rate that's too high."

And states will be stuck with it, year after year.

Plus there are other ways the states are getting shortchanged, she said.

"The other thing that causes some heartburn is that we're paying costs for a formulary that doesn't reflect what Medicare is buying," Edwards said.

Medicaid covers any FDA-approved drug, and the Medicare drug benefit does not. Medicaid also covers some over-the-counter medicine and vitamins that are cheaper alternatives to prescription drugs, but they are also not covered by Medicare.

Drugs are not the only costs that states will have to pay. Edwards' staff is still analyzing how much Ohio will have to spend in administrative costs to meet other requirements in the law, including handling applications,

educating the public and determining eligibility.

When the federal Centers for Medicare and Medicaid Services, or CMS, issued rules implementing the drug benefit, agency officials rejected suggestions to make some adjustments in the drug payment formula.

"The law is pretty clear," said CMS spokesman Gary Karr. "We can't change the 2003 base year."

If states have questions about how their drug costs are calculated, they should contact CMS, he said.

"We want to get these payments right."

And states shouldn't lose sight of "the big picture," he added. Along with other employers, states can apply for money from Medicare to subsidize drug coverage for retired state workers. So overall, the new Medicare law will save states money, he said.

Officials at the Ohio Public Employees Retirement System

have estimated that the subsidy would save PERS about \$50 million a year in drug costs, if they apply for it and meet the eligibility requirements. But it is not clear whether that money must be used exclusively by PERS or if it could be applied to shore up Medicaid.

Last week, Gov. Bob Taft and his colleagues in the National Governors Association unanimously supported a resolution asking Congress and the Bush administration to revise the reimbursement formula.

Taft has also written and met with CMS chief Mark McClellan, and he received assurances that the federal agency will look at how Ohio's drug cost was calculated. California has also objected, seeking a reduction in its drug bill.

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