

STATE OF COLORADO

DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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Bill Owens
Governor

Stephen C. Tool
Executive Director

October 30, 2006

The Honorable Bernie Buescher, Chairman
Joint Budget Committee
200 East 14th Avenue, 3rd Floor
Legislative Services Building
Denver, CO 80203

Dear Representative Buescher:

Footnote 29 of House Bill 06-1385 requested that beginning in July 2006, the Department should provide the Joint Budget Committee with quarterly reports regarding the calculations for the mandatory maintenance of effort payment to the federal government for the Medicare Modernization Act of 2003. This is the second quarterly report for this Footnote request.

Summary of Budgeted Savings in Medical Services Premiums

As you are aware, part D of the Medicare Modernization Act of 2003 was implemented on January 1, 2006 relieving states of their obligation to pay for the majority of pharmaceuticals to Medicaid clients that are also Medicare eligible (or dual eligibles).

On March 13, 2006, the Joint Budget Committee voted to approve staff's recommendation during the Department's FY 06-07 Figure Setting session, which removed \$146,784,190 total for fee-for-services and managed care drug costs for the fiscal year (February 15, 2006, FY 06-07 Budget Request Amendments, tab EQ-1). See the following tables for a summary of budget actions for FY 06-07.

JBC Figure Setting Recommendations	FY 06-07
BA-A1 for fee-for-service drugs – February 15, 2006	(\$126,790,399)
BA-A1 for health maintenance organizations – February 15, 2006	(\$17,869,503)
BA-A1 for the Program for All Inclusive Care of the Elderly – February 15, 2006	(\$2,124,288)
Total FY 06-07 Adjustments	(\$146,784,190)

Expenditure Experience

Based on average fee-for-service drug expenditures pre- and post-implementation of part D, the Department has experienced a reduction in total fee-for-service drug expenditures by 47.5% in FY 06-07. While there are other factors to consider, mainly caseload and utilization changes, this

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percentage provides a reasonable estimate of the impact of part D on Colorado's fee-for-service drug expenditures. Please note, receipt of drug rebates by the State is subject to manufacture involvement, and are therefore not correlated to actual drug expenditures in the same month. There will be a lag in experiencing reduced rebates due to the implementation of part D.

Fee-For-Service Drug Expenditures*	Pre-Rebate	Rebate Amount
July 2005	\$16,768,137	\$0
August 2005	\$26,577,758	(\$11,736,536)
September 2005	\$21,213,451	(\$7,511,692)
October 2005	\$30,737,098	(\$550,149)
November 2005	\$23,067,017	(\$14,968,297)
December 2005	\$30,476,687	(\$3,322,455)
Six month average before Part D implementation	\$24,806,691	(\$6,348,188)
July 2006	\$14,181,448	(\$0)
August 2006	\$11,860,212	(\$9,698,830)
Two month average post Part D implementation	\$13,020,830	(\$4,849,415)
Percent change in monthly averages	(47.5%)	(23.6%)

* As communicated to the Joint Budget Committee from the Department's monthly Footnote 32 reports

Conversely, the Department has experienced increased expenditures in health maintenance organizations and the Program for All Inclusive Care of the Elderly equal to 36.4% for the same time period. While implementation appears to have had the reverse affect in managed care, this is not the case. Rather a new passive enrollment policy was implemented by the Department between April and May 2006 for Adams, Arapahoe, Denver, and Jefferson counties, which encourages client participation in a Medicaid managed care health plan and promotes selecting a primary care physician as the client's medical home. The Department knows this change in the enrollment process has significantly affected the amount of capitations being paid, and therefore has increased expenditures; however, the Department does not have actual enrollment figures for July or August 2006 at this time to provide a detailed analysis of this impact.

Based on the Department's previous Footnote 29 report, changes in caseload over a three month period from April to June 2006, coinciding with the implementation of passive enrollment, resulted in enrollment growth of 46.6% (April 2006 enrollment was 63,911 versus June 2006 expenditure of \$16,674,803 pre-implementation of the Medicare Modernization Act, the revised amount would be \$24,445,261. When comparing this amount to the average expenditures post-implementation of the Medicare Modernization Act in FY 06-07 of \$22,735,670, expenditures have actually declined roughly 7.0%.

Please note, rates for the Program for All Inclusive Care of the Elderly were rebased at the same time as the Department was instructed to implement part D, and therefore dampen the affect of part D in this program. Based on actuarial certification, rates for the Program for All Inclusive Care for the Elderly increased 5.6% between calendar year 2005 and calendar year 2006 (the net affect of removing part D drugs and rebasing rates).

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Managed Care Expenditures for FY 06-07	Expenditures*
July 2005	\$16,616,805
August 2005	\$17,100,958
September 2005	\$16,404,662
October 2005	\$16,505,971
November 2005	\$17,022,871
December 2005	\$16,397,549
Six month average before Part D implementation	\$16,674,803
July 2006	\$22,922,803
August 2006	\$22,548,537
Two month average post Part D implementation	\$22,735,670
Percent change in monthly averages	36.4%

* Expenditures are as communicated to the Joint Budget Committee from the Department's monthly Footnote 32 reports.
Note: Between April 2006 and May 2006, the Department implemented a new passive enrollment policy that increased enrollment in managed care plans for four Denver metro counties: Adams, Arapahoe, Denver, and Jefferson.

Clawback

The Department has received all but one invoice from the federal Centers for Medicare and Medicaid Services (CMS) regarding the State's Clawback contributions for FY 05-06 and FY 06-07. For the dollars and number of clients per invoice received to date, see Attachment A.

For FY 06-07, the Department's total appropriation for the Clawback payment is \$73,493,542. This includes an increase for an annualization of an additional six months, and for changes in both the phasedown percentage (reduced from 90.0% to 88.6%) and an increase for inflation based on the National Health Expenditures growth for prescription drugs. As of October 10, 2006 the Department has received two invoices for the months of July and August for a total of \$11,444,158, resulting in a remaining balance of \$62,049,384 for the remainder of the year.

If you have any questions, please contact John Bartholomew, Budget Director, at 303-866-2854.

Sincerely,

Stephen C. Tool
Executive Director

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ATTACHEMENT A

	Caseload (Date Invoiced vs Date Attributable) and Expenditures								
	January Invoice	February Invoice	March Invoice	April Invoice	May Invoice	June Invoice	July Invoice	August Invoice	Total
January	43,098	0	414	267	537	187	325	157	44,985
February		42,583	605	369	1,204	220	344	179	45,504
March			45,593	603	-482	283	313	198	46,508
April				45,193	162	409	344	248	46,093
May					45,357	683	471	337	46,848
June						46,986	619	471	48,076
July							47,351	751	48,102
August								47,658	47,658
Caseload	43,098	42,583	46,612	46,432	46,778	48,768	49,767	49,999	374,037
Per Capita	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71
Invoice	\$4,943,772	\$4,884,696	\$5,346,863	\$5,326,215	\$5,365,904	\$5,594,177	\$5,708,773	\$5,735,385	\$42,905,785