DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850

Center for Medicaid and State Operations

FEB 2 2006

SMDL #06-001

Dear State Medicaid Directors and State Pharmacy Assistance Program Directors:

Thank you for working with us over the past 2 years on the implementation of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which has resulted in the successful transition from Medicaid prescription drug coverage to Medicare prescription drug coverage for an overwhelming majority of dual eligible beneficiaries. Your work on behalf of dual eligible beneficiaries and on behalf of all Medicare beneficiaries is greatly appreciated.

The Centers for Medicare & Medicaid Services (CMS) has taken numerous actions to ensure that individuals eligible for both Medicare and full Medicaid benefits ("dual eligible beneficiaries") continue to receive needed medications as they make the transition from Medicaid coverage of their drugs to coverage under the new Medicare prescription drug benefit. CMS is committed to working with States to make the transition as seamless as possible for all dual eligible beneficiaries. In addition, CMS is committed to working with States to ensure that low-income Medicare beneficiaries who have enrolled in a Part D plan and have been determined eligible for a low-income subsidy receive the benefits to which they are entitled.

The CMS is making available a new Medicare demonstration project under the authority of section 402 of the Social Security Amendments of 1967, as amended. Our goal is to ensure that the Medicare and Medicaid programs can respond expeditiously to the needs of the dual eligible beneficiaries and beneficiaries who have enrolled in a Part D plan and have been determined to be eligible for the low-income subsidy. This demonstration would allow States that have assisted their dual eligible and low-income subsidy entitled populations in obtaining and accessing Medicare Part D coverage to be reimbursed for their efforts.

In particular, the demonstration permits Medicare payment to be made to States for amounts they have paid for a dual eligible's Part D drugs, or a low-income subsidy entitled Part D plan enrollee's Part D drugs, to the extent that those costs are not otherwise recoverable from a Part D plan and are not required Medicare cost sharing on the part of the beneficiary. In addition to providing Medicare funds to reimburse amounts paid by States for Part D drugs, the demonstration would also provide payments for certain administrative costs incurred by States. CMS will establish a staff team to provide expedited review of applications of States applying for this demonstration.

Key features of the demonstration will include:

- **State Reimbursement:** States that meet the conditions of the demonstration will have their drug benefit costs reimbursed through: (1) CMS payment reconciliation with the prescription drug plans; and (2) CMS payment of any net drug cost differential after drug plan reconciliation within the State (this does not include Medicare-required cost sharing amounts). In addition, CMS will provide funding for administrative costs incurred by States directly related to making payments for dual eligibles for Part D drugs and for activities directly related to facilitating enrollment and/or obtaining benefits for dual eligibles in a Part D plan, or for obtaining benefits for low-income subsidy entitled beneficiaries who have enrolled in a Part D plan.

- **Payer of Last Resort:** States should require pharmacists to primarily bill the Medicare Part D plan or use the Medicare point-of-sale billing option, before relying on State payment. States will provide input to CMS and the plans on ways to enhance plan and program performance for the State's dual eligible beneficiaries and pharmacists, in order to reduce State billing.

- **Timely Data Sharing:** States that participate should submit timely paid claims data to CMS in a specified format in order to calculate payment due from the appropriate Part D plan for reimbursement for the drugs provided to dual eligibles and low-income subsidy entitled beneficiaries between January 1, 2006, and February 15, 2006. The State should submit other itemized files of claims and administrative costs as required for any costs for which it is seeking reimbursement, in addition to beneficiary identification information, in order to facilitate reconciliation and beneficiary transition to Part D plans. States will maintain all necessary supporting documentation for all claims submitted in a readily reviewable format and make it available for review as necessary. States will also work with CMS to provide valid data on any set of beneficiaries who may not have been properly included in the State's previous dual eligible files.

- **Claims Identification:** States will separate claims under the demonstration from claims the States would have otherwise paid through a separate State program. In some States, the State has elected to pay all cost sharing, for example, on behalf of some beneficiaries who would otherwise have paid a copayment. This demonstrataion will not reimburse States for those costs. Claims for non-Part D drugs will not be included in this process. This demonstration does not include reimbursement for any non-Part D drugs or administrative costs associated with providing or obtaining non-Part D drugs.

- **Eligible Costs:** The demonstration will reimburse the State for Part D drugs dispensed to dual eligible beneficiaries and low-income subsidy entitled beneficiaries between January 1, 2006, and February 15, 2006, and for associated administrative costs.

Attached is a template that States may use to apply for this section 402 demonstration. In completing the template, States should provide contact information in order that CMS can contact key State officials to discuss demonstration proposals. The electronic version of the template will be available on the CMS Web site at http://www.cms.hhs.gov.

Any questions related to this initiative or the template should be addressed to Ms. Christine Hinds, Health Insurance Specialist, Medicare Plan Policy Group at (410) 786-4578. Applications should be addressed to:

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We appreciate the efforts States have made during this transition period in ensuring that dual eligibles and other low-income subsidy entitled beneficiaries receive the prescription medications they need. Toward that end, CMS will work expeditiously with States in processing demonstration applications to ensure that America's most vulnerable populations continue to receive the care they need.

Sincerely,

Dennis G. Smith
Director

Enclosures

cc: CMS Regional Administrators

CMS Associate Regional Administrators
for Medicaid and State Operations

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