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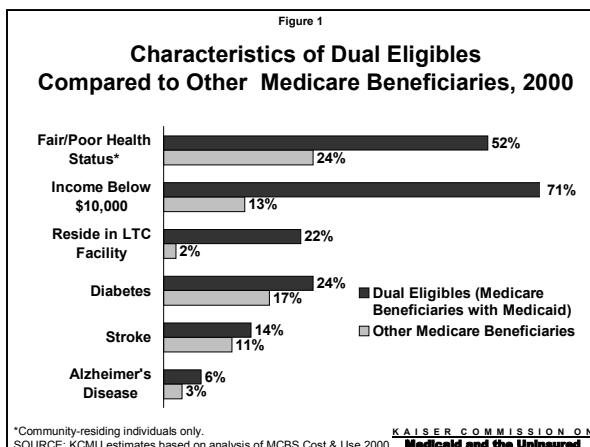
Dual Eligibles: Medicaid's Role for Low-Income Medicare Beneficiaries

Over 7 million of Medicaid's 50 million beneficiaries are "dual eligibles," low-income elderly and individuals with disabilities who are enrolled in both Medicaid and Medicare. While Medicare covers basic health services, including physician and hospital care, dual eligibles rely on Medicaid to pay Medicare premiums and cost-sharing and to cover critical benefits Medicare does not cover, such as long-term care. Although starting in 2006, coverage of prescription drugs for dual eligibles will shift from Medicaid to Medicare, financing coverage of dual eligibles will continue to pose a challenge to fiscally-pressed Medicaid programs.

Who Are Dual Eligibles?

Eighteen percent of Medicare beneficiaries are dual eligibles receiving supplemental coverage through Medicaid. Dual eligibles account for one in seven Medicaid enrollees, including virtually all the elderly and about one-third of non-elderly beneficiaries with disabilities in Medicaid.

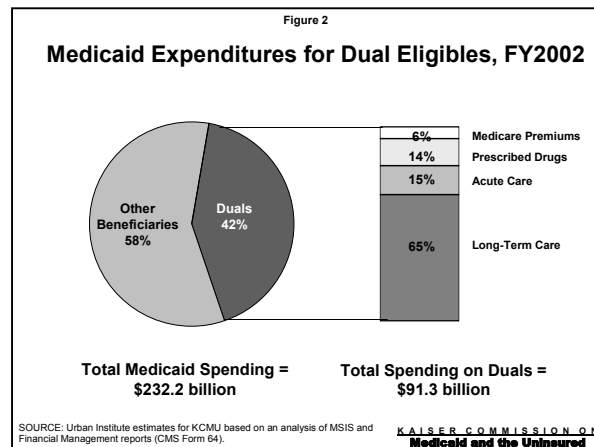
Most dual eligibles are very low-income individuals with substantial health needs: 71% have annual income below \$10,000, compared to 13% of all other Medicare beneficiaries. High-cost and sick or frail Medicare beneficiaries are concentrated among the dually eligible. Nearly one-quarter of dual eligibles are in nursing homes, compared to 2% of other Medicare beneficiaries. Over half are in fair or poor health, twice the rate among others in Medicare. A third of dual eligibles have significant limitations in activities of daily living, compared to 14% of other Medicare beneficiaries. The prevalence of chronic conditions is also higher among dual enrollees (Fig. 1).



The distribution of Medicare and Medicaid spending also reveals the concentration of need and costs among the dually eligible. Dual eligibles comprised 18% of all Medicare beneficiaries in 2000, but they accounted for 24% of total Medicare spending. Similarly, they represented 16% of all Medicaid enrollees but 42% of program spending.

Dual eligibles rely on a wide range of services, which are paid for by either Medicare or Medicaid (Fig. 2). The majority of Medicaid expenditures for dual eligibles are for long-term care services (65%); prescription drugs accounts for 14% and other acute care services to supplement Medicare account for 15%. Payment of Medicare premiums accounts for 6% of Medicaid expenditures.

How Does Medicaid Assist Dual Eligibles?



Medicare beneficiaries can obtain Medicaid through different eligibility "pathways," and the kind of assistance that Medicaid provides varies accordingly (Fig. 3). The poorest Medicare beneficiaries, including those who have exhausted their resources paying for health and long-term care (sometimes known as "medically needy" or "spend-down"), receive full assistance with Medicare premiums and cost sharing and coverage of all Medicaid benefits. Most dual eligibles qualify for Supplemental Security Income (SSI) or have incurred nursing home costs and are thus entitled to this comprehensive protection.

For Medicare beneficiaries with more income or resources, Medicaid's assistance is more limited, primarily covering Medicare premiums. This assistance is referred to as the "Medicare Savings Programs" or "buy-in programs," and the beneficiaries who qualify for it are known as Qualified Medicare Beneficiaries (QMB), Specified Low-Income Medicare Beneficiaries (SLMB), and Qualifying Individuals (QI) – after the provisions that added these programs.

Figure 3

Medicaid Eligibility for Medicare Beneficiaries, 2004

Pathway	Income Eligibility	Asset Limit	Medicaid Benefits
Mandatory			
SSI Cash Assistance*	≤ 74% of poverty (SSI income eligibility)	\$2,000 (individual) \$3,000 (couple)	Full "wrap-around" Medicaid benefits, Medicare Part B premium and cost sharing.
Qualified Medicare Beneficiary (QMB)	≤ 100% of poverty	\$4,000 (individual) \$6,000 (couple)	No Medicaid benefits. Medicaid pays Medicare Part B premium and cost-sharing.
Specified Low-Income Beneficiary (SLMB)	100-120% of poverty	\$4,000 (individual) \$6,000 (couple)	No Medicaid benefits. Medicaid pays for Medicare Part B premium.
Optional			
Medically Needy	Individuals who spend their income down to a specified level	\$2,000 (individual) \$3,000 (couple)	Full "wrap around" Medicaid benefits which may be more limited than for SSI.
Poverty-Level	≤ 100% of poverty	\$2,000 (individual) \$3,000 (couple)	Full "wrap-around" Medicaid benefits, Medicare Part B premium and cost sharing.
Special Income Rule for Nursing Home Residents	Individuals in institutions with income <300% of the SSI level	\$2,000 (individual) \$3,000 (couple)	Full "wrap around" Medicaid benefits, Medicare Part B premium and cost-sharing.
Home and Community-Based Services Waivers	Individuals who would be eligible if resided in an institution		Full "wrap around" Medicaid benefits including long-term care and prescription drugs.

* States that elect the so-called "(209b)" option can set lower levels.

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Why Do Medicare Beneficiaries Need Medicaid?

Medicaid helps relieve the financial burdens facing low-income Medicare beneficiaries in several ways. First, it pays their monthly Medicare Part B premium, which now amounts to \$800 per year. Second, Medicaid pays the cost-sharing charged for many Medicare services. Finally, Medicaid covers a range of important benefits excluded from Medicare, such as long-term care, dental and vision care, and other key services.

Because of their extensive health care needs, dual eligibles require and use more services than others in Medicare. On average, total health care costs for dual eligibles are double those of other Medicare beneficiaries. Medicaid covers 38% of total health care costs for dual eligibles – nearly as much as the 43% that Medicare covers – with out-of-pocket spending comprising most of the remainder.

Implications of the Medicare Prescription Drug Benefit

On January 1, 2006, the 6.4 million dual eligibles that receive the full Medicaid benefits package will lose their Medicaid prescription drug coverage but can enroll in the Medicare Part D prescription drug benefit. The

legislation establishes a low-income subsidy program that will offer substantial assistance with cost-sharing to dual eligibles and other low-income individuals. Medicare will pay the Part D deductible on behalf of all dual eligibles, as well as their premiums if they enroll in an average or low-cost Part D plan. These subsidies will eliminate the gap in coverage for dual eligibles that other Medicare beneficiaries will face, referred to as the "doughnut hole". Dual eligibles will face small co-pays ranging from \$1-5. Dual eligibles residing in nursing homes or other institutions are exempt from co-pays because they already must contribute all but a small portion of their income to the cost of nursing home care.

Although the new law shifts drug coverage for dual eligibles from Medicaid to Medicare, it does not provide full fiscal relief to states. States are required to finance a large share of the cost of providing the Medicare Part D prescription drug benefit to dual eligibles through payments to the federal government.

It is unclear how dual eligibles will fare under the Medicare Part D prescription drug benefit when it is implemented in 2006. The array of drugs covered by Part D plans may fall short of those currently covered by Medicaid. In about half the states, Medicaid co-pay requirements for dual eligibles currently fall below the levels that most dual eligibles will face when they enroll in Part D plans in 2006. Dual eligibles may find that their out-of-pocket costs for prescription drugs increase when they enroll in Part D plans. Dual eligibles will also have to pay 100% of the costs of drugs that are not covered by their Part D plans. Under the bill, states are not allowed to use federal Medicaid matching funds to supplement prescription drug coverage for dual eligibles under Part D plans, however, a state can choose to use state-only funds to wrap-around the prescription drug benefit.

Future Challenges

Dual eligibles rely on Medicaid primarily for long-term care and for other services not covered by Medicare. Because dual eligibles have significant health needs and few resources to obtain the range of services they require, Medicaid provides critical assistance.

It will be some time before individual states are able to fully evaluate the effect of the new Medicare prescription drug benefit on their Medicaid budgets and dual eligible populations. Given the health needs of dual eligibles, it will be important to assure adequate safeguards are in place to protect access to prescription drugs for this population as the new Medicare law is implemented and as other options for Medicaid reform are considered.

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