



Highlights of [GAO-04-480](#), a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

Under section 1115 of the Social Security Act, the Secretary of Health and Human Services may waive certain Medicaid requirements for states seeking to deliver services through demonstration projects. By policy, these demonstrations must not increase federal spending. GAO has previously reported concerns with HHS's approval process.

GAO was asked to provide information on a new Medicaid section 1115 demonstration initiative called Pharmacy Plus, intended to allow states to cover prescription drugs for seniors not otherwise eligible for Medicaid. GAO reviewed the (1) approval status of state proposals, (2) extent to which HHS ensured that demonstrations are budget neutral, (3) basis for savings assumptions, and (4) federal and state steps to evaluate and monitor the demonstrations.

What GAO Recommends

GAO recommends that the Secretary of HHS strengthen the processes for approving and overseeing Pharmacy Plus and other Medicaid section 1115 demonstrations. HHS concurred with several recommendations for strengthening demonstration approval and oversight but disagreed that review criteria should be clarified and applied to already-approved demonstrations. GAO maintains that the criteria for HHS's approvals should be clear and consistently applied.

www.gao.gov/cgi-bin/getrpt?GAO-04-480.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118.

MEDICAID WAIVERS

HHS Approvals of Pharmacy Plus Demonstrations Continue to Raise Cost and Oversight Concerns

What GAO Found

From January 2002 through May 2004, HHS reviewed Pharmacy Plus proposals from 15 states and approved four: Florida, Illinois, South Carolina, and Wisconsin. These demonstrations offer prescription drug coverage to low-income seniors not otherwise eligible for Medicaid. HHS denied proposals from Delaware and Hawaii as inconsistent with demonstration guidelines; most of the rest were not under active review because HHS had not determined how new Medicare prescription drug legislation will affect proposed or operating Pharmacy Plus demonstrations. Over 5 years, the four approved demonstrations will provide prescription drug coverage to half a million low-income people age 65 or older, at a projected cost of about \$3.6 billion, of which the federal share would be about \$2.1 billion.

HHS has not adequately ensured that the four approved demonstrations will be budget neutral, that is, that the federal government will not spend more with the demonstrations than without them. HHS approved the demonstrations' 5-year spending limits using projections of cost and beneficiary enrollment growth that exceeded benchmarks that HHS said it considered in assessing budget neutrality, specifically, states' recent average growth rates and projections for Medicaid program growth nationwide. Neither HHS's negotiations with the states nor its rationale for approving higher growth rates is documented. Using the benchmark growth rates, GAO estimates that none of the four demonstrations will be budget neutral and federal spending may increase significantly, for example, by more than \$1 billion in Illinois and \$416 million in Wisconsin over 5 years.

Unrealistic savings assumptions also contribute to demonstration spending limits that are not likely to be budget neutral. States assumed that keeping low-income seniors healthy—thus preventing them from spending down their financial resources on health services and “diverting” them from Medicaid eligibility—would generate sufficient savings to offset the increased costs of providing a new drug benefit. GAO found neither state experience nor other research to support such savings. Without state-specific evidence, HHS approved savings assumptions for the four states ranging from \$480 million to \$2 billion per state over 5 years. Had more conservative assumptions been used to estimate demonstration savings, the proposals likely could not have been approved as budget neutral.

Efforts by the states and HHS to evaluate and monitor the Pharmacy Plus demonstrations are in their early stages. The four states have taken few steps to put their own required evaluation plans into practice, and an independent evaluation contracted by HHS and started in October 2002 is scheduled to report in September 2005. In the interim, HHS has not ensured that all states meet requirements for progress reporting on the demonstrations. The information that states have submitted is often insufficient for determining whether the demonstrations are operating as intended, and this shortcoming will limit HHS's oversight capability.