



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

MEMORANDUM

To: Reporters and Editors
Re: New report on Medicaid waivers
Da: Friday, July 30, 2004

Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, continue to monitor the Department of Health and Human Service's use of the waiver authority under Section 1115 of the Social Security Act. They asked the Government Accountability Office to provide information on a new Medicaid Section 1115 demonstration initiative called Pharmacy Plus. Under Section 1115 waivers, the Department of Health and Human Services allows states to offer prescription drug coverage to seniors not otherwise eligible for Medicaid.

The GAO report released today, "HHS Approvals of Pharmacy Plus Demonstrations Continue to Raise Cost and Oversight Concerns," found that HHS has not put in place adequate safeguards to ensure that the four waivers approved for the Pharmacy Plus demonstrations will not substantially increase federal Medicaid spending. HHS used unrealistic savings assumptions when it approved the four 1115 waivers in four states. The conditions of waiver approval do not assure that the federal government will spend less or even the same amount with the demonstrations than without them. In the report, the GAO recommends that HHS strengthen the process for approving and overseeing the Pharmacy Plus and other Medicaid Section 1115 demonstrations. The GAO also calls on HHS to ensure that states comply with evaluation and financial reporting requirements.

Of the seven recommendations made by the GAO, HHS concurs with five of the seven recommendations, but, notably, disagrees with the recommendation that the secretary clarify criteria for reviewing and approving states' proposed demonstration spending limits.

According to the report, the factors that HHS considered when it approved the four Pharmacy Plus waiver demonstrations in four states are inadequate in ensuring that the four approved 1115 waivers will be budget neutral. HHS disputes this assertion, noting that it has denied two Pharmacy Plus demonstrations and reviewed but not approved nine other proposals whose budget estimates were not well-supported.

Senator Grassley made the following comment on the report.

"I appreciate that states have worked to identify creative and innovative solutions to expand access to medically necessary drugs to low-income seniors and that HHS is working with the states

to accomplish this important objective. Budget neutrality is a key feature of 1115 waivers, however, and I believe that CMS needs to improve and clarify the criteria used to determine budget neutrality. While the Pharmacy Plus waiver program will undergo significant changes as a result of the new Medicare drug benefit, the issues raised in the report reflect ongoing concerns over the fiscal integrity of 1115 waiver implementation oversight.”