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FOOD STAMPS SHOULD *NOT* GO DOWN FOR SENIORS AND PEOPLE WITH DISABILITIES WHO SIGN UP FOR MEDICARE DRUG CARDS

By Dorothy Rosenbaum

Last year's Medicare drug law established an interim, transitional drug card program through which Medicare beneficiaries can receive discounts on prescription drugs until the ongoing Medicare drug program goes into effect in January 2006. As part of the drug card program, an additional \$600 subsidy, known as "transitional assistance," is available this year and next year for *low-income* Medicare beneficiaries (those with income below 135 percent of the federal poverty level) to use toward drug purchases. The drug card benefits began to be available this month. Medicare beneficiaries sign up for the discount drug cards and the transitional assistance through private companies, known as card sponsors, that have been approved by Center for Medicare and Medicaid Services (CMS), the agency that runs Medicare.

The Department of Agriculture (USDA), the federal agency responsible for Food Stamp Program rules, has recently issued revised guidance that "ensures that no food stamp applicant or participant who uses the drug discount card will lose food stamp benefits." The revised guidance can be found at <http://www.fns.usda.gov/fsp/rules/Memo/04/061804.htm>.¹

The Issue

In early June there was a controversy over the fact that, under USDA's original guidance, people who receive the drug card's benefits would likely have seen their food stamp benefits go down, despite the fact that the drug law says that the "availability of negotiated prices or transitional assistance under this section shall not be treated as benefits or otherwise taken into account in determining an individual's eligibility for, or the amount of benefits under, any other Federal program."

USDA had made clear in guidance it issued in March that money a household receives through the \$600 transitional assistance should not be treated as *income* for the purposes of food stamp benefits. But, there was a wrinkle because the Food Stamp Program's rules allow seniors and people who have disabilities to deduct medical expenses that exceed \$35 a month from their monthly income when food stamp benefits are calculated. The more unreimbursed prescription drug costs someone has, the higher the food stamp amount. In the same guidance, USDA declared that if a household's medical expenses go *down* as a result of receiving the drug benefit,

¹ Detailed Questions and Answers on the USDA policy are available at:
<http://www.fns.usda.gov/fsp/rules/Memo/04/070804.htm>

then the household's medical deduction should be reduced. This would result in a smaller food stamp benefit. Under normal food stamp rules this would have been appropriate, since people can claim the deduction only for expenses they actually have that are not reimbursed. However, as cited above, the Medicare drug law says that the drug card's benefits should not affect benefits from other programs.

The Revised Guidance

USDA has repealed its original policy and issued revised policy to deal with how to calculate prescription drug costs for the food stamp medical deduction for people who have lower prescription drug expenses because they sign up for a Medicare discount drug card.

Because the discount drug card offers two types of benefits for low-income Medicare beneficiaries the guidance has two components — one addresses the \$600 a year in “transitional assistance” that is available only to low-income Medicare beneficiaries and the other deals with the discounts that the drug cards may offer based on lower prices the drug card sponsors may have negotiated.

\$600 a year of Transitional Assistance — Under the guidance states should assume that food stamp recipients who are enrolled in a Medicare discount drug card program receive the \$600 subsidy that is available in the remaining months of 2004 and another \$600 subsidy for calendar year 2005.² The guidance gives states several choices in how they budget these amounts on a monthly basis over upcoming months. These amounts should be added to other medical expenses as though they were out-of-pocket expenses the household incurred.

Discounts on prescription drug costs — The guidance sets up two options for how state agencies may hold households harmless for any discounts they may receive through the Medicare drug card program.

- Option 1 — States may multiply the household's actual out-of-pocket prescription drug expenses (plus the monthly value of the transitional assistance subsidy described above) by a “discount factor” to arrive at an estimate of what its drug costs would have been without the discount. USDA estimates that the low-income people who use the discount card will receive average discounts of 20 percent, which mathematically translates to a discount factor of 1.25. So, for example, a cardholder with \$50 in out-of-pocket monthly drug bills could count \$125 toward its medical deduction (\$50 out-of-pocket + \$50 assumed transitional assistance subsidy = \$100. $\$100 * 1.25$ discount factor = \$125).
- Option 2 — States may assign a standard expense allowance of \$23 a month to represent the average value of the discount received. This standard is in addition

² The \$600 a year of transitional assistance is available to Medicare beneficiaries who have income at or below 135 percent of the federal poverty level. USDA's Questions and Answers provide that states may assume that any food stamp household member with a Medicare-approved drug card whose gross income is below 130 percent of the federal poverty level received the \$600 subsidy without requiring further verification.

to the amount (discussed above) that represents the \$600 a year in transitional assistance.

Under either of these two options, individual cardholders must be allowed to claim the actual out-of-pocket prescription drug expenses they incurred prior to using the discount card if the actual expenses are larger. The guidance provides detail on how states may verify or calculate these prior expenses to ensure that food stamp benefits are not lower because someone signs up for the discount drug card.

The guidance applies only to prescription drug costs. The standard expenses and “discount factor” are to be added to any other medical expenses that a household may incur and count toward the food stamp medical deduction.

Conclusion

USDA’s revised guidance solves the problem that seniors and people who have disabilities who both sign up for the new Medicare drug card program *and* receive food stamps were slated to see their food stamps go down, despite the fact that Congress had expressly acted to prevent this from happening.

However, the majority of seniors and people with disabilities who are eligible to receive food stamps and the Medicare drug card are not enrolled in both benefits. The Food Stamp Program serves only about 30 percent of eligible seniors and about half of the population of eligible adults with disabilities, despite the fact that the typical low-income individual who is elderly or has a disability and has Social Security income and out-of-pocket medical expenses qualifies for about \$50 a month, or \$600 a year, in food stamps.³ Similarly, sign-up for the new drug card has been slow, and participation rates in other similar subsidy programs for low-income Medicare beneficiaries have historically been low. Improving the low participation in both programs could significantly help low-income Medicare beneficiaries both meet their prescription drug costs and maintain an adequate diet.

³ Those with exceptionally high medical or housing expenses can qualify for more. See <http://www.cbpp.org/1-29-04fa.pdf> for more information on food stamp outreach opportunities associated with the new Medicare drug card program: Center on Budget and Policy Priorities, *New Food Stamp Outreach Opportunity: Medicare Discount Drug Card Offers An Opportunity To Expand Food Stamp Enrollment Among The Elderly And People With Disabilities*, January 2004.