Medicare payment policy for non-competitively bid durable medical equipment, prosthetics, orthotics, and supplies

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Roadmap for this presentation

- Durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) payment policy background
  - Fee schedule
  - Competitive bidding program (CBP)
- Overview of DMEPOS spending trends
- Analysis of non-CBP products' fee schedule payment rates
- Summary and discussion of policy options

Background – DMEPOS fee schedule rates

- Fee schedule rates largely based on average reasonable supplier charges from 1986-1987, updated for inflation
- OIG and GAO: Medicare payment rates have often been far higher than rates set by other purchasers, suppliers' costs, and direct purchase prices
- Excessive payment rates led to:
  - Rapid growth in expenditures
  - High rates of inappropriate utilization and potential fraud and abuse

Background – competitive bidding program (CBP) overview

- In response to financial burdens and abuses, Congress required CMS to implement CBP
- CMS has authority to phase in CBP starting with the highest-cost products; certain products statutorily excluded or statutory authority is unclear, such as:
  - Class III devices
  - Parenteral nutrition
  - Non-off-the-shelf orthotics
  - Urology and ostomy supplies
- CMS implemented CBP in 2011 in nine urban areas; CBP currently operates in 99 largest urban areas
- Beginning in 2016, information from CBP used to adjust fee schedule rates in areas outside CBP

Background – competitive bidding program (CBP) results

- Substantial declines in payment rates
  - Among top 25 items, median payment rate decrease was ~50% from 2010 to most current CBP round
- Reductions in utilization
  - GAO: utilization declined by 17% in competitive bidding areas compared to a 6% decline in non-competitive bidding areas
- CMS: no negative changes in beneficiary health outcomes resulting from CBP
  - CMS tracks secondary outcomes (e.g., emergency department use) for beneficiaries who use CBP products, beneficiaries who might need CBP products, and all FFS beneficiaries.

Data are preliminary and subject to change

Medicare expenditures for CBP and non-CBP DMEPOS products, 2010 and 2015

	Total Medicare expenditures, 2010 (in billions)	Total Medicare expenditures, 2015 (in billions)	Percent change
CBP products (total)	$7.5	$4.4	-42%
DMEPOS other than diabetes testing supplies	*5.9*	*4.1*	*-31*
Diabetes testing supplies	*1.6*	*0.3*	*-79*
Non-CBP products	3.2	4.0	24

Source: MedPAC analysis of 2010 and 2015 Physician/Supplier Procedure Summary file, using HCPCS codes identified through the DMEPOS fee schedule, parenteral and enteral nutrition items and services fee schedule, and the Competitive Bidding Implementation Contractor's website.

Notes: Figures in table rounded. If a product was included in any CBP round through 2017, it is included in the CBP product categories in both 2010 and 2015. This figure includes beneficiary cost sharing and excludes drugs used in conjunction with DME.

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Analysis of non-CBP DMEPOS products' payment rates

- Analysis focused on highest-expenditure items because spending is concentrated in those products
  - Top 25 products accounted for ~$2.0 billion of ~$4.0 billion in Medicare expenditures on non-CBP DMEPOS in 2015; top 10 products accounted for ~$1.3 billion
- Examined non-CBP products for signs of excessive payment rates:
  - Compared Medicare payment rates to private payer rates
  - Examined codes for rapid expenditure growth

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Analysis 1: Medicare payment rates vs. private payer rates

- Compared payment rates of 10 highest-expenditure non-CBP DMEPOS items in 2015 to median private payer rates from MarketScan
- Results
  - Medicare rates higher than private payer rates for 9 of 10 items
  - Medicare rates were 18% - 57% higher compared to private payer rates
  - Example: Medicare rate was $1,100 or 35% higher than the private payer rate for bone growth stimulators (E0748)
- Medicare would have saved ~$192 million in 2015 if Medicare rates were equal to median private payer rates
- Additional savings likely possible:
  - Example of additional savings outside top 10: Medicare would have saved an additional ~$47 million in 2015 if Medicare rates were equal to median private payer rates for off-the-shelf orthotics outside top 10
  - Private payer rates could represent upper bound on appropriate Medicare rates

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Analysis 2: rapid growth in expenditures

- Rapid growth over short period could indicate items are mispriced and growth could be inappropriate, supplier-induced
- Among top 10 non-CBP DMEPOS products, Medicare expenditures grew 21% on average in one year (2014 - 2015)
- Rapid growth often occurred over multiple years and continued into 2016
- Example: off-the-shelf back brace (L0650)
  - 2014 to 2016: Medicare expenditures grew by more than 300%, increasing from $46 million to $190 million
  - Context: Medicare paid $250 more per back brace than private payers ($1,130 vs. $880)

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Policy option: improving payment accuracy

- Encourage CMS to use current authority to include more products in CBP, and expand agency's statutory authority to include other DMEPOS products

- Immediately reduce payment rates for certain non-CBP products, and reduce rates annually until included in CBP or rate is similar to private payers

Policy option: enhanced beneficiary protection

- Background: unlike many other Part B services/providers:
  - Assignment not mandatory for DMEPOS products
  - No limit on balance billing for DMEPOS products
  - No penalty to enroll as non-participating DMEPOS supplier
- Policy option: align participation and balance billing rules with other Part B services to protect beneficiaries:
  - Cap on balance billing (e.g., 125% of allowed fee schedule amount)
  - Reduce allowed amount by 5% for non-participating suppliers

Summary and discussion

- Non-CBP products represent ~50% of Medicare DMEPOS spending
- Many non-CBP DMEPOS products have fee schedule rates that appear excessive and have experienced rapid growth
- Policy options:
  - Add more products to CBP, and reduce rates in interim
  - Add beneficiary protection related to balance billing
- Commissioner discussion
  - Questions
  - Discussion of policy options
  - Further context or analyses