Separately payable drugs in the hospital outpatient prospective payment system

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March 6, 2020
Overview of presentation

- Unit of payment in the outpatient prospective payment system (OPPS)
- How drugs are paid in the OPPS
- Programs for separately payable drugs, including problems
- Improving the OPPS system for separately payable drugs
- Alternatives to current system for separately payable drugs
Overview of payment bundles in the OPPS

- Most payments are for primary services (reason for a visit)
- Payment bundle: Cost of ancillary items packaged with primary service
  - Example: Clinic visit (primary service), chest x-ray (packaged ancillary with clinic visit)
- Important: Cost of packaged items reflected in payment rate of related primary service
- Compared with fee schedule (separate payments for everything), payment bundles encourage efficiency
Packaging drugs encourages hospital efficiency

- Effective packaging of drugs: Balance between incentives for efficiency with limiting providers’ exposure to financial loss
- Packaging drugs that are expensive and/or rarely used with related primary service may cause problems:
  - Providers may be reluctant to use those drugs; exposure to large financial losses (financial risk)
Separately payable drugs in OPPS

- By volume, most drugs are packaged (low cost)
- Minority of drugs separately payable; usually expensive, but some are not
- Spending on separately payable drugs rose from $5.1 billion in 2011 to $12.9 billion in 2018
- Two programs for separately payable drugs
  - Pass-through drugs
  - Separately payable nonpass-through (SPNPT) drugs
Background on programs for pass-through and SPNPT drugs

- **Pass-through drugs:**
  - Payments began in August 2000
  - New drugs, concern that cost and use data not available to include in payment rates for related service
  - Mitigates providers’ financial risk, some stakeholders argue it maintains incentive for innovation

- **SPNPT drugs**
  - Payments began in 2004
  - Provides separate payment for relatively costly drugs
  - Mitigates providers’ financial risk
Criteria in programs for separately payable drugs

Pass-through drugs

- New to market
- Cost must exceed three thresholds related to service payment rate
- Have this status 2 to 3 years

SPNPT drugs

- Not pass-through (established drugs)
- Cost/day threshold (greater than $130 in 2020)
- No specified time limit
Identifying drugs that should be separately payable

- **Goal:** Balance benefit of financial pressure on providers (efficiency) with avoiding excessive provider risk and creating incentives for clinical improvements

- Analyzed the criteria for separately payable status in other payment systems: Pass-through devices (OPPS), NTAP (IPPS), APG system (3M HIS)

- Factors used to determine separate payment in these systems: Cost per day, cost relative to related service, item is new to the market, item shows clinical superiority

Note: OPPS (outpatient prospective payment system), IPPS (inpatient prospective payment system), NTAP (new technology add-on payment), APG (ambulatory patient group), HIS (health information systems).
## Issues with criteria for separately payable drugs in OPPS

<table>
<thead>
<tr>
<th>Potential criteria for separately payable status</th>
<th>Pass-through drugs</th>
<th>SPNPT drugs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drug cost per day</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Drug cost as % of related service</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Is the drug new?</td>
<td>✓</td>
<td></td>
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</tbody>
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- Neither program requires drugs to show clinical improvement
Possible decision criteria for identifying separately payable drugs

1. New drug?
   - Yes: Packaged
   - No:
     1. High cost per day?
        - Yes: Packaged
        - No: Packaged
     2. High cost compared to service?
        - Yes: Packaged
        - No: Packaged
     3. Clinical improvement?
        - Yes: Separately payable
        - No: Packaged

Separately payable
Policy option: Exclude drugs that are the reason for a visit (nonancillary)

- Drugs that are the reason for the visit:
  - Nonancillary
  - Very high cost
  - Dominate cost of visit
  - Usually infused

- These drugs would be separately payable
  - Consolidated billing
  - Reference pricing

- All other drugs: Create new system identifying which should be packaged, which should be paid separately
Policy option criterion: Drug is new to the market

- Can help maintain incentives for drug innovation
- What about drugs already on the market?
  - Keep current status (grandfather)
  - Package them; or keep current status for a limited time, then package
  - Drop “new” requirement and subject established drugs to the other criteria, including clinical improvement
  - How to apply clinical improvement requirement to established drugs?
Policy option criterion: High cost per day

- Require drugs to have a cost per day that exceeds a specified dollar amount to be separately payable
- SPNPT drugs are required to cost more than $130 per day; not based on empirical evidence
Policy option criterion: Drug cost is high relative to the payment rate of the related service

- Use of these drugs may expose providers to financial loss
- Currently a requirement for pass-through drugs; pass-through drugs have 3 variations on this measure
- Possible measure
  - \[(\text{cost of drug}) - (\text{pct of time used with related service}) \times (\text{cost of drug})\] exceeds a percentage of the payment rate of the related service
  - What should the percentage be?
Policy option criterion: Drug shows clinical improvement

- Compare clinical performance of drug to drugs with similar therapeutic uses
- IPPS New Technology Add-on Payment and OPPS pass-through payments for devices have clinical improvement requirements
- For our purposes, NTAP requirement for clinical improvement is a viable option
Other issues

▪ Should there be a strict time limit on how long a drug can be separately payable?
▪ Should drugs be re-evaluated periodically?
Reasons for this analysis

- Spending on separately payable drugs is rising rapidly
- Packaging and payment bundles are powerful tools for encouraging efficient use of resources
- Criteria in OPPS programs for separately payable drugs allow separate payments for drugs that could reasonably be packaged
Discussion

▪ OK to exclude nonancillary drugs that are the focus of visits?
▪ Allow separate payments only for new drugs or allow established drugs to be separately payable?
▪ If established drugs are included, how to apply clinical improvement criterion?
▪ Structure of each criterion for separately payable status (cost thresholds, clinical improvement determinants)
▪ Should there be a limit on how long a drug can be separately payable?