

Clarifying Medicare’s authority to apply least costly alternative policies

ISSUE: Least costly alternative (LCA) policies, in which Medicare bases the payment rate of a group of clinically similar services on the least costly item, can result in improved payment accuracy and savings for the program, beneficiaries, and taxpayers.

KEY POINTS: Medicare’s continued use of the LCA policy is hampered because the program’s legal foundation is uncertain. Since April 2010, the program has removed the LCA policies applied to Part B drugs. A beneficiary and manufacturer successfully challenged in federal court Medicare’s use of LCA policies for paying for Part B inhalation drugs. Two federal courts agreed with the plaintiffs that the Secretary exceeded the statute’s authority.

ACTION: Commissioners should discuss policy options for clarifying Medicare’s authority to apply LCA policies.

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