



*Advising the Congress on Medicare issues*

# Developing payment policy to promote use of services based on clinical evidence

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# Recap

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- At the March and September 2014 meetings, Commission discussed linking the payment rate of Part B drugs to comparative clinical evidence
- *Least costly alternative (LCA) policies*: For two or more drugs that clinicians prescribe for the same condition and produce a similar outcome, the policy sets the payment rate based on the least costly drug
- Medicare applied LCA policies to Part B drug payment between 1995 and 2010
- Linking payment to clinical evidence better ensures that beneficiaries are getting the best value for their health care dollar

# Obtaining the best price for beneficiaries

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- CBO estimated savings of \$500 million if the LCA policy was applied to Part B drugs for drugs used for osteoarthritis of the knee
- OIG estimated one-year savings of \$33 million if Medicare had continued its LCA policy for prostate cancer drugs
- OIG estimated savings of nearly \$1.4 billion if payment for drugs used for macular degeneration had been based on the least costly product

# Today's session

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- *Consolidated payment codes*: Combines products with similar health effects that treat a given condition into a single payment code
- *Bundling*: Combines the collective costs of care for a patient with a specified condition over a defined period of time into a single payment

# Medicare payment for Part B drugs

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- Most Part B drugs are furnished by physicians
- Medicare pays physicians 106% of a drug's average sales price (ASP)
- ASP is the manufacturer's average price for sales to all purchasers net of rebates, discounts, and price concessions
- The 6 percent add-on may create an incentive for some providers to select higher-cost products

# Consolidated payment codes

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- Group two or more drugs that clinicians prescribe for the same condition and produce a similar outcome into a single payment code
- Medicare's payment would be based on the volume-weighted average of the program's payment (ASP plus 6 percent) for these products
- Intent of policy is to obtain the best price for beneficiaries

# Illustrative example of two drugs that have similar health effect for a given condition

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- Under separate payment codes, incentive is to select higher-cost product (assuming acquisition cost=ASP)
  - Drug 1:  $\text{ASP} + 6\% = \$106$ , drug add-on=\$6
  - Drug 2:  $\text{ASP} + 6\% = \$212$ , drug add-on=\$12
- Under consolidated payment code, incentive is to select lower-cost product
  - $\text{ASP} + 6\%$  (volume-weighted based on both products)=\$159, drug add-on (assuming select lower-cost product)=\$59
- Over time, Medicare payment rate should decline as volume shifts to the lower-cost product, and price competition between products should increase

# Implementation issues: Consolidated billing codes

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- Considers evidence on the comparative clinical effectiveness of drugs
  - MEDCAC, Evidence-based Practice Centers
- Posts draft and final policies on-line
- Seeks and considers comments from beneficiaries and other stakeholders
- Includes a process for medically necessary exceptions
- Process for revisiting policy over time



# Bundling and episode payments

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- Fixed payment amount for a combination of drugs and services required to treat a condition
  - What conditions are amenable to bundling?
  - What should be included?
  - Who gets paid?
  - How much to pay for each bundle?
- Examples
  - Peter Bach's proposed cancer bundles
  - UnitedHealthcare's oncology episodes

# Bach, et al. bundling concept (2011)

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- Relatively narrow bundle
  - Defined by an oncology event or episode
  - Would cover the costs of chemotherapy drugs and administration for predetermined period of time
- Incentives
  - Use low-cost but effective drugs
  - Would need to address issues such as cost shifting, upcoding, and stinting on care

# UnitedHealthcare oncology episodes

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- Goal: remove revenue incentive to prescribe one drug over another, strengthen incentive to prescribe on quality basis
- Most services still paid under FFS
  - Drugs are paid ASP + 0%
  - Flat episode fee instead of drug add-on
- A further incentive to reduce overall spending was the potential for shared savings, if groups:
  - Lowered the total cost of care
  - Improved the survival rate for the episode
- Between 2009 and 2012, reduction in total spending, but increase in drug spending

# For Commissioner discussion

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- We could assess flexibility of Medicare Advantage plans and Accountable Care Organizations to apply approaches
- Status quo for FFS policies results in FFS beneficiaries not obtaining best value
- FFS approaches that aim to motivate selection of lower-cost products and generate price competition between products: LCA policies, consolidated payment codes, Bach bundled payment approach, and United HealthCare approach