Part B drug payment policy issues

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Outline of presentation

- Background on Part B covered drugs and the average sales price (ASP) payment system
- Policy options for the ASP payment formula
- 340B Drug Pricing Program and discounts on Part B drugs
- Policy options for payment for Part B drugs in 340B hospitals

Background on Part B drugs and Medicare payment

- In 2014, Medicare and beneficiaries spent over $20 billion on Part B covered drugs, including
  - Drugs administered by physicians and outpatient hospitals
  - Certain drugs furnished by DME and pharmacy suppliers
- Medicare pays providers for most Part B drugs at a prospective rate equal to 106% of ASP
- ASP is the average price realized by the manufacturer for sales to all purchasers (with some exceptions) net of rebates, discounts, and price concessions
  - The prices individual providers pay for a drug may differ from ASP for a variety of reasons (e.g., price variation across purchasers, 2-quarter lag in ASP payment rates, prompt pay discounts)

Modeling policy options to 106% ASP that include a flat add-on

- Concern expressed about the 6% add-on to ASP potentially incentivizing use of higher-priced drugs, although few studies exist examining this issue
- Modeled two policy options to 106% ASP
  - Option 1: 102.5% ASP + $17.15 per drug per day
  - Option 2: 104% ASP + $9.80 per drug per day
- Budget neutral based on 2014 data assuming no change in utilization
- Model applied to drugs administered by physicians and outpatient hospitals
- Modeled pre-sequester payment rates

Comparison of payment rates under current policy and illustrative options

	Payment rate (in dollars)			**Payment rate (expressed as %ASP)**	
ASP per admin.	Current rate: 106% ASP	Option 1: 102.5% ASP + $17.15	Option 2: 104% ASP + $9.80	Option 1: 102.5% ASP + $17.15	Option 2: 104% ASP + $9.80
$10	$10.60	$27.40	$20.20	274.0%	202.0%
$490	519	519	519	106.0	106.0
$5,000	5,300	5,142	5,210	102.8	104.2

Note: Payment amounts are before the application of the sequester. ASP per administration (admin) is defined as the ASP unit price times the number of units of the drug furnished to the patient on a particular day. Under the two policy options, the flat fee add-on is paid per drug per administration day (regardless of the number of units administered). Dollar figures are rounded except for the first row.

Implication of policy options

- Increases add-on payments for low-priced drugs and decreases add-on payments for high-priced drugs
- May increase incentive for substitution of low-priced drugs for high-priced drugs where therapeutic alternatives exist
- Some small purchasers might have difficulty purchasing expensive drugs at the Medicare rate, but this would depend on how the policy is structured and how manufacturers respond
- May need to monitor to ensure:
  - Flat add-on does not lead to smaller, more frequent dosing
  - Increased add-ons for low-priced drugs do not spur overuse

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A flat add-on would redistribute revenues across providers

- Flat add-on would increase payments to physicians overall, but decrease payments to hospitals and some physician specialties
- For example, under option 2, Part B drug revenues are estimated to:
  - Increase for physicians overall (0.8%)
  - Increase for primary care (5.7%) and other specialties (6.7%)
  - Decrease for oncologists (-0.3%), ophthalmologists (-1.1%), and rheumatologists (-0.7%)
  - Decrease for outpatient hospitals (-1.3%)
- Percent change in total Medicare revenues is smaller

Data are preliminary and subject to change

Other issues or approaches relevant to Medicare Part B drug payment policy

- Potential overpayment for Part B dispensing and supplying fees for certain supplier-furnished drugs
- Other structural approaches to Part B drugs
  - Competitive acquisition program for Part B drugs
  - Moving coverage of Part B drugs to Part D

Background on 340B Drug Pricing Program

- Allows certain providers (“covered entities”) to obtain discounted prices on outpatient drugs
- Covered entities include disproportionate share hospitals, critical access hospitals, other hospitals, certain clinics
- Ceiling price = maximum price manufacturer can charge for 340B drug
- Program has grown rapidly since 2005 (spending on drugs, number of covered entities)

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Medicare pays for 340B drugs provided by covered entities to beneficiaries

- Medicare pays same rates for Part B drugs to 340B hospitals and non-340B hospitals, even though 340B hospitals can purchase drugs at substantial discounts
- Medicare spending for Part B drugs at 340B hospitals paid under outpatient PPS grew from $0.5 billion in 2004 to $3.8 billion in 2014

Statute does not restrict 340B hospitals' use of revenue from 340B drugs

- 340B hospitals generate revenue from Part B drugs because Medicare payments exceed the discounted prices
- Because statute does not restrict how revenue can be used, hospitals can use revenue for any purpose
- Hospitals not required to track how revenue is used

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Estimated discount on Part B drugs for 340B hospitals

- Discount = ASP – ceiling price
- We are unable to precisely calculate the ceiling price so our estimate of the discount is conservative
- We estimate that average discount was 22.7% of ASP in 2014

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Difference between Medicare payments and acquisition cost for 340B hospitals, 2014

- In 2014, 340B hospitals
  - Received $3.8 billion in payments for Part B drugs
  - Paid $2.8 billion to acquire those drugs
  - Had net savings of $1.0 billion on Part B drugs
- For all 340B hospitals, net savings were 1.2% of overall Medicare revenue and 4.3% of Medicare OPD revenue
- Among hospital categories, net savings as a share of overall Medicare revenue
  - Lowest among rural hospitals, 0.9%
  - Highest among major teaching, 1.4%

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Should Medicare payment rates for Part B drugs in 340B hospitals be reduced?

- Would allow taxpayers and beneficiaries to share in 340B savings
- Would reduce hospitals' revenue from 340B program

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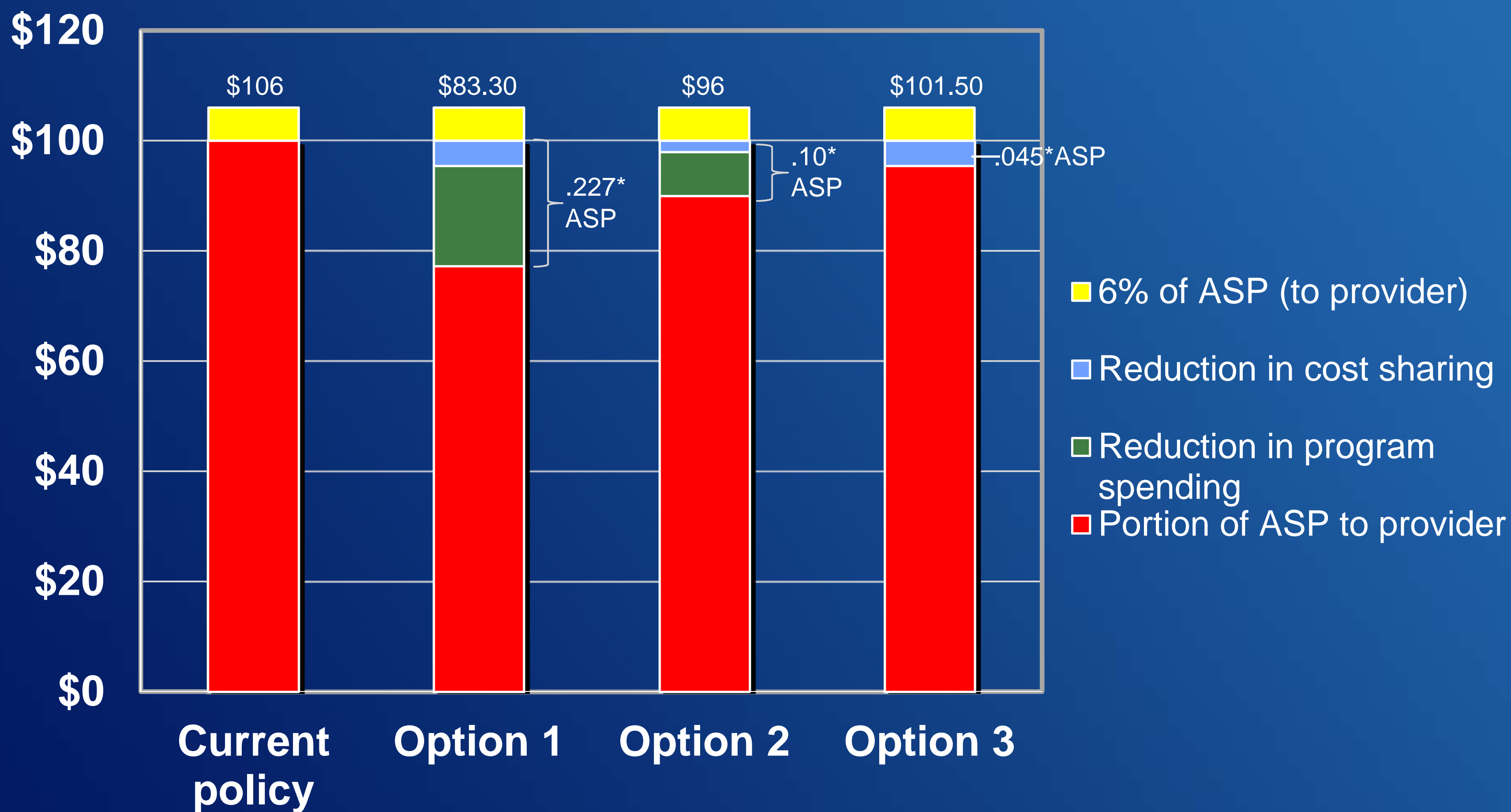
Options for sharing 340B savings with beneficiaries and program

- In all options, allow payment rates to include add on of 6% of ASP
- Option 1: Reduce payment rate by 22.7% of ASP (avg. discount on 340B drugs); payment reduction shared by beneficiaries and program
- Option 2: Reduce payment rate by 10% of ASP; payment reduction shared by beneficiaries and program
- Option 3: Reduce beneficiary copayment by 22.7%; no change in program payment

Current policy and options for sharing 340B savings with beneficiaries and program



Note: Example based on drug that has ASP of $100

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Savings from options for sharing 340B savings with beneficiaries and program, 2014

Option	Savings in program spending	Savings in cost sharing	Total savings
1: Current price - .227*ASP	$680	$150	$830
2: Current price - .10*ASP	300	65	365
3: Current price - .227*.20*ASP	0	150	150

Note: Amounts are in millions. We excluded 340B hospitals that are CAHs and those located in the state of Maryland.

Source: MedPAC analysis of Medicare claims and HRSA file on hospitals' 340B participation, 2014.

Discussion

- Clarifications
- Additional information
- Reactions to policy options
  - ASP payment formula
  - Paying for Part B drugs in 340B hospitals