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# Health Plan Payment for Physician- Administered Drugs

*A study conducted by  
Dyckman & Associates for the  
Medicare Payment Advisory Commission*



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**HEALTH PLAN PAYMENT  
FOR PHYSICIAN-ADMINISTERED DRUGS**

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## HEALTH PLAN PAYMENT FOR PHYSICIAN-ADMINISTERED DRUGS

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The Medicare Payment Advisory Commission (MedPAC) contracted with Dyckman & Associates in 2002 to conduct a survey of private health plans to obtain information regarding characteristics of physician payment methodologies and fee levels used by private health plans. We surveyed health plans that operate in different geographic regions, and in environments with different demographics, competitive market conditions and managed care characteristics.

This brief report focuses on health plan payment methodology used for physician-administered drugs. The primary project report, Survey of Health Plans Concerning Physician Fees and Payment Methodology, is not yet publicly available.

### OVERVIEW OF SURVEY METHODOLOGY

Survey participation letters were sent out to 118 executives and senior staff at approximately 60 health plans, including Blue Cross Blue Shield plans and national managed care-health insurance companies. The health plans were assured of complete confidentiality of any information provided to us, including the identity of participating survey plans.

For purposes of the study, each individual Blue Cross Blue Shield plan is considered a participant, even if it is part of a parent organization that operates several plans in different states. For national managed care companies, a company was asked to identify three different markets in which they have sizable enrollment for participation in the study, and each market is considered a separate health plan. Interviews were completed with 33 participating health plans.

Exhibit 1 provides summary information regarding the participating study plans. The study health plans serve the full range of environments, from largely rural areas to heavily urbanized areas, including most of the Nation's largest cities.

**Exhibit 1. Distribution of Study Health Plans Interviewed by Region and Largest Metropolitan Statistical Area (MSA)<sup>1</sup> in Health Plan Service Area**

Region	Health Plan: Largest Metropolitan Statistical Area Category				Total	Percent
	Less than .5 million	.5 to less than 1 million	1-3 million	Greater than 3 million		
Midwest	3	1	4	2	10	30%
Northeast	1	0	1	5	7	21%
South	0	2	2	4	8	24%
West	1	1	4	2	8	24%
<b>Total</b>	5	4	11	13	33	
<b>Percent</b>	15%	12%	33%	39%		

<sup>1</sup> Metropolitan statistical areas (MSAs) and primary metropolitan statistical areas (PMSAs) were used to categorize health plan service areas. Metropolitan Area Population Estimates: 1998 to 1999, U.S. Census Bureau. (<http://eire.census.gov/popest/data/metro.php>).

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The participating study health plans offer a range of benefit plan types, including health maintenance organization (HMO), point of service (POS), preferred provider organization (PPO) and traditional/indemnity plans. The largest enrollment benefit plan type for most of the survey plans is a PPO plan.

We scheduled and conducted a structured phone interview with executives and senior staff of each participating health plan. The interviews were generally completed in 90-120 minutes. Typically, several individuals participated in the interview and, combined, were knowledgeable in the areas of health insurance and physician service market conditions, provider relations, physician reimbursement, and payment methodology for physician-administered drugs. Where local health plans were part of national managed care companies, interviews were conducted at both the corporate and individual market health plan levels. The health plan interviews were conducted from October through December 2002. Additional information was provided by some of the health plans to clarify and expand upon the information provided during the interviews.

### **PAYMENT FOR PHYSICIAN-ADMINISTERED DRUGS**

Medicare covers, under its Part B program, selected types of drugs and biological products administered in physician offices, the home and in other outpatient settings. These drugs and biological products, which generally cannot be purchased from retail pharmacies and cannot be self-administered by the patient, include:

- Cancer and anti-nausea drugs
- Immunosuppressive drugs used following organ transplants
- Erythropoietin and other products used to treat anemia for cancer and kidney dialysis patients
- Drugs provided through infusion and other techniques by home health or durable medical equipment providers, for osteoporosis, asthma and other pulmonary diseases.

Medicare Part B expenditures for outpatient drugs approximated \$8.5 billion in 2002, reflecting an increase of almost 35 percent from 2001. Physician-billed drugs account for more than 80 percent of total Medicare spending for outpatient drugs.<sup>2</sup>

Medicare uses a pricing formula for physician-administered drugs, under which the price is set at 95 percent of “average wholesale price” (AWP). Medicare pricing for physician-administered drugs has gained increasing focus within the past year in light of information that AWP prices are often higher than actual transaction prices for these drugs<sup>3</sup>.

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<sup>2</sup> Medicare Payment Advisory Commission, Report to the Congress: Variation and Innovation in Medicare, “Medicare payment for outpatient drugs under Part B,” June 2003, pp. 150 and 151.

<sup>3</sup> United States General Accounting Office Report to Congressional Committees. Medicare: Payments for Covered Outpatient Drugs Exceed Providers’ Cost, GAO-01-1118, September 2001.

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Information was obtained from the survey health plans regarding payment methodology and payment rates for physician drugs in responses to the following open-ended questions asked during the health plan interviews:

- How do you set prices for physician-administered drugs? How do they relate to Medicare prices?
- In some areas, physicians have complained about inadequate fees for administering drugs to patients. Have you or are you considering raising fees for drug administration codes?

### Health Plan Pricing Formula

Exhibit 2 provides information on the pricing formula used by the study health plans for physician-administered drugs. All of the plans use a percentage of AWP formula, although some use another pricing approach for some types of drugs (e.g., immunizations) and/or for some providers. As seen in Exhibit 2, most plans use an AWP pricing formula that is in the range of 90 to 100 percent of AWP. The average percent of AWP used by the plans is 98 percent. Approximately one-third of the health plans indicated that they are either planning to or are seriously considering moving to a more aggressive pricing approach for physician-administered drugs in 2003.

**Exhibit 2. Distribution of Health Plan Physician-Administered Drug Pricing by AWP Formula**

	<b>85-90% of AWP</b>	<b>95% of AWP</b>	<b>100% of AWP</b>	<b>101-109% of AWP</b>	<b>110-115% of AWP</b>	<b>Health Plans Responding*</b>
<b>Number of Plans</b>	7	8	10	5	2	32
<b>Percent of Plans</b>	22%	25%	31%	16%	6%	100%

Note: \* Of the 33 health plans interviewed, one plan reported using a combination of outdated AWP prices and prices that are selectively updated based on provider complaints. This plan's pricing formula is not included in Exhibit 2.

Several caveats are in order. First, some of the health plans use a single, well-defined pricing formula that applies to all physician-administered drugs for all or almost all of their business. For others, the pricing methodology is less well defined, and may vary in one or more of the following respects:

- A different average wholesale price (AWP) formula may be used for different categories of drugs, such as chemotherapy, immunizations and vaccines.
- There may be a standard AWP pricing formula for most providers, but one or more other pricing formulae for specific providers or for specialty pharmacy vendors that supply drugs to some physicians.

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- Some plans do not update their prices on a frequent or consistent basis. Therefore, some of the AWP prices used may not be current and/or consistent with those used by Medicare carriers.

In categorizing a specific health plan's AWP formula for the table shown above, we used the following guidelines:

1. Where different pricing formulae are used for different categories of drugs, we focused on pricing for chemotherapy and other drugs that were covered under the Medicare program, rather than immunizations and vaccines.
2. Where different pricing is used for different providers, we estimated an average or most typical percent of AWP used by the plan.

### Characteristics of Payment Systems for Drugs and Administration Fees

There are several patterns and trends regarding payment system characteristics that can be inferred from the health plan survey responses.

- There is a general understanding among health plans that physicians purchase drugs at prices that are below 95% of AWP and, given that health plan prices are generally at or above this rate, the sale of drugs is a profit center for physicians.
- About one-fourth of plans report physician complaints about inadequate fees for drug administration codes.
- Twenty of 33 plans surveyed use a straightforward AWP pricing approach based on relatively current pricing data for physician-administered drugs for all or almost all providers; 13 plans use different pricing for different categories of drugs, different providers, and/or non-current pricing data.
- At least nine of 33 plans expect to change or at least to review payment methodology for physician-administered drugs in 2003. Changes being considered include reducing prices based on improved information on actual market prices for drugs, reducing prices after offering physicians a group purchasing program to obtain drugs at competitive prices, and contracting with pharmacy vendors, who will supply physicians with the drugs, at reduced prices.
- Approximately half of the health plans planning to reduce drug prices will consider raising fees for drug administration codes.

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A number of the survey health plans indicated that, like Medicare, they are experiencing sharp growth in claims payment for physician-administered drugs. The survey health plan respondents were not asked nor did they provide information regarding whether they would follow possible Medicare payment system changes for physician-administered drugs. However, based on our experience in working with health plans on other provider payment issues, we believe that many plans would seriously consider following Medicare's lead if it implemented a new payment approach that was administratively simpler and that resulted in lower cost than their current payment methodology.