Separately payable drugs in the hospital outpatient prospective payment system

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MEDPAC

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

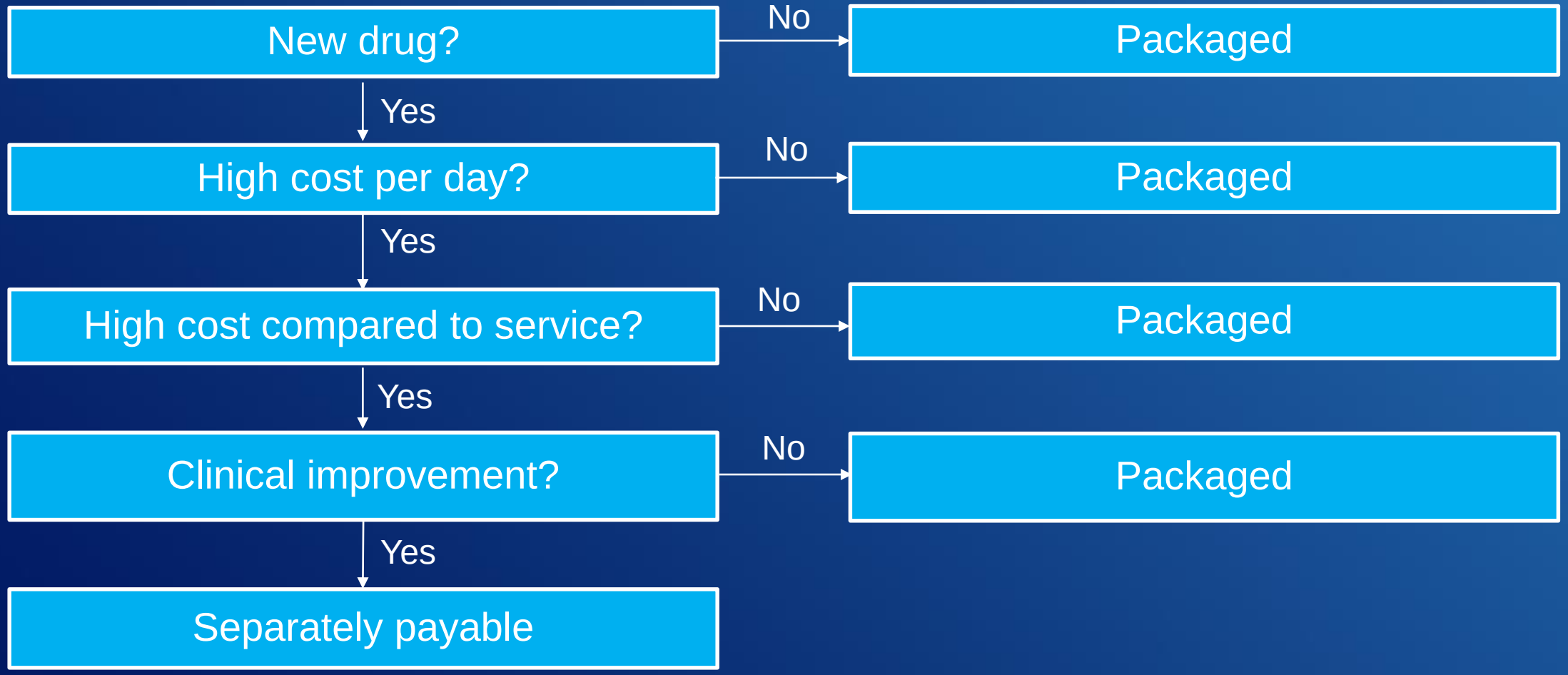
Note: OPPS (outpatient prospective payment system), IPPS (inpatient prospective payment system), NTAP (new technology add-on payment), APG (ambulatory patient group), HIS (health information systems).

Issues with criteria for separately payable drugs in OPPS

Potential criteria for separately payable status	Pass-through drugs	SPNPT drugs
Drug cost per day		✓
Drug cost as % of related service	✓	
Is the drug new?	✓	

- Neither program requires drugs to show clinical improvement

Possible decision criteria for identifying separately payable drugs



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
  - (cost of drug) – (pct of time used with related service)*(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?