
Program Memorandum Intermediaries/Carriers

Department of Health &
Human Services (DHHS)
Centers for Medicare &
Medicaid Services (CMS)

Transmittal AB-02-075

Date: MAY 22, 2002

CHANGE REQUEST 2123

SUBJECT: Payment Limit for Drugs and Biologicals

Scope

The purpose of this Program Memorandum (PM) is to reissue the instructions in Change Request 745, Transmittal AB-00-110, dated April 3, 2000. Transmittal AB-00-110 specified that you pay drugs and biologicals based on the lower of the billed charge or 95 percent of the average wholesale price (AWP) as described below.

Background

Drugs and biologicals not paid on a cost or prospective payment basis are paid based on the lower of the billed charge or 95 percent of the AWP as reflected in sources such as the Red Book, Price Alert, or Medispan. Examples of drugs that are paid on this basis include but are not limited to drugs furnished incident to a physician's service, immunosuppressive drugs furnished by pharmacies, drugs furnished by pharmacies under the durable medical equipment benefit, covered oral anti-cancer drugs, and drugs furnished by independent dialysis facilities that are not included in the end stage renal disease composite rate payment.

In accordance with your current procedure, determine the AWP as described below.

Policy

1. For a single-source drug or biological, the AWP equals the AWP of the single product.
2. For a multi-source drug or biological, the AWP is equal to the lesser of the median AWP of all of the generic forms of the drug or biological or the lowest brand name product AWP. A "brand name" product is defined as a product that is marketed under a labeled name that is other than the generic chemical name for the drug or biological.
3. After determining the AWP, multiply it by 0.95. This is the new drug payment allowance limit. Round in accordance with standard rounding procedure.

The procedure for processing intermediary claims has not changed. All carriers will continue to furnish their drug payment allowance updates for all drugs and biologicals directly to the intermediaries in their jurisdiction free of charge.

Carriers should contact intermediaries to determine the preferred method of transmission. Carriers are to send this information to all intermediaries they routinely deal with. If this method of obtaining payment allowance updates does not work for any intermediary, contact your appropriate regional office immediately.

Implementation

These instructions retain and provide continuity with the instructions provided in Transmittal AB-00-110.

CMS-Pub. 60AB

Provider Education

Advise suppliers and providers that this policy continues unchanged from the policy described in PM AB-00-110.

The *effective date* for this PM is January 1, 2002.

The *implementation date* for this PM is May 22, 2002.

These instructions should be implemented within your current operating budget.

This PM may be discarded after July 31, 2003.

If you have any questions, contact Angela Mason at (410) 786-7452, or amason@cms.hhs.gov.