



# Medicare: Today's Issue

April 5, 2004

## *BETTER BENEFITS – MORE CHOICES*

*Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!*

### Payments to Oncologists:

#### Background:

- ❖ Prior to the enactment of the Medicare Modernization Act (MMA), coverage was not provided for outpatient prescription drugs except for a limited number of drugs provided in physicians' offices and certain other drugs. A large portion of Medicare's payments for drugs provided in physicians' offices are for cancer drugs.
- ❖ Prior to January 1, 2004, Medicare paid the lower of a physician's charge to Medicare or 95 percent of the average wholesale price (AWP). The General Accounting Office (GAO), the Office of Inspector General (OIG) and others have found that payments for oncology drugs were significantly in excess of physician's acquisition costs for them. Some have argued however, that Medicare payments for administering these drugs were below costs.

#### Following Enactment of the Medicare Modernization Act:

- ❖ The MMA requires the Secretary of Health and Human Services to decrease the Medicare payment for drugs and increase payment for administering them in 2004. In a final rule published on January 7, 2004, the Centers for Medicare and Medicaid Services (CMS) provided the new payment rates for drugs and their administration.
  - For 2004, we estimate that the increases in Medicare payments for drug administration exactly offset the reductions in Medicare payments for drugs.
  - Our regulation indicated that for 2004 we estimated the increase in payments for drug administration to be \$510 million and the reduction in revenues for drugs also to be \$510 million.
- ❖ The MMA required several changes in the data and methodology used to determine the Medicare physician fee schedule payment amounts to physicians for drug administration.
  - These changes permanently increase Medicare payments to physicians for administering drugs by an average of 110 percent and were effective January 1, 2004.
  - Medicare's payment for the most common drug administration code, the first hour of infusion, increased by more than \$100 (from \$59 to \$165) or 178 percent.

- ❖ There will be further changes to Medicare payments for drugs in 2005 and 2006.
  - Beginning January 1, 2005, Medicare will make payments using average sales prices (ASP) plus 6 percent.
  - In 2006, Medicare will give physicians the option of either being paid ASP plus 6 percent for drugs which they would purchase in the market or obtaining the drugs directly from a supplier that will be selected by Medicare under competitive bid.

### **Physician Fee Schedule:**

- ❖ Section 303 of the MMA directs the Secretary to make several changes in the data and methodology used to set Medicare payments for drug administration under the physician fee schedule beginning January 1, 2004. These changes:
  - Require the Secretary to use a survey of practice expenses provided by the American Society of Clinical Oncology (ASCO).
  - Require the Secretary to set work relative value units for drug administration services at the same level as the lowest level office visit billed by a physician.
  - Require use of data on compensation of oncology nurses from the ASCO survey in the methodology to calculate payments for drug administration services.
  - Require the Secretary to review and make appropriate changes in payment for multiple chemotherapy drugs furnished on a single day through the push technique.
  - Require a “transitional adjustment” that increases the payments by an additional 32 percent in 2004. The transitional adjustment will decline to 3 percent in 2005 when ASP plus 6 percent becomes the basis of payment for drugs. There will be no transitional adjustment after 2005.
  - Exempts the above changes from the budget neutrality requirements in the statute. That is, payments to other physicians are not reduced because of the increases in payments to oncologists.