



Medicare Fact Sheet

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USING COMPETITION TO PROVIDE QUALITY MEDICARE SUPPLIES AT REASONABLE PRICES FOR MEDICARE BENEFICIARIES

Medicare has selected medical suppliers as a part of a pilot project to use competition to provide quality equipment and supplies to beneficiaries at better prices. The Balanced Budget Act of 1997 authorizes the Health Care Financing Administration to demonstrate how competitive bidding can help Medicare beneficiaries and the program pay more reasonable rates for quality medical equipment and supplies. Several studies by the U.S. General Accounting Office and the HHS Inspector General have shown that the Medicare program and its beneficiaries often pay more for medical equipment and supplies than the prices paid by other insurers and individual patients. Requiring suppliers to submit bids including quality and price information assures access to high-quality medical equipment at a fairer price. The changes also can reduce Medicare waste and abuse.

The first site selected for this competitive bidding demonstration was Polk County, Fla. HCFA, the agency that administers Medicare, required companies in spring 1999 to compete to sell certain medical equipment and supplies to 92,000 Medicare beneficiaries in Polk County. Bids were evaluated on the basis of quality and price. The new rates set by this competitive process are saving individual beneficiaries and Medicare an average of 17 percent on the cost of certain medical supplies while protecting quality and access for Polk County beneficiaries. The new rates took effect on Oct. 1, 1999, and will remain in effect for two years.

After soliciting feedback from suppliers, beneficiaries, health-care professionals and others, HCFA planned a second demonstration. The demonstration involves Medicare beneficiaries and suppliers in three Texas counties in the San Antonio area -- Bexar, Comal and Guadalupe -- and five categories of products. Suppliers wishing to continue to sell these products to Medicare beneficiaries competed on quality and price in the spring of 2000. In each category, Medicare selected multiple suppliers -- each of which passed an extensive quality review -- to ensure that beneficiaries have a choice of quality providers. As a result of this bidding process, beneficiaries and the Medicare program will save as much as 20 percent on medical supplies. Payments under the San Antonio project are expected to begin in February 2001.

BACKGROUND

Medicare payment for durable medical equipment and other supplies is currently based on outdated fee schedules required by law. Studies by the General Accounting Office and the HHS Inspector General have found that, as a result, Medicare payments for many items are far greater than

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the prices paid by other insurers and sometimes greater than the prices available to the general public at retail stores.

For example, the HHS Inspector General found that Medicare allowances for albuterol sulfate, a nebulizer inhalation drug, were more than three times suppliers' acquisition costs. For semi-electric hospital beds, the Inspector General concluded that other insurers paid at least 14 percent less than Medicare did for monthly rentals.

The Balanced Budget Act of 1997 provides authority to conduct competitive bidding demonstrations for Medicare Part B items and services other than physician services. Under the law, suppliers can receive payments from Medicare for items and services covered by the demonstration only if their bids are competitive in terms of quality and price. The legislation authorizes up to five demonstration projects.

Competitive bidding uses market forces to encourage suppliers to offer reasonably priced items and services of high quality. Using competition to replace the outdated fee schedule rates can lower the costs to beneficiaries and Medicare. The project also limits the co-payment that demonstration suppliers can charge beneficiaries to 20 percent of the demonstration prices. Currently, suppliers that do not accept Medicare assignment can charge beneficiaries any amount above what Medicare pays.

The Clinton Administration has asked Congress repeatedly for the authority to move to a more competitive pricing system. The President again proposed this type of reform in 1999 as part of his plan to modernize and strengthen Medicare. While Congress has not approved that expanded authority, the Balanced Budget Act of 1997 did give Medicare the authority to test new methods of paying for medical equipment, supplies and other items.

POLK COUNTY DEMONSTRATION

In the Polk County demonstration, Medicare reviewed 73 bids from 30 different suppliers for both quality and price in five product categories: oxygen supplies; hospital beds; surgical dressings; enteral nutrition supplies and equipment; and urological supplies. Successful bidders underwent a more thorough quality and integrity review than Medicare's existing requirements. Companies that did not pass this heightened review were not chosen as demonstration suppliers even if their bids fell within the competitive range set by the process. To ensure that beneficiaries continue to have access to a choice of suppliers, Medicare named between four and 13 companies for each product type as suppliers for the demonstration.

The average savings are 17 percent overall, and as high as 30 percent for some products, although prices for individual items may be higher or lower as a result of the competition. The demonstration was expected to lower prices in all five product categories. Analysis showed that significant savings were generated in four categories, but higher prices resulted in one small category, surgical dressings.

SAN ANTONIO DEMONSTRATION

After soliciting public input on the Polk County project, Medicare expanded competitive bidding to the San Antonio region in Texas. The new project will be similar to the Polk County demonstration, but involves some different product categories.

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The demonstration involves beneficiaries in original fee-for-service Medicare, but not those in Medicare+Choice plans, in three counties -- Bexar, Comal and Guadalupe. Five categories of products are included: oxygen supplies; hospital beds; manual wheelchairs; non-customized orthotic devices, including "off-the-shelf" items such as braces and splints; and albuterol sulfate and other nebulizer inhalation drugs, which are used to treat lung disease and other respiratory conditions.

Suppliers in the three-county region have competed on quality and price in order to continue to provide Medicare beneficiaries with these products. One hundred and seventy-nine bids were received from 79 suppliers for the San Antonio demonstration. The selection panel recommended a total of 48 suppliers and between 6 and 29 suppliers for each product category. However, these numbers may change once all requests for reconsideration are assessed. An average savings of 20 percent, over \$2 million annually, is expected for all equipment and supplies included in this demonstration. Medicare beneficiaries are expected to begin receiving equipment and supplies under the demonstration in early 2001, after an education campaign with materials in both English and Spanish has been conducted. The demonstration will end on December 31, 2002.

The San Antonio region was selected because it has enough suppliers and people to create the potential for significant savings for both beneficiaries and the Medicare program without sacrificing quality or access for beneficiaries. About 112,000 senior citizens and disabled residents in the three-county area receive Medicare benefits. In 1998, Medicare paid an average of \$287 per beneficiary for medical equipment and supplies. Between 15 and 48 suppliers provided at least \$10,000 in services to the region's Medicare beneficiaries in each of the five product categories included in the project.

BENEFICIARY PROTECTIONS

Both the Polk County and San Antonio demonstration include many safeguards to ensure that Medicare beneficiaries have access to quality supplies and services and a choice of providers:

- ▶ A full-time ombudsperson is available in both Polk County and San Antonio to address questions and concerns that may arise from beneficiaries, suppliers, doctors and others.
- ▶ Medicare is reviewing the track records of bidders to ensure that winners provide quality supplies and have not been involved in criminal activity or fraud.
- ▶ Suppliers that fail to provide quality supplies, equipment and services are not selected.
- ▶ Multiple winning bidders are selected to ensure beneficiaries have more-than-sufficient access to quality medical equipment and supplies covered by the demonstration. Supplier locations are considered to ensure access to services throughout the demonstration areas.
- ▶ To ensure continuity of care, beneficiaries can maintain existing relationships with oxygen and inhalation drug suppliers -- even those who fail to submit successful bids. Such suppliers are paid at the price set by the bidding process.
- ▶ Beneficiaries can continue existing rental agreements for hospital beds, wheelchairs and enteral nutrition pumps at existing Medicare payment rates until those contracts expire. In San Antonio, beneficiaries also can continue to rely on their current orthotics supplier for repairs for their existing equipment.

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HCFA conducted on-site inspections of the facilities of all potential winning bidders. Medicare inspectors looked for improvements that could be made by the demonstration suppliers, and Medicare is making approval conditional on a number of suppliers making improvements in their services. Examples include better education of beneficiaries, faster delivery, and improvements in call back procedures to confirm patient satisfaction.

DEMONSTRATION FACTS AND OBJECTIVES

The two competitive bidding projects have five major objectives:

- ▶ Limiting beneficiary out-of-pocket expenditures;
- ▶ Assuring beneficiary access to high quality medical equipment and supplies;
- ▶ Testing competitive bidding policies in the Medicare program;
- ▶ Reducing what beneficiaries and Medicare pay for medical equipment and supplies; and
- ▶ Preventing business transactions with suppliers who engage in fraudulent practices.

Nationwide, Medicare paid about \$6 billion for equipment and supplies in 1998. Each demonstration includes product categories that account for roughly half of the total expenditures in their region. The competitive bidding process in each site only applies to specific product categories, and only for beneficiaries who live in the demonstration area. Current coverage and payment rules will remain in effect in other situations, and any Medicare supplier can continue to provide other medical equipment, supplies and services.

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