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EXPANSION OF COMPETITIVE BIDDING PROGRAM WILL INCREASE COMPETITION, MAINTAIN QUALITY, AND SAVE MEDICARE BILLIONS

Overview

The Centers for Medicare & Medicaid Services (CMS) today announced lower prices that will go into effect for Medicare beneficiaries this July in a major expansion of the Medicare Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) Competitive Bidding Program. This program, already underway in nine areas of the country, is an essential tool to help Medicare set appropriate payment rates for DMEPOS items and save money for beneficiaries and taxpayers. Traditionally, Medicare pays for DMEPOS items using a fee schedule that is generally based on historic supplier charges from the 1980s. Numerous studies from the Department of Health and Human Services Office of Inspector General and the Government Accountability Office have shown these fee schedule prices to be excessive, and taxpayers and Medicare beneficiaries bear the burden of these excessive payments.

Under the program, DMEPOS suppliers compete to become Medicare contract suppliers by submitting bids to furnish certain items in competitive bidding areas. The new, lower payment amounts resulting from the competition will replace the fee schedule amounts for the bid items in these areas. The first round of the program, which went into effect in nine areas of the country on January 1, 2011, has saved hundreds of millions of dollars while preserving beneficiary access to quality items. The payment amounts from the supplier competition for Round 2 of the program are projected to result in average savings of 45 percent as compared to the current fee schedule prices. The payment amounts for the national mail-order program for diabetic testing supplies are projected to result in average savings of 72 percent. Round 2 of the program is scheduled to go into effect in 91 major metropolitan areas on July 1, 2013. The national mail-order competition will be implemented at the same time and will include all parts of the United States, including the 50 States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa.

Background

The Medicare DMEPOS Competitive Bidding Program was established by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (“Medicare Modernization Act” or “MMA”) after the conclusion of successful demonstration projects. Under the MMA, the

DMEPOS Competitive Bidding Program was to be phased in so that competition under the program would first occur in 10 Metropolitan Statistical Areas (MSAs) in 2007. The Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) temporarily delayed the program in 2008 and made certain limited changes. In accordance with MIPPA, CMS successfully conducted the supplier competition again in nine areas in 2009, referring to it as the Round One Rebid.

The Round One Rebid contracts and prices became effective on January 1, 2011. CMS deployed a wide range of resources to monitor the program, including beneficiary surveys, active claims surveillance and analysis, contract supplier reporting, and tracking and analysis of complaints and inquiries. To date, monitoring data have shown a successful implementation with very few complaints and no negative impact on beneficiary health status. Health outcomes data are available on the CMS website at www.cms.gov/DMEPOSCompetitiveBid/.

MIPPA also delayed the competition for Round 2 from 2009 to 2011 and authorized national mail-order competitions after 2010. The Affordable Care Act of 2010 (ACA) expanded the number of Round 2 MSAs from 70 to 91 and specified that all areas of the country be subject to either DMEPOS competitive bidding or payment rate adjustments using competitively bid rates by 2016. The supplier bidding period for Round 2 and a national mail-order program for diabetic testing supplies concluded on March 30, 2012; Round 2 and national mail-order contracts and prices are scheduled to go into effect on July 1, 2013.

New Payment Rates

As a result of the competitive bidding process, the amounts that Medicare will pay for the eight product categories included in Round 2 of the DMEPOS Competitive Bidding Program are on average 45 percent less than Medicare’s current fee schedule amounts. Prices for mail-order diabetic supplies are on average 72 percent less than the current fee schedule amounts.

The average percentage savings, to both beneficiaries and Medicare, from the current fee schedule amount for each product category included in Round 2 are as follows:

Oxygen, oxygen equipment & Supplies	Standard (power and manual) Wheelchairs	Enteral Nutrients, Equipment	CPAP/RAD & Related Supplies &	Hospital Beds & Accessories	Walkers & Accessories	Support Surfaces (Group 2)	NPWT Pumps & Related Supplies
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	Scooters, & Accessories	& Supplies	Accessories			Mattresses & Overlays)	& Accessories
41%	36%	41%	47%	44%	46%	63%	41%

The program will lower Medicare payments as well as beneficiary out-of-pocket expenses for certain medical equipment and supplies in the competitive bidding areas. The following are examples of savings for three commonly used items (an oxygen concentrator, a semi-electric hospital bed, and a typical monthly supply of 100 diabetic test strips and 100 lancets):

OXYGEN CONCENTRATORS

Medicare suppliers are currently paid based on a fee schedule amount of \$177.36 per month for stationary oxygen equipment (e.g., oxygen concentrators), of which the beneficiary pays 20 percent. The supplier is paid 6,384.96 over the course of the 36 month rental period, of which the beneficiary pays \$1,276.99. Following the 36 month payment cap for oxygen and oxygen equipment, Medicare payments can then be made every 6 months for the maintenance and inspection of the certain supplier owned oxygen equipment. Under the competitive bidding program, the Medicare allowed monthly payment amount for stationary oxygen equipment in the competitive bidding areas will be reduced from \$177.36 to an average of \$93.07.

HOSPITAL BEDS

Medicare suppliers are currently paid based on a fee schedule amount of \$131.08 per month for the first three months for the rental of a semi-electric hospital bed of which the beneficiary pays 20 percent. Beginning in month four, the rental fee is reduced by 25 percent to approximately \$98.31 per month. After the supplier is paid \$1,376.34 over the course of 13 months, the beneficiary owns the bed. Under the competitive bidding program, the Medicare allowed monthly payment amount in the competitive bidding areas will be reduced from \$131.08 to an average of \$70.31 for the first three rental months and from \$98.31 to an average of \$52.73 for rental months four through thirteen. The beneficiary will pay the 20 percent coinsurance based on the applicable payment amount.

DIABETIC TESTING SUPPLIES

Medicare suppliers are currently paid based on fee schedule amounts that average \$77.90 per month for mail-order diabetic testing supplies (100 lancets and test strips) of which the beneficiary pays 20 percent (approximately \$15.58 per month on average). Under the competitive bidding program, the average Medicare allowed monthly payment amount for these supplies will be reduced from \$77.90 to a national rate of \$22.47. As required by the American Taxpayer Relief Act of 2012, the fee schedule amounts for retail diabetic testing supplies will be reduced to the current mail-order fee schedule amounts on April 1, 2013, and subsequently to the national mail-order program single payment amounts starting on July 1, 2013.

The savings generated for these commonly used items, for which Medicare pays 80 percent and beneficiaries pay 20 percent of the allowed amount following payment of the annual Part B deductible, is summarized in the following chart:

Item/Period of Service	Current Allowed Amount**	New Allowed Amount**	Medicare Savings: 80% of Difference	Beneficiary Savings: 20% of Difference
Oxygen Concentrator				
Per month	\$177.36	\$93.07	\$67.43	\$16.86
Per year	\$2,128.32	\$1,116.84	\$809.18	\$202.30
Per 3 years	\$6,384.96	\$3,350.52	\$2,427.55	\$606.89
Hospital Bed				
Per month (months 1-3)	\$131.08	\$70.31	\$48.62	\$12.15
Per month (months 4-13)	\$98.31	\$52.73	\$36.46	\$9.12
Per 13 months*	\$1,376.34	\$738.26	\$510.46	\$127.62
Diabetic Testing Supplies				
Per month	\$77.90	\$22.47	\$44.34	\$11.09
Per year	\$934.80	\$269.64	\$532.13	\$133.03
Per 3 years	\$2,804.40	\$808.92	\$1,596.38	\$399.24

* Beneficiary takes over ownership of equipment after end of rental payment period

** 20% of current and new allowed amount is paid by the beneficiary out-of-pocket

A complete list of payment amounts and a chart showing the average savings in each area is available at the following Web site: <http://www.dmecompetitivebid.com>

Contract Award Process

Suppliers that wanted to participate in the DMEPOS Competitive Bidding Program submitted their bids last year. The bid evaluation process ensures that there will be a sufficient number of suppliers, including small suppliers, to meet the needs of the beneficiaries living in the competitive bidding areas. Small suppliers, those with gross revenues of \$3.5 million or less, make up about 62 percent of the suppliers that will be offered contracts for Round 2. 33 percent of national mail-order contract offers are going to small suppliers. All suppliers that are offered contracts went through a thorough vetting process and are accredited and meet financial and applicable licensing standards. 87 percent of Round 2 suppliers that will be offered contracts currently furnish contract items in the area.

CMS will now begin mailing contract offers to winning bidders. 14,654 contract offers will be made to 867 Round 2 bidders. The winning suppliers have 3,109 locations to serve Medicare beneficiaries in the competitive bidding areas. We will offer 15 contracts for the national mail-order program; the national mail-order program winners have 48 locations. CMS expects to complete the contracting process in time to announce the contract suppliers in the spring of 2013. Bidders that are not offered contracts will be notified of the reasons why they did not qualify for the program when the contracting process is complete. Suppliers that are not contract suppliers for this round of the DMEPOS Competitive Bidding Program may bid in future rounds.

Additional information on the distribution of contract offers is available at the following Web site: www.dmecompetitivebid.com.

REAL-TIME MONITORING

Importantly, the program has maintained beneficiary access to quality products from accredited suppliers in the Round 1 Rebid areas. Extensive real-time monitoring data have shown successful implementation with very few beneficiary complaints and no negative impact on beneficiary health status based on measures such as hospitalizations, length of hospital stay, and number of emergency room visits compared to non-competitive bidding areas. In addition to our real-time claims monitoring, CMS also requested feedback from beneficiaries through consumer satisfaction surveys conducted before and after the rollout of the program. CMS provides a local, on-the-ground presence in each competitive bidding area through the CMS regional offices and local ombudsmen, who closely monitored implementation of the program. There is also a formal complaint process for beneficiaries, caregivers, providers and suppliers to use for reporting concerns about contract suppliers or other competitive bidding implementation issues. In addition, contract suppliers are responsible for submitting quarterly reports identifying the brands of products they furnish, which is used to inform beneficiaries, caregivers, and referral agents. Finally, CMS has appointed a Competitive Acquisition Ombudsman who responds to complaints

and inquiries from beneficiaries and suppliers about the application of the program and issues an annual Report to Congress. CMS will employ the same aggressive monitoring program for the MSAs added in Round 2.

ROUND 2 PRODUCT CATEGORIES AND AREAS

The Round 2 product categories are:

- Oxygen, oxygen equipment, and supplies
- Standard (Power and Manual) wheelchairs, scooters, and related accessories
- Enteral nutrients, equipment, and supplies
- Continuous Positive Airway Pressure (CPAP) devices and Respiratory Assist Devices (RADs) and related supplies and accessories
- Hospital beds and related accessories
- Walkers and related accessories
- Negative Pressure Wound Therapy pumps and related supplies and accessories
- Support surfaces (Group 2 mattresses and overlays)

A list of the specific items in each product category is available on the Competitive Bidding Implementation Contractor (CBIC) website, www.dmecompetitivebid.com.

As required by MIPPA and the ACA, Round 2 will be implemented in 91 MSAs. Most Round 2 MSAs will have only one Competitive Bidding Area. However, the three largest MSAs (New York, Los Angeles, and Chicago) will each be subdivided into multiple competitive bidding areas, so there will be a total of 100 competitive bidding areas. A list of the Round 2 MSAs is available on the CMS website at: www.cms.gov/DMEPOSCompetitiveBid/. A list of the specific ZIP codes in each competitive bidding area is available on the CBIC website, www.dmecompetitivebid.com.

The national mail-order program for diabetic testing supplies will include all parts of the United States, including the 50 States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa.

Timeline of Events

January 2013 CMS announces new payment rates for Round 2 and the national mail-order program and begins contracting process with winning suppliers

Spring 2013 CMS announces the Medicare contract suppliers for Round 2 and the national mail-order program; intensifies supplier, referral agent, and beneficiary education program

July 1, 2013 Implementation of Medicare DMEPOS Competitive Bidding Program Round 2 and national mail-order program contracts and prices

ADDITIONAL INFORMATION

For additional information about the Medicare DMEPOS Competitive Bidding Program, please visit: <http://www.cms.hhs.gov/DMEPOSCompetitiveBid/>.

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