

The Medicare DMEPOS Competitive Bidding Program

Why the Program Is Needed

- Current Medicare payment amounts for durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) are out-of-date and far in excess of market prices – fees are based on historic supplier charges from the 1980s updated for inflation.
- Numerous studies from the HHS Office of Inspector General (OIG) and the Government Accountability Office (GAO) have found that prices paid by Medicare for DMEPOS items are excessive, sometimes 3 or 4 times retail prices and the amounts paid by commercial insurers.
 - The OIG found that Medicare payments for power wheelchairs exceeded median Internet prices by an average of 45 percent in 2007.
 - The OIG also found that Medicare paid more than \$7,000 for oxygen concentrators over a 36-month period in 2006 when each sells for an average price of \$587.

Benefits of the DMEPOS Competitive Bidding Program

- It maintains Medicare beneficiaries' access to high quality medical products.
- The program reduces out-of-pocket costs for consumers and saves taxpayers and the Medicare program money.
 - More specifically, the competitive bidding program is projected to save \$42.8 billion over 10 years - \$25.8 billion to the Medicare program and \$17.2 billion to beneficiaries through reduced coinsurance and the downward effect on premiums.
- It helps prevent Medicare fraud – establishing fair, competitively bid, market-based prices makes DMEPOS items a less tempting target for fraud and abuse.

Based on Proven Results

- The competitive bidding program was enacted by Congress after successful Medicare competitive bidding demonstrations in Polk County, Florida and San Antonio, Texas between 1999 and 2002, which resulted in 20 percent savings while maintaining beneficiary access to equipment and quality and high overall satisfaction.
- Round One Rebid of the program was implemented on January 1, 2011 in 9 areas and the average percentage savings in comparison to fee schedule amounts was 35 percent. The first year of implementation showed a drop in expenditures of 42 percent due to lower prices and reduced inappropriate utilization. To date, there have been no changes in beneficiary health status outcomes resulting from the program and the Centers for Medicare & Medicaid Services (CMS) received very few complaints.
- Round Two of the program is scheduled to begin on July 1, 2013 in 91 additional areas and the single payment amounts will be approximately 45 percent below the fee schedule amounts. In addition, the national mail-order program for diabetic testing supplies is projected to result in an average savings of 72 percent.

Key Operational Safeguards

- CMS carefully scrutinizes bidders on the front-end to ensure that only qualified suppliers are selected to participate in the program.
 - Licensure and Accreditation: All bidders are thoroughly screened up-front to make sure they have all applicable state licenses and are accredited as meeting Medicare's strict quality standards.
 - Financial Standards: All bidders must meet financial standards to ensure that selected suppliers are able to continue to serve market demand for the duration of their contracts.
 - Supplier Capacity: Supplier capacity statements and expansion plans are carefully evaluated to verify that suppliers will be ready on day one to begin operating at the level reported in their bids.
 - Bona Fide Bids: All bids are screened and evaluated to ensure that they represent a rational and feasible payment for furnishing the item. In cases of bids that are very low in comparison to other bids, CMS requests additional documentation from bidders beyond that initially required to submit a bid (such as supplier rationales that support manufacturer's invoices) to verify that the supplier can furnish an item at the bid amount. Bids that are not proven feasible are rejected and are not considered in the pricing array.

Beneficiary Protections

- Beneficiaries receiving oxygen or oxygen equipment or renting durable medical equipment prior to the implementation of the program starts can choose to stay with their supplier even if the supplier is not awarded a contract, as long as the supplier elects to continue furnishing the item as a grandfathered supplier (enteral supplies and diabetic testing supplies, which are not rented, cannot be grandfathered).
- Contract suppliers cannot discriminate against Medicare beneficiaries and must make the same items and services available to Medicare beneficiaries that are made available to non-Medicare patients.
- When a physician (or treating practitioner) specifically prescribes a particular brand name product or mode of delivery to avoid an adverse medical outcome, contract suppliers must furnish the item, assist the beneficiary in finding another contract supplier who will furnish the item, or consult with the physician to find a suitable alternative and obtain a revised written prescription.
- Despite the significant reductions to the payment amounts, there has been no change in beneficiary health status, and access to necessary and appropriate equipment has been maintained. Medicare employs a wide range of resources to monitor the program, including the 1-800-MEDICARE call center, an ombudsman program, local environmental scanning, secret shopping, and a sophisticated real-time claims monitoring program.
 - For the first year of the program, Medicare's real-time claims monitoring and subsequent follow-up has indicated that beneficiary access to all necessary and appropriate items and supplies has been preserved in the nine Round One areas. Moreover, utilization of hospital services, emergency room visits, physician visits,

and skilled nursing facility care has remained consistent with the patterns and trends seen throughout the rest of the country.

- Specific to diabetic testing supplies, the anti-switching provision prohibits contract suppliers from influencing or incentivizing beneficiaries by persuading, pressuring, or advising them to switch from their current brand of testing supplies that work with the home blood glucose monitor selected by the beneficiary (or for new beneficiaries, switching from their preferred brand of glucose monitor and testing supplies). In addition, the 50 percent rule requires suppliers to demonstrate that their bids cover least 50 percent (by volume) of all types of diabetic testing strips on the market.

Small Supplier Protections

- CMS worked with the Small Business Administration to ensure that small suppliers have the opportunity to be considered for participation in the program as required by law.
- The competitive bidding program features a 30 percent target for small supplier participation. In Round One, 51 percent of contracts were awarded to small suppliers. For Round Two, 63 percent of suppliers offered contracts were small.