Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

MEDICARE PAYMENTS TO AMBULATORY SURGICAL CENTERS FOR INTRAOCULAR LENSES

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ABSTRACT

The objective of this inspection was to determine whether Medicare payment to ambulatory surgical centers (ASCs) for intraocular lenses (IOLs) is "reasonable and related to the cost" of the lenses, as required by law. We found that the current $150 per lens payment for IOLs is not "reasonable and related to the cost." For the 12 months ending June 2002, 40 percent of IOL payments by Medicare and its beneficiaries were in excess of ASC IOL cost. Overall, IOL cost averaged $90.30 per lens, $59.70 below the $150 Medicare payment. IOL cost varied significantly by type of lens (grouped by lens material), with the highest cost IOL averaging $125 per lens, the most frequently used IOL averaging $69 per lens, and the lowest cost IOL averaging $39 per lens. We estimated that Medicare and its beneficiaries could have achieved substantial savings through the use of alternative payments rates.

We recommend that Centers for Medicare & Medicaid Services (CMS) reduce Medicare payment to ASCs for IOLs in a manner that takes into account the different types and cost of IOLs. In comments, CMS agreed to take into account our recommendation and IOL cost data in developing the revised payment system for ASCs required by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

OBJECTIVE

To determine whether Medicare payment to ambulatory surgical centers (ASCs) for intraocular lenses (IOLs) is "reasonable and related to the cost" of IOLs, as required by law.

BACKGROUND

Medicare payment to ASCs for IOLs is required by section 1833(i)(2)(A)(iii) of the Social Security Act to be "reasonable and related to the cost" of lenses. Medicare's current payment is $150 per lens for virtually all types of IOLs. The payment rate has remained unchanged, despite 1994 cost data suggesting that it substantially exceeds the cost of IOLs. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) requires the Centers for Medicare & Medicaid (CMS) to implement a revised payment system for ASCs betweem January 2006 and January 2008.

We gathered ASC cost information for 359 randomly selected Medicare-covered IOLs for the 12 months ending June 2002. We determined the average cost per IOL and projected the results to the population of Medicare-covered IOLs in the sample period. We also analyzed cost by type of IOLs. Finally, we identified possible alternative payment rates and estimated potential Medicare and beneficiary savings.

FINDINGS

Medicare payment to ASCs for IOLs was not "reasonable and related to the cost" of lenses, with about 40 percent of total amount paid exceeding cost.

We found an average ASC IOL cost of $90.30 per lens for the 12 months ending June 2002, which is $59.70 below the current $150 per lens Medicare payment. The average cost per lens varied by IOL lens material, with $124.77 per lens paid for IOLs made of soft acrylic, $69.37 for silicone, and $39.10 for polymethyl methacrylate (PMMA). These differences in cost strongly suggest that a single payment rate for these IOL types

is not reasonable. We estimate that, depending upon how CMS chooses to refine IOL payment, Medicare and its beneficiaries could have achieved substantial savings if alternative payment rates had been paid to ASCs for IOLs instead of the $150 per lens that was paid.

RECOMMENDATION

We recommend that the Centers for Medicare & Medicaid Services reduce Medicare payment to ASCs for IOLs in a manner that takes into account the different types and cost of IOLs.

Agency Comments

CMS agreed to take into account our recommendation and IOL cost data in developing the revised payment system for ASCs required by MMA.

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INTRODUCTION

OBJECTIVE

To determine whether Medicare payment to ambulatory surgical centers (ASCs) for intraocular lenses (IOLs) is "reasonable and related to the cost" of IOLs, as required by law.

BACKGROUND

An ASC provides surgical services to patients not requiring hospitalization.[1] The Centers for Medicare & Medicaid Services (CMS) determines which surgical procedures may be performed in ASCs and periodically publishes a list of covered procedures in the Federal Register.[2] Medicare covers five procedures involving IOL implants: three cataract surgery procedures, and two IOL replacement procedures.[3] An IOL is an artificial lens made of polymethyl methacrylate (PMMA), silicone, acrylic, or other material that is implanted inside the eye during or subsequent to cataract surgery. Cataract surgery with IOL insertion ranks as the highest outpatient surgical procedure covered by Medicare Part B in terms of total expenditures.[4]

Payments to ASCs for cataract surgery and other IOL implant procedures are made up of two parts: a prospectively determined payment for the surgical procedure and a payment for the IOL itself.[5] While various factors affect the payment for each of the five surgical procedures (e.g., geographic wage adjustments), payment for IOLs is fixed nationwide and not subject to inflation adjustments. With the exception of two lens models designated as new technology IOLs,[6] the Medicare program and its beneficiaries have paid ASCs the fixed amount of $150 per IOL since 1994. At $150 per IOL, program and beneficiary payments totaled about $134 million in the 12 months ending June 30, 2002 for IOLs alone.[7]

The current $150 payment per IOL was originally mandated by Congress in the Omnibus Budget Reconciliation Act of 1993 (OBRA '93) and applied to all IOLs implanted from January 1994 through December 1998.[8] Congress took this action after the Office of Inspector General (OIG) found that the previous Medicare payment of $200 per IOL substantially exceeded prices

that ASCs paid for IOLs in both 1991 and 1993.[9] The previous $200 payment per IOL had also been based on information provided by OIG in a 1988 report.[10]

Since the congressionally-mandated OBRA '93 rate expired in 1998, the Social Security Act (hereafter, the Act) establishes the criteria for appropriate payment. Section 1833(i)(2)(A)(iii) of the Act specifies that Medicare payment to ASCs for IOLs should include "…payment which is reasonable and related to the cost of acquiring the class of lens involved."

Medicare payment to ASCs for IOLs has not been adjusted since the expiration of the OBRA '93 rate, despite evidence that the payment exceeded the cost of IOLs. In a 1994 survey of ASC cost, the Centers for Medicare & Medicaid Services (CMS) found a weighted mean ASC IOL cost of $100 for all ASCs sampled.[11] The 1994 survey was the last survey of ASC cost conducted by CMS. Until recently, CMS had been required by section 1833 (i)(2)(A)(i) of the Act to conduct a survey of ASC costs every 5 years (e.g., 1999, 2004).[12] However, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) repealed the survey requirement and mandated that CMS implement a revised payment system for ASCs beginning on or after January 1, 2006 and not later than January 1, 2008.[13] The MMA also requires the General Accounting Office (GAO) to conduct a study of ASC payments, including consideration of cost data submitted by ASCs, and to report the results to Congress by January 2005.

Further, while the last two changes in Medicare payment to ASCs for IOLs have involved paying a single rate for lenses other than new technology IOLs, CMS has the authority to set different payment rates for different classes of IOLs. The Act specifies that payment to ASCs for insertion of IOLs must be "reasonable and related to the cost of acquiring the class of lens involved" (emphasis added). The House Conference Report accompanying the Omnibus Budget Reconciliation Act of 1987 (OBRA '87), which added this requirement, emphasizes that for the purposes of paying an amount that is reasonable and related to the cost, "the [Department of Health and Human Services (HHS)] Secretary may establish categories of IOLs based on differences in type and cost."[14]

SCOPE AND METHODOLOGY

Utilizing the 100 percent Medicare National Claims History file of paid Part B claims with a date of service for the 12 months ending June 30, 2002, we identified the population of 893,428 claims for which Medicare and its beneficiaries paid $150 per IOL used in an implant procedure performed in an ASC.[15]

Sample. We stratified the 893,428 IOL implant claims into 3 groups, based on the number of claims associated with a unique Medicare Part B carrier provider number (Table 1). The purpose of stratification was to allow for the over sampling of claims associated with provider numbers with relatively few claims in the population.[16] The divisions between strata – at 120 and 1,200 annual claims – are equivalent to ASCs submitting, on average, fewer than 10 claims per month, between 10 and 100 claims per month, or more than 100 claims per month.

Table 1: Sample Design

Stratification of IOL Claims Associated with Unique Medicare Part B Carrier Provider Numbers

Strata (Claims per Provider Number)	Population Provider Numbers	Population Claims	Sampled Claims
1,200 or more	165	293,652	180
121 – 1199	1,160	564,917	120
120 or fewer	1,662	34,859	60
Total	**2,987**	**893,428**	**360**

We sampled a total of 360 claims, a number that permits projection to the population at a 95 percent confidence level. We randomly selected 60, 120, and 180 claims from the 3 strata.[17] By selecting more claims from the two strata that had more claims per unique provider number, we ensured the sample would contain more ASCs than if we had selected the same number of claims from each stratum. The final sample contained 360 claims from 268 different ASCs.

Initial Data Collection. We requested ASCs with the associated sampled claims to identify the manufacturer, model, and various characteristics of the IOL used in each implant procedure and to report its cost, net of discounts, rebates, and any other reductions in price. Additionally, we requested supporting documentation, such as copies of supplier invoices, purchase agreements, and IOL identification labels relating to each sampled claim.

Document Reviews and Follow-up Data Collection. In order to verify the accuracy of the IOL cost data reported by ASCs, we reviewed supporting documentation provided with each response. These reviews involved examining supplier invoices, discount and rebate statements, purchase agreements, and contracts. When the document review revealed any apparent discrepancy between reported cost and supporting documents, or whenever additional documentation or clarification of a response was needed, we contacted the respondent to resolve the question(s). When appropriate, we adjusted the initial self-reported ASC IOL cost data to more accurately reflect cost, as revealed through document reviews and follow-up interviews of respondents.

Despite these efforts, we learned during data collection that we were not always able to measure and document all reductions to the IOL sales prices listed on invoices. Some ASC respondents reported they lacked access to full financial information when contracts were handled at the corporate level. Others acknowledged that they could not report all price reductions because either they purchased IOLs through group purchase organizations or their purchase arrangements with IOL vendors were highly complex.[18] Therefore, while we were able to document an accurate invoice sales price for each IOL in the sample and an accurate net sales price (cost) for most IOLs in the sample, some ASCs likely paid less than the reported amount. Of the sampled IOLs where we were able to obtain information on rebates and agreements, all of them decreased, rather than increased, the actual IOL cost compared to invoice price. We found no evidence to suggest that any ASC paid more for an IOL in the sample than the cost we used in the analysis.

Response Rate. Of the 360 claims sampled, we excluded 1 claim as ineligible and imputed cost for 1 claim where cost data could

not be reported. For the first of these claims, the respondent reported that the IOL implanted was actually a new technology IOL, a type of lens that should not have been included in the sample. We excluded this claim from our analysis, leaving a total sample of 359 claims and a population of approximately 891,797 IOL implant claims for the 12-month study period.[19] For the second claim, we learned that the ASC had been sold since the date of the claim, and that the new owners could only identify the IOL implanted, but could not report the previous owner's cost. For this claim, we imputed the highest cost reported among the other eight claims in the sample with the same manufacturer and model of IOL.[20]

Analysis. We calculated an average per IOL cost for the 359 claims in the sample, which were weighted to reflect the proportion of claims represented by each stratum.[21] We subtracted this average per IOL cost from the Medicare per lens payment of $150 to determine the average per lens payment above cost. We also calculated the average per lens cost and payment above cost for different types of IOLs by grouping the 359 claims, based on the primary material used in the construction of each lens. The sample contained 187 IOLs made primarily of silicone, 147 made of soft acrylic[22], and 25 made of polymethyl methacrylate (PMMA).

We projected the average per lens cost to the population of 891,797 implant claims to estimate total ASC IOL cost for the 12-month period. We calculated total program payments by multiplying the population of claims by $150. We refer to this amount as "Medicare payments" and recognize that it includes both program and beneficiary payments.[23] We subtracted total ASC IOL cost from total Medicare payments to determine estimated payments above cost. We also calculated total estimated payments, cost, and payments above cost by IOL material.

Further, we developed two possible alternative payment rates for each lens material type. For the first alternative, we calculated the weighted 90th percentile rate for each lens type. That is, using a computer application, we estimated the dollar amount that was greater than or equal to cost for 90 percent of all IOLs purchased by ASCs for the sample period. For the second alternative, we examined the cost distribution of sampled IOLs to identify high "outlier" ASC cost – reported cost that appeared excessively high when compared to the rest of the

sample. Determining outlier cost was accomplished primarily using data display analysis. We arrayed IOL cost data from lowest to highest cost and displayed the distribution graphically. We then visually determined where along the graph that outlier cost began, as evidenced by a dramatic decrease in the frequency of IOLs above a particular cost.

For each lens material type, we located an alternative payment rate that would have covered all reported costs, except the outliers. We then calculated how much Medicare and its beneficiaries would have paid to ASCs for IOLs, if payment had been set at the rates given by these two alternatives. We also retrospectively estimated the amount of savings that would have resulted through use of each of the sets of alternative payment rates.

Limitations. As mentioned, actual net cost per IOL is likely lower than the IOL cost used in our analysis, because some respondents found it difficult to report all reductions in price. As a result, our analysis likely underestimates the amount of total Medicare payments above ASC IOL cost. While it would be beneficial to know the exact cost, net of all price reductions, of each IOL in the sample, we are confident that we are underestimating differences between payment and cost rather than overestimating them.

Finally, our analysis of types of lenses relies on only one characteristic of IOLs, namely, the primary material used in the construction of each lens. We recognize that, in addition to lens material, other IOL features, such as design characteristics, might also be useful for grouping IOLs for analysis or payment purposes.

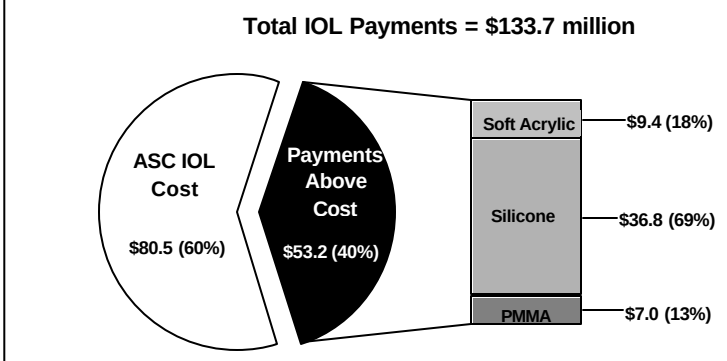
Standards. We conducted this inspection in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

FINDINGS

Medicare payment to ASCs for IOLs was not "reasonable and related to the cost" of lenses, with about 40 percent of total amount paid exceeding cost.

Medicare and its beneficiaries paid ASCs approximately $133.7 million for IOLs for the 12 months ending June 2002. We estimated that ASCs had IOL cost of $80.5 million, resulting in Medicare and beneficiary payments above costs of $53.2 million (Figure 1). These amounts indicate that 40 percent of total Medicare payments to ASCs for IOLs for the study period exceeded the cost of lenses.

Figure 1:
Forty Percent of Medicare and Beneficiary Payments to ASCs for IOLs Were in Excess of Cost
(July 2001 to June 2002)



Source: OIG analysis of IOL Cost and Payments.
All dollars in millions.

IOLs made of silicone, the most prominent lens material in the sample, accounted for about $36.8 million (69 percent) of payments above cost. IOLs constructed of soft acrylic and PMMA accounted for an estimated $9.4 million and $7.0 million, respectively, in total payments above cost.

ASC cost varies significantly by three IOL types; Medicare payment exceeds the average cost per lens for each type.

While we estimated that the average cost to ASCs per IOL was $90, we found that average cost varied significantly by lens material (Table 2). Soft acrylic lenses accounted for 41 percent of the sample and had an average cost of $125, $25 below Medicare's $150 per IOL payment. Silicone lenses accounted for 52 percent of the sample and had an average cost of $69 per lens, about $81 below the payment rate. PMMA lenses accounted for 7 percent of the sample and had an average cost of $39 per lens, $111 below the payment rate.

Table 2:
Average ASC Cost Per IOL Differs by Lens Material

IOL Type (Material)	Sample Size	Average Cost	Average Payment (Percent) Above Cost[a]	Cost Range
All IOLs	359 (100%)	$90	$60 (40%)	$23 - $150
Soft Acrylic	147 (41%)	$125*	$25 (17%)	$85 - $150
Silicone	187 (52%)	$69*	$81 (54%)	$23 - $150
PMMA	25 (7%)	$39*	$111 (74%)	$28 - $69

[a] Average payment above cost calculated as $150 minus average cost.
* Average costs are different by lens type at p <.05 significance level, based on Sudaan analysis.

ASC cost for sampled IOLs ranged from a low of $23 to a high of $150. While no sampled IOLs cost more than the current $150 Medicare payment per lens, ASC respondents reported paying exactly $150 per lens for 11 sampled IOLs - 7 soft acrylic and 4 silicone. Follow-up document reviews and interviews revealed that, for 10 of the 11 IOLs, the $150 reported cost may not have accounted for all reductions in price realized by the ASCs through various purchase arrangements. For example, 5 of the 11 lenses were all purchased by different ASCs from the same distributor. During an interview with a representative of this distributor, we learned that the distributor provided IOLs to

ASCs under contracts that included other cataract surgery supplies and equipment. Regardless of the IOL used, the distributor stamped every surgical package invoice with a statement indicating that, for Medicare reporting purposes, the cost of the IOL was $150. Respondents reported that another 5 of these 11 lenses were purchased through group purchasing organizations or bundled with capital equipment, arrangements which made it difficult for respondents to determine all applicable reductions in cost. One of the 11 IOLs cost $150 because it involved a lens power outside the normal production range.

Substantial savings could have been achieved through the use of alternative payment rates.

Knowing the average ASC IOL cost is useful for estimating the difference between Medicare payments and ASC IOL cost. To provide information on payment rates that could be considered "reasonable and related to the cost," we used two different analysis methods to identify alternative payment rates for each of the three IOL material types. Each method provided alternative payment rates that, if used instead of the single $150 Medicare payment rate, would have achieved substantial savings to Medicare and its beneficiaries while covering the vast majority of ASC IOL cost (Table 3).

Table 3:
Program and Beneficiary Savings Are Possible Through Use of Alternatives to the Current $150 Payment

IOL Material	Average Cost Estimate	Alternative Payment Rates: Weighted 90th Percentile	Alternative Payment Rates: Excluding Outliers
Soft Acrylic	$125	$134	$134
Silicone	$69	$100	$95
PMMA	$39	$55	$45
Estimated Savings	N/A	**$34.8 million**	**$37.7 million**

Payment rates set at the weighted 90th percentile (i.e., rates greater than or equal to cost for 90 percent of each of the 3 IOL types purchased for the sample period) would have resulted in estimated savings of $34.8 million. Payment rates that covered all sampled IOL costs, except high outliers, would have resulted in estimated savings of $37.7 million (see IOL cost distributions in Appendix B.) While there are numerous ways of determining possible alternative payment rates, these methods provide similar payment amounts for each of the three lens types and cover all but the highest reported ASC IOL cost.[24]

RECOMMENDATION

Medicare payments to ASCs for IOLs are required by law to be "reasonable and related to the cost" of lenses. In OBRA '87, Congress granted the HHS Secretary the authority to establish rates and specified in the conference report that rates may vary by "categories of IOLs based on differences in type and cost." However, our data suggest that the current $150 Medicare per lens payment is not "reasonable and related to the cost" of IOLs. We found that 40 percent ($53.2 million) of total Medicare and beneficiary payments were in excess of ASC cost in the 12 months ending June 2002. Using lens material, one of the possible lens characteristics for categorizing IOLs, we found that the average cost per lens varied significantly by IOL type. This variation suggests that a single payment rate is not reasonable. We estimate that substantial program and beneficiary savings could be achieved through the use of alternative payment rates.

To ensure that future payments are "reasonable and related to the cost" of lenses, we recommend that:

CMS reduce Medicare payment to ASCs for IOLs in a manner that takes into account the different types and cost of IOLs

The MMA requires CMS to implement a revised payment system for ASCs, beginning not later than January 1, 2008, and GAO to conduct a study of ASC payments in 2004. We encourage CMS to consider the information provided in this report as it revises the ASC payment system. We also encourage CMS to discuss with GAO our findings regarding ASC IOL costs and payments.

Agency Comments

CMS commented on our draft report recommendation written before the MMA was enacted. We had urged CMS to take administrative action, or seek legislation, to immediately reduce ASC IOL payment rates. In responding, CMS agreed to take into account our recommendation and data in developing the revised payment system for ASCs. However, CMS stated that, in light of the significant changes in how CMS determines ASC payments resulting from the MMA, it is deferring action to reduce Medicare payment to ASC for IOLs.

END NOTES

[1] 42 CFR § 416.2

[2] 42 CFR § 416.65

[3] IOL implant procedures include those with CPT codes 66982, 66983, 66984, 66985, and 66986. American Medical Association, *Current Procedural Terminology 2001* (Chicago: AMA Press, 2001), 229. The 5 procedures are described as follows: 66982 - Extracapsular cataract removal with insertion of intraocular lens prosthesis, complex; 66983 - Intracapsular cataract extraction with insertion of intraocular lens prosthesis; 66984 - Extracapsular cataract removal with insertion of intraocular lens prosthesis; 66985 - Insertion of intraocular lens prosthesis, not associated with concurrent cataract removal; 66986 - Exchange of intraocular lens prosthesis.

[4] For example, Medicare Part B paid $1.97 billion for extracapsular cataract removal with insertion of intraocular lens prosthesis (66984) in 2001. Center for Medicare and Medicaid Services, "Medicare Leading Part B Procedure Codes Based on Allowed Charges, 2001."

[5] Physicians that perform implant procedures are paid, based on a separate physician fee schedule.

[6] In 1999, CMS issued regulations authorizing an additional $50 be added to Medicare ASC IOL payment when designated "new technology intraocular lens" are used in implant procedures. To date, only two specific lenses have been designated as new technology IOLs. Our analysis found that new technology IOLs accounted for less than 2 percent of all Medicare ASC IOL implant claims in the study period.

[7] Based on our analysis of claims, Medicare paid ASCs $150 per lens for 891,797 claims, for a total of $133,769,400. See the Methodology section for more details.

[8] Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, sec. 13533

[9] Department of Health and Human Services, Office of Inspector General, OIG Management Advisory Report: "Intraocular Lens Cost," OEI-05-92-01031, March 26, 1993

[10] Department of Health and Human Services, Office of Inspector General, "Medicare Certified Ambulatory Surgical Centers: Cataract Surgery Cost and Related Issues," OAI-09-88-00490, March 1988

[11] 63 FR 32303-32304, June 12, 1998

[12] Section 1833 (i)(2)(A)(i) of the Act requires a survey.

[13] Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Pub. L. 108-173, sec. 626

[14] H.R. Conf. Rep. No. 100-495, at 616 (1987), reprinted in 1987 U.S.C.C.A.N. at 1362

[15] This population excludes 31,129 claims for beneficiaries who were identified as having at least 1 new technology IOL implanted. These beneficiaries had at least one claim for the sample period with the procedure code Q1001 or Q1002, which indicated that a new technology IOL was implanted. The population also excludes a total of 51,491 claims with modifiers, indicating that the procedure might have been discontinued, and claims for which the amount Medicare allowed was unusually small, indications that an IOL might not have been implanted. Specifically, these claims contained modifier codes 52, 53, 73, 74 or allowed payment amounts of less than $300.

[16] Stratification accomplished this purpose. While provider numbers with 120 or fewer claims in the population accounted for only about 4 percent of all claims in the sample period, we selected about 17 percent of the sample (60 claims) from this group.

[17] For random sampling, we used RAT-STAT, the OIG's statistical software program with random number generator.

[18] Some of these purchasing agreements bundled IOLs and surgical accessories or equipment together in such a way that providers could not determine the price of the IOL without requesting additional information from their vendor.

[19] The excluded claim came from the "1,200 or more" stratum, leaving 179 claims in that stratum.

[20] The other eight claims in the sample with the same IOL manufacturer and model had a mean cost of $59.38, minimum cost of $50.00, and maximum cost of $65.85. We imputed the maximum reported cost of $65.85 for the claim in question.

[21] The following table shows the calculated weights:

Calculated Weights for IOL Sample Strata			
Strata (Claims per Provider Number)	**Claims**	**Sampled Claims**	**Calculated Weights**
1,200 or more	293,652	180	1,631.4
121 – 1199	564,917	120	4,707.6
120 or fewer	34,859	60	581.0
Total	**893,428**	**360**	

Both SAS® and SUDAAN® were used in analyzing data. SUDAAN® was used to determine weighted mean cost and their standard errors, adjusted for the sampling design.

[22] The soft acrylic group include hydrophobic, hydrophilic, and hydrogel lenses.

[23] This amount should be viewed as a proxy for actual Medicare and beneficiary payments. Actual payments may be affected by coinsurance, deductibles, multiple procedure payment rules, etc. Use of this proxy is necessary, however, because the $150 IOL payment is bundled with the surgical procedure facility fee when Part B carriers pay ASCs, making it impossible to tally actual payments for IOLs alone.

[24] Further examination of those IOLs with reported ASC cost above the alternative payment rates confirmed that these reported costs were truly outliers. For example, 2 IOL models accounted for 13 of the 17 silicone IOLs with reported cost above $95. The other 93 IOLs in the sample representing the same 2 silicone lens models had an average weighted cost of $69.20.

APPENDIX ~ A

Estimates and Confidence Intervals

	N	Mean Estimate	Standard Error	95 % Confidence Interval Lower Limit	95 % Confidence Interval Upper Limit	p
ASC IOL Cost Estimates						
All IOLs	359	$90.30	2.22	$85.95	$94.65	
ASC IOL Cost by Type of Lens						<(.05)[a]
Soft Acrylic	147	$124.77	1.11	$122.59	$126.95	
Silicone	187	$69.37	2.09	$65.27	$73.47	
PMMA	25	$39.10	1.80	$35.57	$42.63	

[a] *General Linear Modeling analysis: F< .0005; all lens types differ at p<.05.*

* *Average per lens cost differences significant at p level indicated.*

12-Month Medicare Payment Projections[b]	Payment Per IOL	N	Estimate[b]
	$150.00	891,797	$133,769,490

	Mean	N	Estimate[b]	Standard Error	95 % Confidence Interval Lower Limit	95 % Confidence Interval Upper Limit
12-Month ASC IOL Cost						
All IOLs	$90.30	891,797	$80,525,748	2.22	$76,645,531	$84,405,965
Soft Acrylic	$124.77	371,419	$46,341,756	1.11	$45,533,701	$47,149,812
Silicone	$69.37	457,083	$31,708,905	2.09	$29,836,447	$33,581,362
PMMA	$39.10	63,294	$2,475,087	1.80	$2,251,759	$2,698,415
12-Month Payments Above ASC Cost						
All IOLs	$59.70	891,797	$53,243,742	2.22	$49,363,103	$57,124,381
Soft Acrylic	$25.23	371,419	$9,371,112	1.11	$8,563,034	$10,179,189
Silicone	$80.63	457,083	$36,853,602	2.09	$34,981,258	$38,725,946
PMMA	$110.90	63,294	$7,019,028	1.80	$6,795,736	$7,242,320

Estimates and Confidence Intervals (continued)

	Mean Savings	N	Estimate[b]	Standard Error	95 % Confidence Interval Lower Limit	95 % Confidence Interval Upper Limit
12-Month Cost Savings - 90th Percentile Rates						
All IOLs	$39.03	891,797	$34,806,821	1.42	$32,324,773	$37,288,870

	Payment Per IOL	Savings Per IOL
Soft Acrylic	$134.00	$16.00
Silicone	$100.00	$50.00
PMMA	$55.00	$95.00

	Mean Savings	N	Estimate[b]	Standard Error	95 % Confidence Interval Lower Limit	95 % Confidence Interval Upper Limit
12-Month Cost Savings – Outlier Exclusion Rates						
All IOLs	$42.31	891,797	$37,731,914	1.61	$34,917,761	$40,546,067

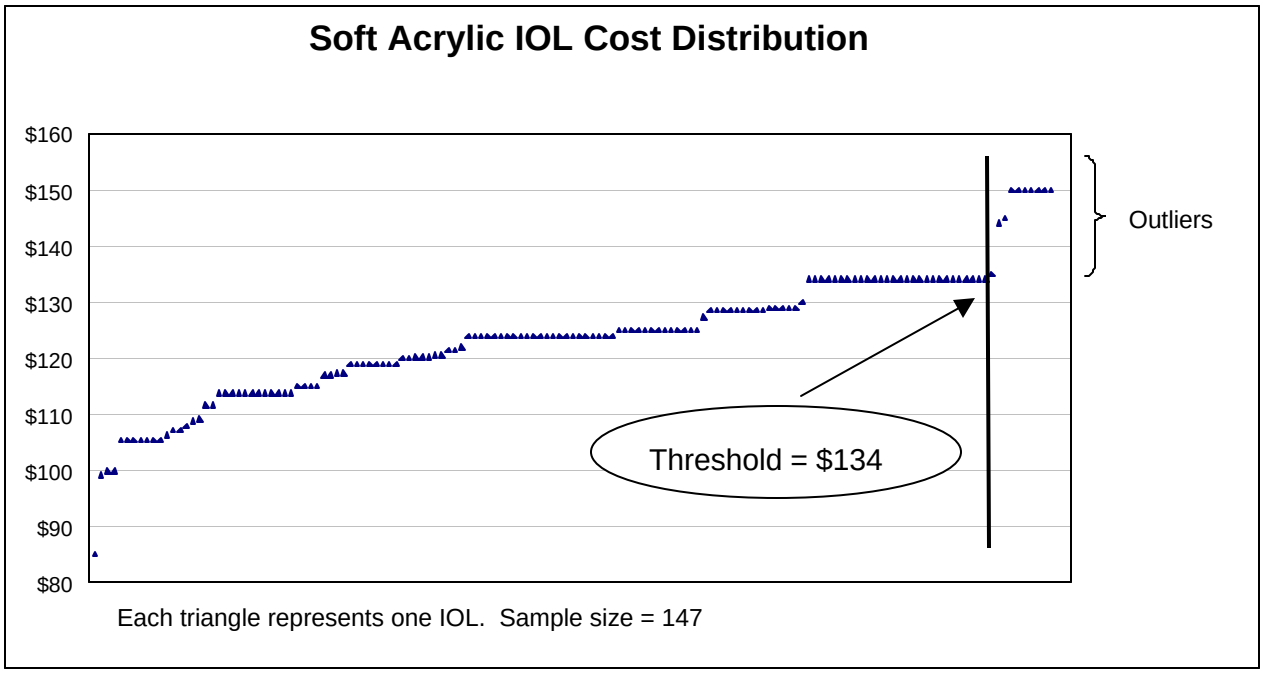
	Payment Per IOL	Savings Per IOL
Soft Acrylic	$134.00	$16.00
Silicone	$95.00	$55.00
PMMA	$45.00	$105.00

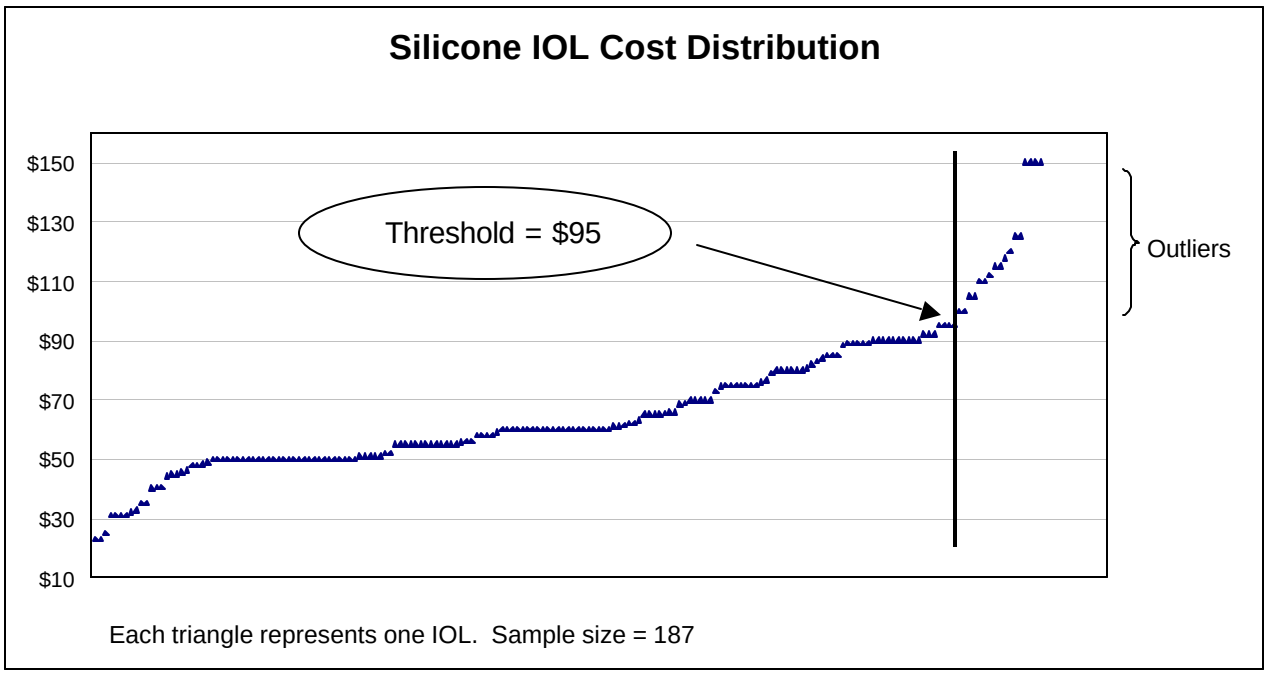
Proportion of Payments Above ASC Cost by Type of IOL

	Estimate	Standard Error	95 % Confidence Interval Lower Limit	95 % Confidence Interval Upper Limit
Soft Acrylic	17.6%	0.02	13.9%	21.3%
Silicone	69.2%	0.03	62.9%	75.5%
PMMA	13.2%	0.03	7.5%	18.9%

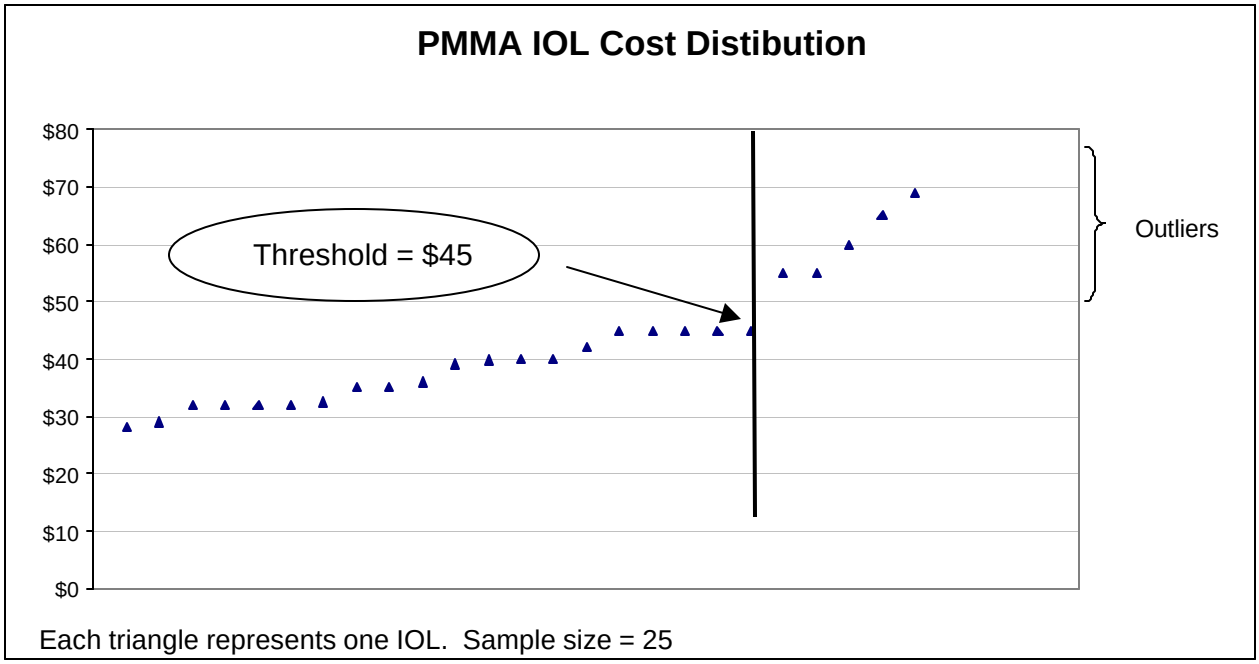
[b] **Projection estimates based upon unrounded weighted numbers of claims in population.**

IOL Cost Distributions





IOL Cost Distributions (continued)



APPENDIX ~ C

AGENCY COMMENTS

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Administrator
Washington, DC 20201

DATE: FEB - 4 2004

TO: Dara Corrigan
Acting Principal Deputy Inspector General
Office of Inspector General

FROM: Dennis G. Smith
Acting Administrator
Centers for Medicare & Medicaid Services

SUBJECT: Office of Inspector General Draft Report: *"Medicare Payments to Ambulatory Surgical Centers for Intraocular Lenses"* (OEI-06-02-00710)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) draft report entitled, "Medicare Payments to Ambulatory Surgical Centers (ASCs) for Intraocular Lenses (IOLs)." We have the following comments on the report.

The issue of payment for IOLs furnished by ASCs warrants review and adjustment as may be appropriate to ensure that the payment amount is reasonable and related to the cost of the lens. In a proposed rule published in the June 12, 1998, *Federal Register*, the Centers for Medicare & Medicaid Services (CMS) cited 1994 ASC survey data which indicated that, on average, ASCs were acquiring IOLs for $100 or less. (63 Fed. Reg. 32290) Currently, Medicare payment to ASCs for IOLs is $150 per lens. The OIG's findings reported in this draft report support our 1994 ASC survey data.

The OIG acknowledges that CMS may need to obtain new ASC cost survey data in order to administratively lower ASC IOL payment rates and that CMS estimated in March 2003 that adjusting ASC payment rates using survey data would take at least 2 years. The OIG encourages CMS to explore legislation, as well as other administrative alternatives, to allow more timely adjustment of Medicare ASC IOL payment rates.

Recommendation:
OIG recommends that CMS take immediate action to reduce Medicare payment to ASCs for IOLs in a manner that takes into account the different types and cost of IOLs.

Response:
On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), which repeals the requirement that a survey of ASC costs be taken every 5 years. Section 1833(i)(2)(C) of the Social Security Act, as amended by Section 626 of MMA. The MMA further requires CMS to implement on or after January 1, 2006, but not later than January 1, 2008, a revised payment system for surgical services furnished in an ASC. In 2004, the Comptroller General is to conduct a study that compares the relative costs of

AGENCY COMMENTS (continued)

procedures furnished in ASCs to the relative costs of procedures performed in hospital outpatient departments.

In light of the significant changes in how CMS determines payment amounts for ASC services resulting from implementation of the MMA, CMS is deferring action to reduce Medicare payment to ASCs for IOLs. However, in developing the revised payment system for ASCs required by the MMA, CMS will take into account the OIG's recommendation and the data collected by the OIG which indicate that IOL costs are related to lens type when grouped by lens material.

ACKNOWLEDGMENTS

This report was prepared under the direction of Judith V. Tyler, Regional Inspector General for Evaluation and Inspections in the Dallas Regional Office, and Kevin Golladay, Assistant Regional Inspector General. Other principal Office of Evaluation and Inspections staff who contributed include:

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