



Highlights of [GAO-08-767T](#), a testimony before the Subcommittee on Health, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

For more than a decade, GAO has reported that Medicare has paid higher than market rates for medical equipment and supplies provided to beneficiaries under Medicare Part B. Since 1989, Medicare has used fee schedules primarily based on historical charges to set payment amounts. But this approach lacks flexibility to keep pace with market changes and increases costs to the federal government and Medicare's 44 million elderly and disabled beneficiaries. The Balanced Budget Act of 1997 required the Centers for Medicare & Medicaid Services (CMS)—the agency that administers Medicare—to test competitive bidding as a new way to set payments. CMS did this through a demonstration in two locations in which suppliers could compete on the basis of price and other factors for the right to provide their products. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) required CMS to conduct competitive bidding on a large scale and suppliers to obtain accreditation.

GAO was asked to describe the effects that competitive bidding could have on Medicare program payments and suppliers and the need for adequate oversight to ensure quality and access for beneficiaries in a competitive bidding environment. This testimony is based primarily on GAO work conducted from May 1994 to January 2007, which GAO updated by interviewing CMS officials and reviewing agency documents.

To view the full product, including the scope and methodology, click on [GAO-08-767T](#). For more information, contact Kathleen M. King at (202) 512-7114 or kingk@gao.gov.

MEDICARE

Competitive Bidding for Medical Equipment and Supplies Could Reduce Program Payments, but Adequate Oversight Is Critical

What GAO Found

Competitive bidding could reduce Medicare program payments by providing an incentive for suppliers to accept lower payments for items and services to retain their ability to serve beneficiaries and potentially increase their market share. Fundamentally different from fee schedules based on historical charges to Medicare, competitive bidding allows the market to help CMS determine payment amounts. In the demonstration, the new fee schedule amounts were based on the winning suppliers' bids for items included and 50 percent to 55 percent of the bids from suppliers were selected. Evidence from CMS's competitive bidding demonstration suggests that competition saved Medicare \$7.5 million and saved beneficiaries \$1.9 million—without significantly affecting beneficiary access. For the competitive bidding program, CMS required suppliers to obtain accreditation based on quality standards and provide financial documents to participate. This added scrutiny gives CMS the chance to screen out suppliers that may not be stable, legitimate businesses, which could contribute to lower rates of improper payment. CMS also evaluated the bids based on demand, capacity, and price and chose suppliers whose bids were at or under a certain amount. CMS estimates that the first round of its competitive bidding program will result in payment amounts that average 26 percent less than the current fee schedule amounts. Competitive bidding also changes Medicare's relationship with suppliers and departs from Medicare's practice of doing business with any qualified provider, because it is designed to limit the number of suppliers to those whose bids are at or under a certain amount.

Because of concerns that competitive bidding may prompt suppliers to cut their costs by providing lower-quality items and curtailing services, ensuring quality and access through adequate oversight is critical for the success of the competitive bidding program. In September 2004, GAO indicated that quality assurance steps could include monitoring beneficiary satisfaction, setting standards for suppliers, giving beneficiaries a choice of suppliers, and selecting winning bidders based on quality and the dollar amount of the bids. As competitive bidding expands, problems that beneficiaries might experience could be magnified. Therefore, continued monitoring of beneficiary satisfaction will be critical to identify problems with suppliers or with items provided to beneficiaries. As required in the MMA, GAO will review and report on the competitive bidding program's impact on suppliers and manufacturers and its effect on quality and access for beneficiaries.