

Payment method for Medicare-covered outpatient drugs

ISSUE: Although Medicare pays for relatively few outpatient drugs, both the number of prescriptions and total spending for these drugs have been growing rapidly. Research has shown that the current payment system overpays providers for the cost of purchasing covered drugs. The question is whether there are alternatives that help control spending while protecting access to needed therapies.

KEY POINTS: Currently, Medicare provides coverage for about 450 outpatient pharmaceutical products and biologicals. In 2001, expenditures for Part B covered-drugs totaled about 6.4 billion dollars, with payments growing at an annual rate in excess of 20 percent.

Three major problems have been identified with the current payment system:

- Medicare payments far exceed provider acquisition costs
- The system creates incentives for manufacturers to raise list prices resulting in increased Medicare payments
- Drug administration fees do not reflect the true cost of providing drugs to beneficiaries

This draft chapter examines the issues raised by the current system and analyzes suggested alternative payment methods. The draft chapter also includes an appendix on drugs in the development pipeline.

ACTION: Staff would appreciate feedback from the Commissioners on the draft chapter.

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