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MEDICARE OUTPATIENT PAYMENTS

Rates for Certain Radioactive Sources Used in Brachytherapy Could Be Set Prospectively

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Highlights

Highlights of GAO-06-635, a report to congressional committees

Why GAO Did This Study

Generally, in paying for hospital outpatient procedures, Medicare makes prospectively set payments that are intended to cover the costs of all items and services delivered with the procedure. Medicare pays separately for some technologies that are too new to be represented in the claims data used to set rates. It also pays separately for certain technologies that are not new, such as radioactive sources used in brachytherapy, a cancer treatment. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 required separate payment for the radioactive sources. It also directed GAO to make recommendations regarding future payment. GAO examined (1) how Medicare determines payment amounts for technologies that are not new but are separately paid and (2) how payment amounts for iodine, palladium, and iridium sources used in brachytherapy could be determined.

What GAO Recommends

GAO recommends that Medicare (1) in paying separately for iodine and palladium, use outpatient claims to set prospective rates, and (2) use claims data to evaluate the unit cost of iridium, so that a suitable separate payment methodology can be determined. In response, CMS stated that it will take GAO's recommendations into consideration.

www.gao.gov/cgi-bin/getrpt?GAO-06-635.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7119 or steinwalda@gao.gov.

What GAO Found

In paying separately for technologies that are not new, the Centers for Medicare & Medicaid Services (CMS) generally sets prospective rates based on the average unit cost of the technologies across hospitals. For example, CMS currently pays separate prospective rates for certain high-cost drugs based on the mean per-unit acquisition cost, as derived by CMS from data provided by drug manufacturers. A prospective rate is desirable because basing a rate on an average encourages those hospitals that provide the technology to minimize their acquisition costs. However, when CMS determines that the unit cost of a technology designated for separate payment varies substantially and unpredictably over time, or that reasonably accurate data are not available, it pays each hospital its cost for the technology. For example, CMS pays each hospital its cost for corneal transplant tissue, because it determined that the fees eye banks charge hospitals vary substantially and unpredictably.

GAO's analysis suggests that CMS could set prospective payment rates for iodine and palladium because their unit costs are generally stable and CMS can base the payments on reasonably accurate data. According to interviews GAO conducted with hospitals and manufacturers, iodine and palladium have an identifiable unit cost that does not vary unpredictably over time. In addition, the results of GAO's survey of hospital purchase prices suggest that the unit cost of iodine and palladium does not vary substantially. Furthermore, GAO found that Medicare claims would be a reasonably accurate source of data for setting prospective rates for these sources. GAO was not able to determine a suitable methodology for paying separately for iridium. In contrast with iodine and palladium, which are permanently implanted in patients, iridium is reused across multiple patients, making its unit cost more difficult to determine. Although GAO surveyed hospitals on the unit cost of iridium, it did not receive sufficient data to identify and evaluate an average unit cost across hospitals. However, CMS has outpatient claims data from all hospitals that have used iridium. In order to identify a suitable methodology for determining a separate payment amount, CMS would be able to use these data to establish an average cost and evaluate whether the cost varies substantially and unpredictably.