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Memorandum

Date
From *R. P. Kusserow*
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Inspector General

Subject Management Advisory Report: "Intraocular Lenses Purchased by Indian Health Service Hospitals," OAI-07-89-01662

To Louis B. Hays
Acting Administrator
Health Care Financing Administration

The Office of Inspector General (OIG) is currently examining prices for prosthetic devices paid by other organizations and in other countries' markets. Due to intense interest in Medicare reimbursement for intraocular lenses (IOLs), we are now releasing the study's findings on IOLs purchased by Indian Health Service (IHS) hospitals.

BACKGROUND

An IOL is used exclusively to replace the natural lens removed from the eye during cataract surgery. Over 90 percent of all cataract surgery patients receive an IOL implant.

The number of Medicare-funded cataract extractions with IOL implants increased from 819,788 in 1986 to 954,794 in 1987, a 16 percent increase. Data released by the Public Health Service indicates this surgery has continued to increase into 1989, with some moderation. Allowed charges for IOLs in ambulatory surgical centers average \$350. Prices vary in other settings.

Two previous OIG studies recommended that the Health Care Financing Administration (HCFA) establish a \$200 reimbursement cap for IOLs. More recently, the OIG issued a Management Advisory Report (MAR) focusing on IOLs purchased by the Veterans Administration and military hospitals on the open market, and IOLs purchased through the Federal Supply Schedule (FSS). The MAR recommended that the HCFA use the information presented in adjusting rates on July 1, 1990.

Manufacturers awarded FSS contracts, are required to provide Federal agencies with the best available prices. Four manufacturers have negotiated contracts to offer several different types and styles of IOLs on the FSS. In addition to the many multi-piece posterior chamber lenses offered, one-piece posterior chamber and anterior chamber lenses are also available. The FSS prices negotiated for these lenses are all under \$200, ranging from \$95 to \$198. The FSS allows for the purchase of lenses in bulk or one at a time. Agencies using the FSS contact suppliers directly. Procurement using the FSS is mandatory for most Government agencies (including the IHS), unless a waiver is granted.

METHODOLOGY

Information regarding the purchase of IOLs by IHS hospitals was gathered from the only four IHS hospitals where cataract surgery is performed. These hospitals were identified by the IHS Senior Surgeon for Ophthalmology. Telephone interviews were conducted with an ophthalmologist in each of the four hospitals. It was also necessary to contact a procurement specialist in three of the four hospitals for information the ophthalmologists were unable to provide.

FINDINGS

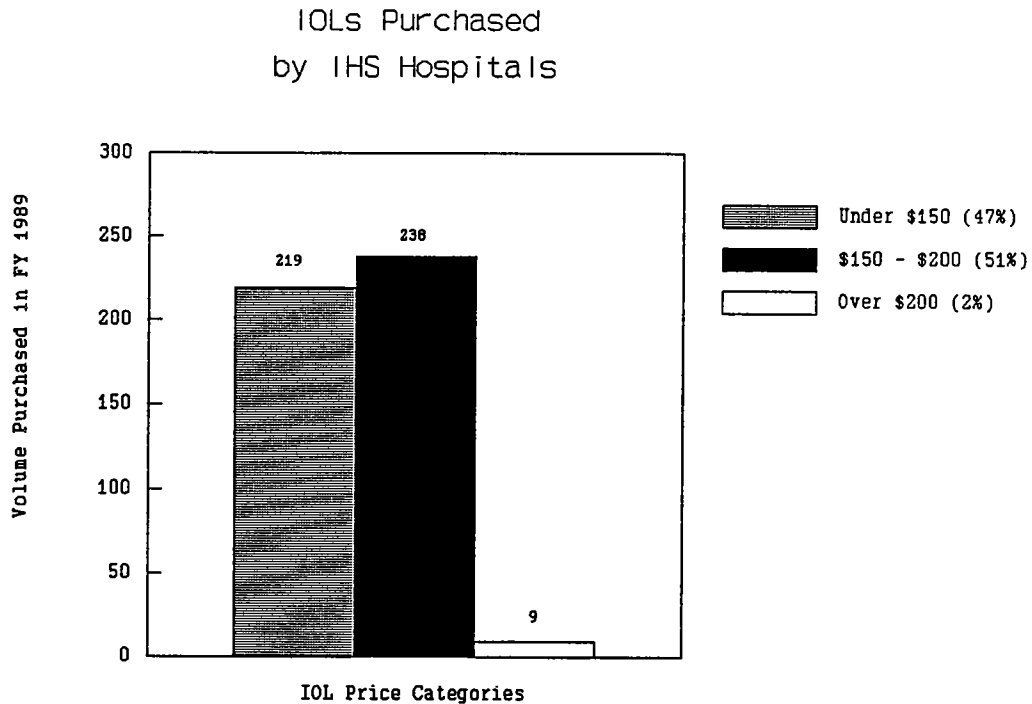
The IHS hospitals purchase IOLs for an average of \$155.

In Fiscal Year 1989, the IHS hospitals paid an average of \$155 for a total of 466 IOLs purchased from two well-known manufacturers. Neither manufacturer is currently listed on the FSS. The average price of an IOL in each of the IHS hospitals is listed below.

Hospital #1	-	\$134.15
Hospital #2	-	\$166.29
Hospital #3	-	\$168.31
Hospital #4	-	\$186.00

The IHS hospitals negotiated prices for IOLs ranging from \$125 to \$278 per lens. Only one hospital pays more than \$200 for an IOL (see attachment). Overall average prices ranged from \$150 for multi-piece posterior chamber lenses to \$196 for anterior chamber lenses. Multi-piece posterior chamber lenses account for 416 (89 percent) of the lenses purchased in these hospitals. Even though one IHS hospital has negotiated to purchase one-piece posterior lenses for \$175, none were purchased in 1989.

The IHS hospitals purchased 457 of their 466 (98 percent) IOLs for \$200 or less. As shown in the following chart, IHS hospitals purchased 47 percent of their IOLs for under \$150, and 51 percent for prices ranging from \$151 to \$200.



The IOL manufacturers are competitive.

Ophthalmologists interviewed in all four IHS hospitals indicated that IOL manufacturers are competitive and willing to lower prices to acquire more business. Ophthalmologists in two of the four facilities indicated price was a deciding factor in the decisions to purchase IOLs outside the FSS. Comments by ophthalmologists included:

"We start with contract bids on the FSS, and ask other IOL companies to beat those prices."

"Lens companies will offer to meet or beat another company's price."

"We approached the IOL company and asked for lower prices or we would take our business elsewhere. The IOL company reduced their prices."

One IHS hospital receives extra items with IOL purchases.

One IHS hospital has recently negotiated with a lens manufacturer to receive a complete surgical package with the purchase of each IOL. The surgical package was designed by hospital staff, and provided many essential items needed for cataract surgery. The package includes the IOL; a gown; towels; towel clips; eye, head and body drapes; chair cover; basin; eye dropper; syringes; eye pads; medicine glass; gauze; instrument wipes; drugs used in cataract surgery; and a filter needle. Even though the purchase price for the IOL with the surgical package increases by \$60--from \$125 to \$185--the hospital pays less than \$200 per lens. Hospital staff indicated that individually purchasing the IOL and the items included in the surgical package would cost the hospital in excess of \$300 per patient.

When a hospital buys an IOL with the surgical package, \$10 of the amount paid is applied toward the purchase of a diamond knife used in cataract surgery.

RECOMMENDATIONS

The HCFA should consider the prices paid by IHS hospitals for IOLs in adjusting Medicare IOL reimbursement rates on July 1, 1990.

We would appreciate your comments on this report within 30 days. If you have any questions please contact me or have your staff contact Barry Steeley at FTS 646-3138.

Attachment

*IOL Prices Negotiated**by**IHS Hospitals*

Manufacturer	Lens Style	Total 1989 Volume	1989 Prices
Hospital #1			
Company A	Posterior Multi-piece	177	\$125
Company A	Posterior Multi-piece	10	\$185
Company A	Posterior Multi-piece	2	\$170
Company A	Anterior	29	\$170
Hospital #2			
Company B	Posterior Multi-piece	42	\$169
Company B	Posterior Multi-piece	50	\$158
Company B	Posterior Multi-piece	3	\$143
Company B	Anterior	11	\$200
Hospital #3			
Company B	Posterior Multi-piece	39	\$143
Company B	Anterior	9	\$278
Hospital #4			
Company A	Posterior Multi-piece	93	\$186
Company A	Anterior	1	\$186