MEDPAC Medicare Payment Advisory Commission

601 New Jersey Avenue, N.W. • Suite 9000
Washington, DC 20001
202-220-3700 • Fax: 202-220-3759
www.medpac.gov

Glenn M. Hackbarth, J.D., Chairman
Robert D. Reischauer, Ph.D., Vice Chairman
Mark E. Miller, Ph.D., Executive Director

Three studies on physician-administered drugs

To assist MedPAC analyses on payments for outpatient prescription drugs covered under Medicare Part B, MedPAC contracted for three studies–a survey of payment rates used by large private plans to pay for physician-administered drugs, a study of new distribution and payment methods used in the private sector, and a study of drugs in the pipeline that may become eligible for Medicare coverage. The first study was conducted by Dyckman and Associates, the second two by a team of researchers from NORC at the University of Chicago and Georgetown University.

The studies find that private payers largely have been using payment methods similar to Medicare to pay for physician-administered drugs but more recently have begun to be concerned about rising expenditures in this area. Some are developing new payment methods while many others are reevaluating their current payment rates. The third study indicates that increases in expenditures for physician-administered drugs are likely to continue as new therapies for a variety of conditions currently in the development pipeline become available.

Key findings from the survey of large private plans

Results from a survey of 33 large private health plans with over 40 million covered lives indicate that the plans paid for all or some physician-administered drugs using a formula based upon the average wholesale price (AWP). Forty-seven percent of plan respondents used payment rates higher than Medicare, 25 percent used Medicare payment rates, and 22 percent paid less than Medicare for physician-administered drugs.

In addition:

- Some plans used different discounts relative to AWP for different categories of drugs (for example, immunizations vs. oncology drugs).
- Some varied payments relative to AWP for specific providers (for example, paying higher amounts in areas where physicians had greater bargaining power).
- At least 9 of the plans expected to change or review their payment methods in 2003.

Key findings from the structured interviews on new distribution and payment methods

Researchers at NORC/Georgetown conducted interviews with key stakeholders and others knowledgeable about the ways in which physician-administered drugs are purchased, distributed, and paid for in the private market. Respondents included oncologists, private health plans, pharmacy benefit managers (PBMs), specialty pharmacy companies, wholesalers, group purchasing organizations (GPOs), and consultants. Informants described new acquisition methods recently introduced by some private payers. These innovations include:

- Required distribution channels. In this system, physicians must obtain drugs from specialty pharmacies under contract to the insurers.
- Patient purchase. Patients purchase drugs and bring them to their physicians' offices.
- Revised discounts off AWP. Insurers lower payment rates for drugs and, typically, raise drug administration rates.
- Utilization management. Some PBMs scrutinize physician prescribing patterns and may develop formularies or lists of preferred drugs when available.

Most of these innovations have not yet been independently evaluated. However, two companies reported savings ranging from 10 to 25 percent, relative to previous payments. Researchers found that these new techniques were less likely to be used with oncology drugs.

Key findings from drug pipeline study

Researchers identified over 650 drugs and biologicals in development with the potential to affect Part B drug expenditures. About one fourth of the drugs are in the late stages of development. About 70 percent of the drugs are indicated for the treatment of cancer. Some of the other drugs in development are particularly important for future Part B spending because they treat conditions with high prevalence in the elderly such as heart disease, rheumatoid arthritis, and diabetes. About 40 percent of the identified drugs would be eligible for Medicare coverage under current law because they would not usually be self-administered. Respondents differed about whether eligibility for Part B coverage provided an incentive for manufacturers to develop drugs that cannot be self-administered. Some argued that there is a significant trend toward the development of self-administered drugs because ease of administration enhances patient compliance.

These findings are discussed in greater detail, together with a description of how Medicare pays for Part B drugs, in Chapter 9 of MedPAC's June 2003 Report to the Congress: Variation and Innovation in Medicare, available at www.medpac.gov. The chapter also discusses options for reforming the Medicare payment system.

Staff Contact

Joan Sokolovsky
(202) 220-3720

August 27, 2003