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Reimbursement Models for Physician Administered Drugs

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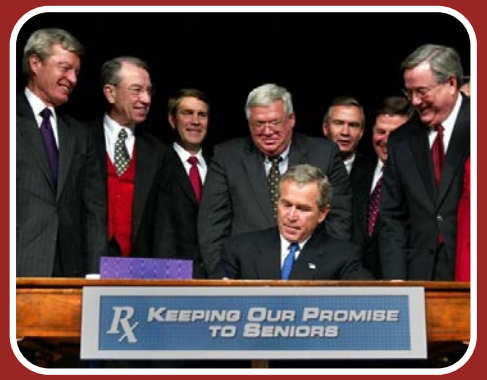
A Very Brief History of Medicare Part B Payment Policy

Prior: 95% of Average Whole Sale Price (AWP)

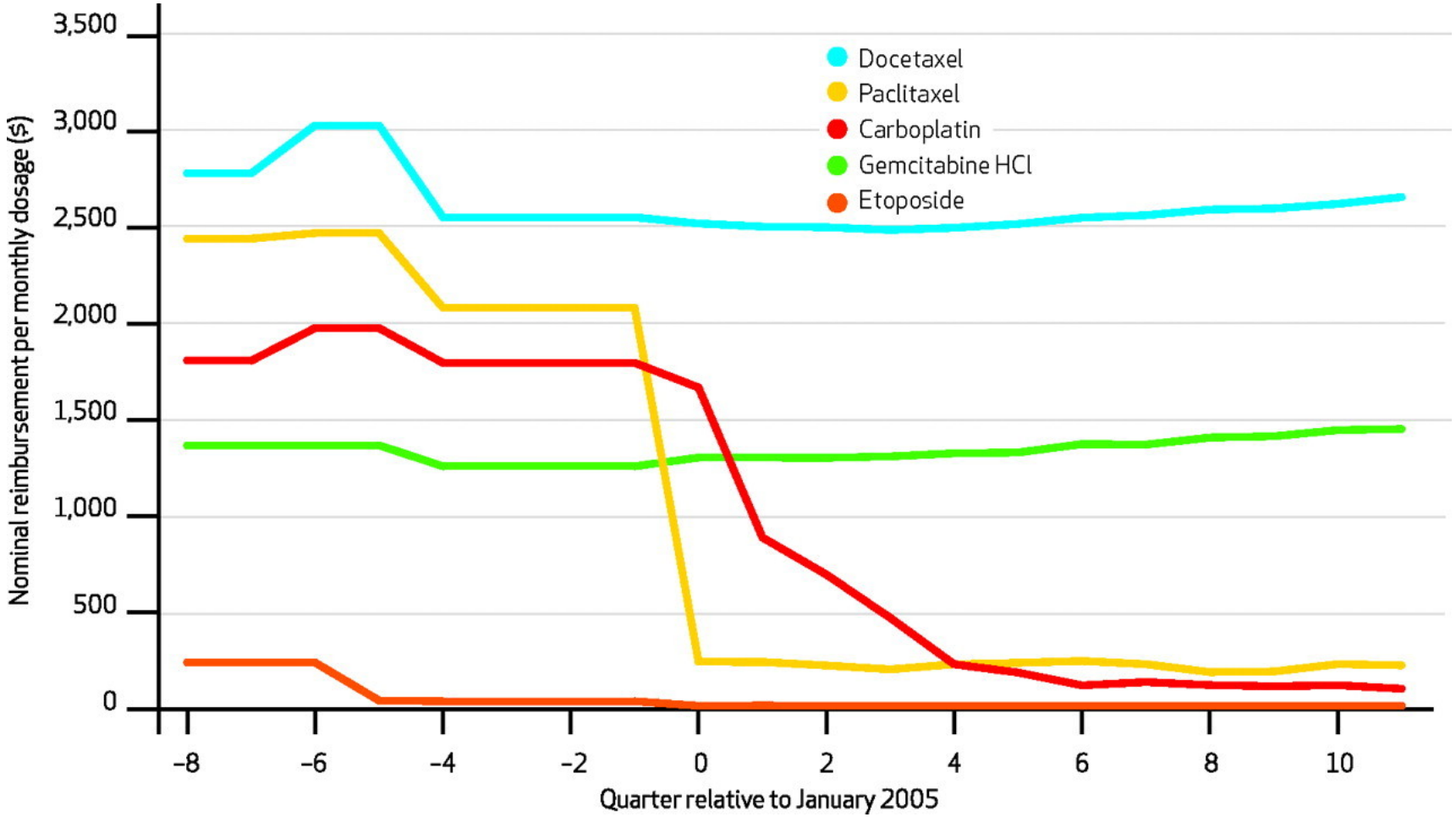
- 1997 Balanced Budget Amendments (BBA)
- AWP is a list price that is often unrelated to transacted price
- Drugs reimbursed at margins of ~22%; many much higher



Current: 106% of Average Sales Price (ASP)

- MMA linked payments to transacted prices effective 2005
- 2012 sequester lowered pay to 104.3%
- JW modifiers introduced in 2017

ASP Switch Lowered Some Part B Drug Payment Rates

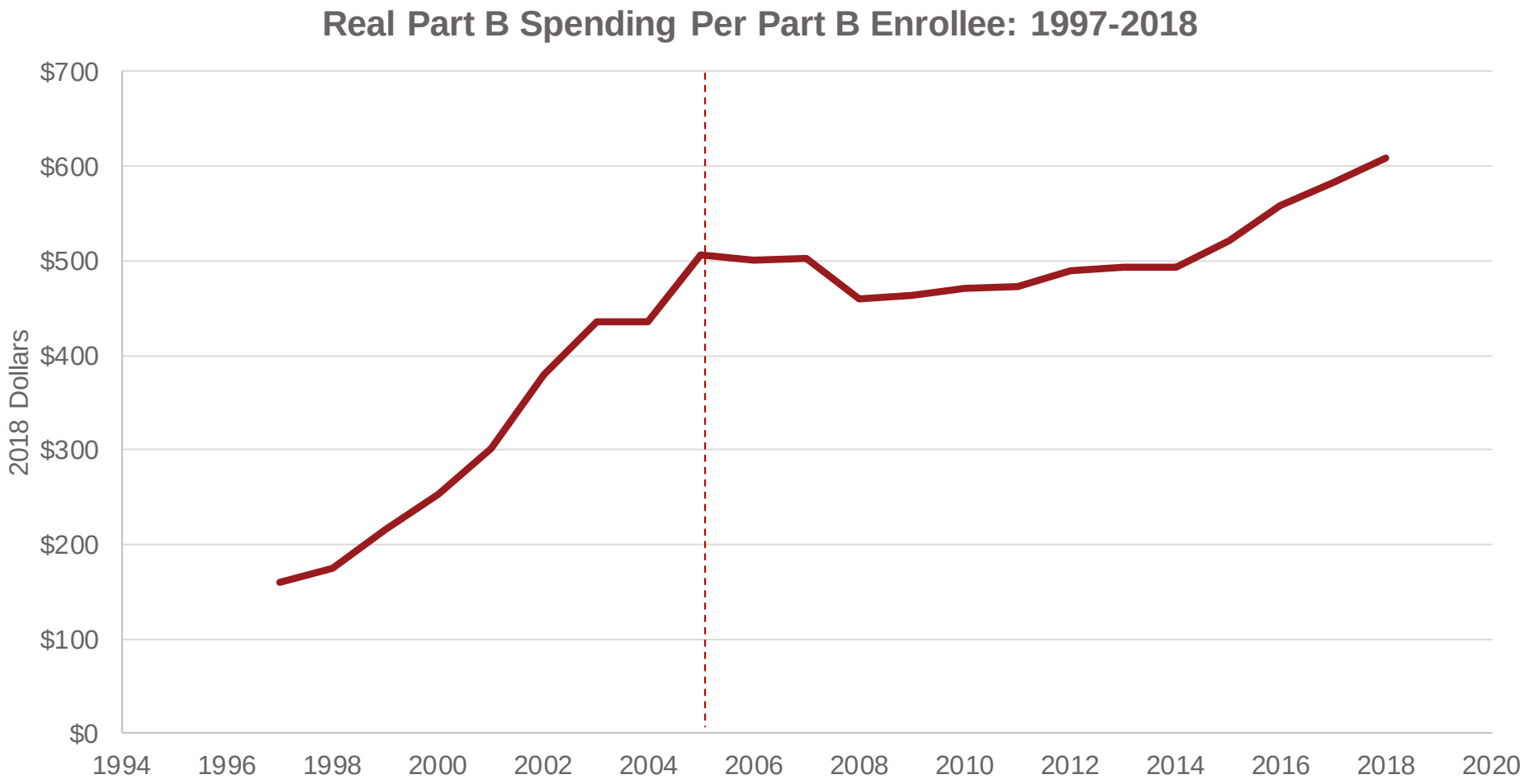


Source: Jacobson et al. (2010)

Other Impacts of the Switch to ASP

- **Providers responded to the change in incentives**
  - **Oncologists and rheumatologists increased service provision**
  - **Oncologists substituted towards more expensive drugs**
  - **Sources: MedPAC (2006); Jacobson et al. (2010)**

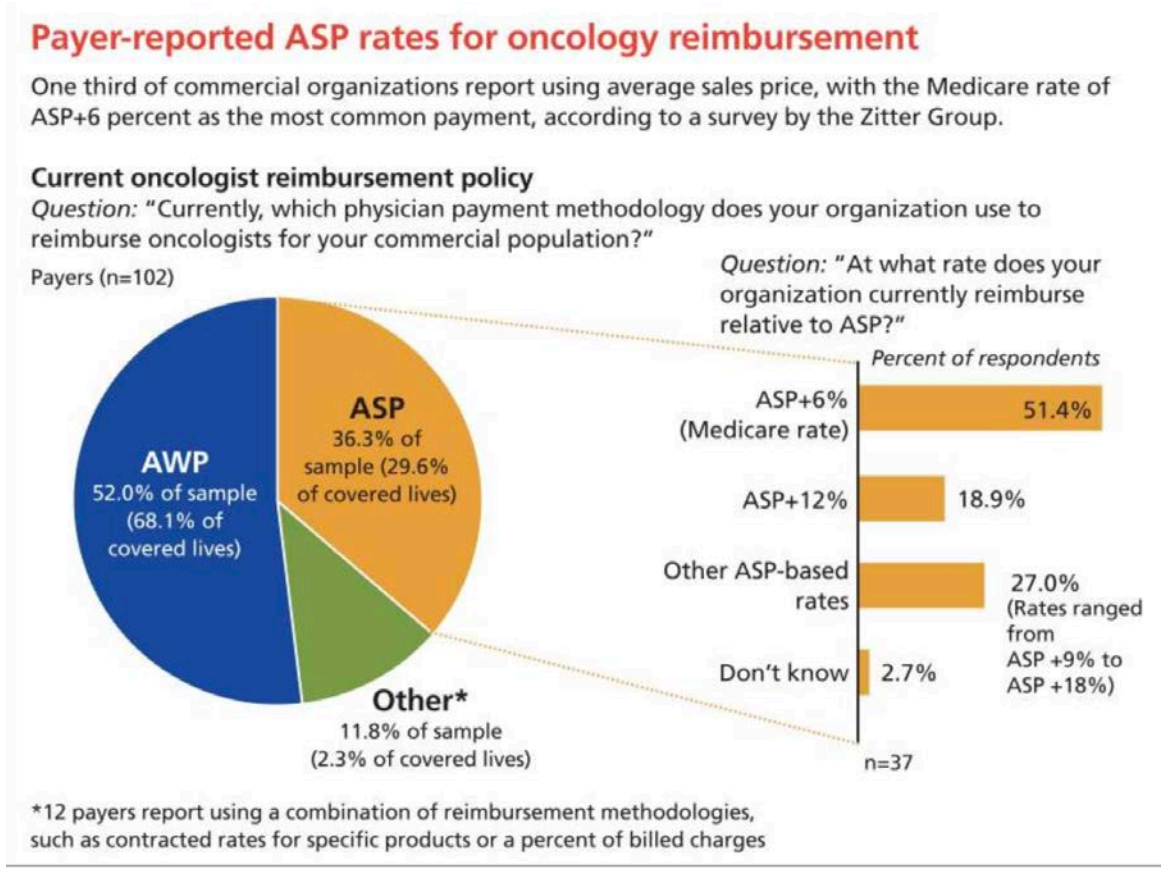
Temporarily Slowed Part B Drug Spending?



Sources: CMS Medicare Part B data: 2005-2018; Trustees Reports (various)

How does the private market reimburse Part-B drugs?

Post MMA Drug Reimbursement



Source: Mullen (2007)

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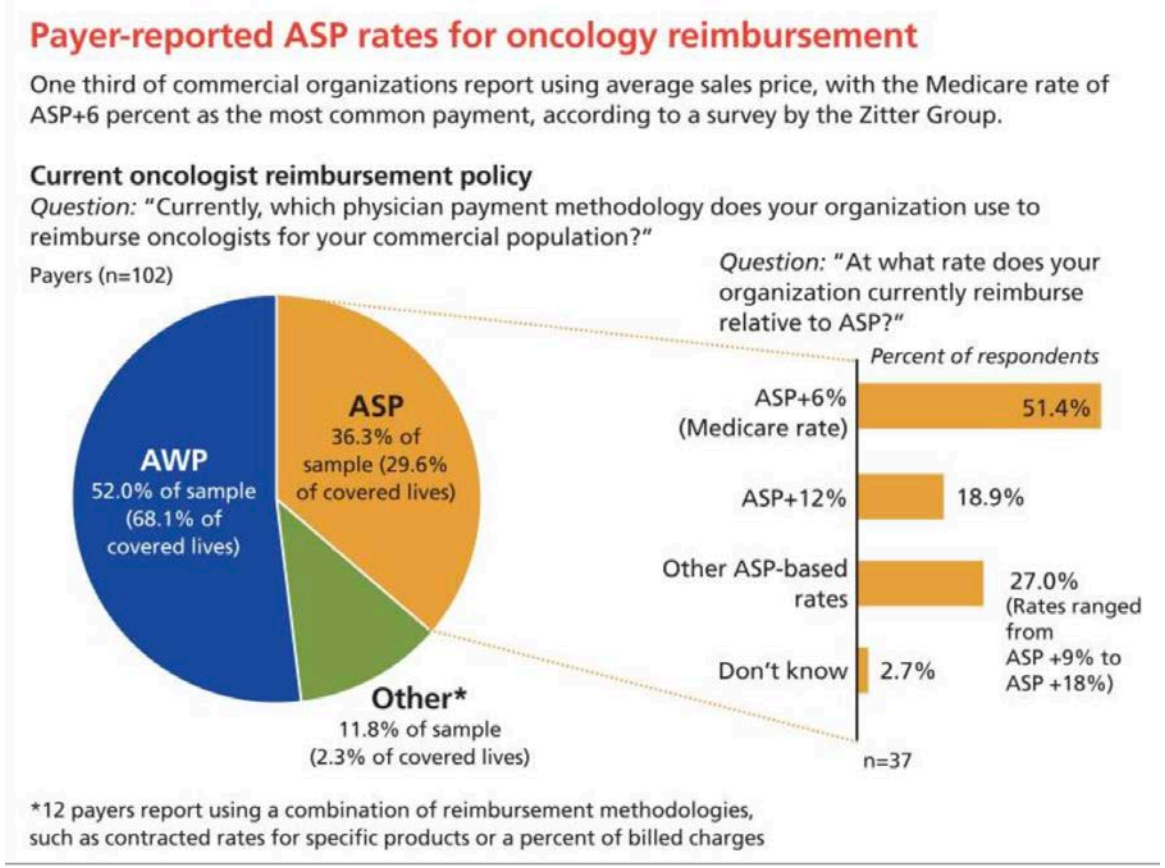

Source: Mullen (2007)

More Recent Accounts

"Two large payers" - 106% ASP used as a benchmark but often pay above this.
-- GAO-16-780R (2016)

-- Growth of "white-bagging": drugs paid for and distributed through a specialty pharmacy directly to the practice for certain high cost drugs.
-- Basta and Shelly (2019)

" Permanente Medical Group oncologist income is salary-based and has no relationship to the price of drugs administered."
-- Levine, Barrueta, Webster (2019) HA Blog

Some Problems with Current ASP Payment Model

- **Incentive for providers to choose higher priced drugs, all else equal**
  - 6% on large vs. small amount
  - Incentive for new single-source drug prices to be set high
- **Does not pay for value**
  - Providers reimbursed for low and high quality care
  - ASP not necessarily tied to clinical effectiveness
  - Providers have little incentive to care about waste (this workshop)

Payment Redesign: Private Market and Medicare

- **United Health**
- 2007-2016 financial incentives to provide generic oncology drugs
- Limited impact on take-up of generics or spending

  -- Yasaitis et al. (2019)

Payment Redesign: Private Market and Medicare

- **Anthem Cancer Care Quality Program**
- Ongoing program initiated in 2014 provides incentives for use of on-pathways oncology regimens
- Secondary analysis of matched breast cancer cases suggests no difference in quality and some cost savings.

  -- Gautam et al. (2018) JOP

Payment Redesign: Private Market and Medicare

- **Oncology Care Model**
- Ongoing payment demonstration started in July 2016 that provides incentive for high quality, low cost episodes of care
  - Fee-for-service payments with shared savings if targets met
  - Monthly enhanced oncology services payment for improving care coordination & access
- Period 1 report found reductions in ICU use and ED visits relative to matched controls

Some Other Approaches

- **Drug Value Program**
  - Recommended by MedPAC in June 2017 and 2019 reports
  - Rely on multiple outside vendors to negotiate drug prices but with shared savings
  - Use binding, final-offer arbitration or internal reference pricing for single source drugs.

- **Oncology First Model**
  - Next generation of OCM
  - Prospective monthly population payment for E&M, chemo administration, etc.
  - Two-sided risk for total cost of care and quality

What have we learned?

- **Pathways and episode-based payments are feasible**
  - Lots of logistics but these can be worked out
- **Providers respond to incentives**
  - The details are important
  - Voluntary programs attract the efficient providers
- **How do we get the most bang for our buck?**
  - Still in early stages of learning

Implications for Waste

- **Incremental changes to existing system may not be the right approach**
  - May be politically easier but hard to undue the underlying incentives
  - Increased administrative burden with unclear impact on waste
  - Timing may still be right to push for more radical change

- **Value-based payments could create stronger incentives for efficiency**
  - Waste in a truly value-based setting is a loss for the practice
  - Need to get the incentives right, which is not trivial
  - Many promising proofs of concept but rigorous testing should be a priority

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