NCHA Financial Feature

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CMS Proposes International Pricing Index (IPI) Model for Medicare Part B Drugs

The Centers for Medicare & Medicaid Services (CMS) has issued an Advance Notice of proposed rulemaking regarding the development of a potential model that seeks payment prices comparable for Part B drugs relative to other economically-similar countries. "The potential International Pricing Index (IPI) model would have several goals, including: reducing Medicare program selected expenditures and beneficiary cost-sharing for separately payable Part B drugs (for example, drug administered in physician offices and hospital outpatient departments), preserving or enhancing quality of care for beneficiaries, offering comparable pricing relative to international markets, removing providers' financial incentive to prescribe higher-cost drugs while creating revenue stability, minimizing disruption to the current supply chain, and increasing Medicare efficiency and value to reduce federal spending and taxpayer dollars."

The rule is scheduled for publication on Oct. 30. A copy of the 59-page rule is available at https://s3.amazonaws.com/public-inspection.federalregister.gov/2018-23688.pdf. A 60-day comment period ending Dec. 31, 2108 is provided.

Comment

Please note this rule is an "Advance Notice" of proposed rulemaking. CMS says that a proposed rule would be issued, based on comments, in the spring of 2019. Further, if adopted, the model would become effective in the spring of 2020 and would run for 5 years.

The intent of the model is to reduce drug spending. CMS estimates that the proposal would reduce Medicare spending by $17.2 billion over the 5-year duration of the model.

Through this advance notice of proposed rulemaking (ANPRM), CMS says it is soliciting public feedback on key design considerations for developing the IPI Model.

"The move from current payment levels to payment levels based on international prices would be phased in over a five-year period, would apply to 50 percent of the country, and would cover most drugs in Medicare Part B, which includes physician-administered medicines such as infusions. The model would correct existing incentives to prescribe higher-priced drugs and, for the first time, address disparities in prices between the United States and other countries. Since patient cost sharing is calculated based on Medicare's payment amount, patients would see lower costs under the model."

Background

Medicare Part B drug expenditures have increased significantly over time. From 2011 to 2016, Medicare FFS drug spending increased from $17.6 billion to $28 billion under Medicare Part B, representing a compound annual growth rate of 9.8 percent, with per capita spending increasing 54 percent, from $532 to $818. Based on an HHS analysis comparing Medicare spending for separately payable Part B physician-administered drugs to the prices of those drugs in sixteen other developed economies – Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Greece, Ireland, Italy, Japan, Portugal, Slovakia, Spain, Sweden, and United Kingdom –spending in the U.S. was 1.8 times higher.

Currently, Medicare payment for separately payable outpatient drugs in physician offices, hospital outpatient departments and certain other settings is based on drug manufacturers' average sales prices in the United States plus a six percent add-on payment (+6 percent).

Model Design

The IPI Model would test whether increasing competition for private-sector vendors to negotiate drug prices, and aligning Medicare payments for drugs with prices that are paid in foreign countries, improves beneficiary access and quality of care while reducing expenditures. CMS describes and seeks public feedback on the potential model design, which would have physicians and hospitals (and potentially other providers and suppliers) in selected geographic areas receive certain drugs from private-sector vendors. Providers in the non-model areas would continue to use the buy and bill system to administer Part B drugs to their patients and to be paid under the current Medicare payment policy.

Physicians and hospitals in the model would select the vendors that best provide customer service and support beneficiary choice of treatments, and would be able to engage with multiple vendors for different drugs and to change vendors. In addition to the Medicare drug administration payment that would still be made to physicians and hospitals, the model would pay physicians and hospitals a "drug add-on amount" that would be different from the current drug add-on amount**.**

Included Drugs

CMS envisions that the model would initially focus on single source drugs and biologicals, as they encompass a high percentage of Part B drug spending and are frequently used by physicians that bill under Medicare Part B. Initially, the model would include drugs and biologicals that CMS identifies from international pricing data.

Table 1, below presents the percentage of the total allowed Part B charges for 2017 for Part B drugs for the following two groups of HCPCS codes: the top 50 drugs by allowed charges in the office and hospital outpatient departments for 2017 and the top 100 such drugs. Spending for biologicals (including biosimilars), single source drugs, multiple source drugs and potentially excluded drugs within each of the three groups is also shown. CMS says it believes that this information is a reasonable preliminary estimate of the potential scope of this model and its possible incorporation of additional Part B drugs during the 5-year model duration.

Groups of Drugs as a Percentage of Total Part B Spending

Number of Drugs	Percentage of Total Allowed Charges	Biologicals: Percentage of Total Allowed Charges	Single Source Drugs Percentage of Total Allowed Charges	Multiple Source Drugs: Percentage of Total Allowed Charges	Potential Excluded Drugs: Percentage of Total Allowed Charges
Top 50 Drugs	81%	65%	12%	0 - <1%	4%
Top 100 Drugs	94%	73%	15%	1%	6%

Vendor

CMS intends to select three or more model vendors so that physicians and hospitals have a number of vendors from which to obtain drugs and so that model vendors compete on the basis of customer service and cost. CMS solicits comments as to whether three vendors is an appropriate floor.

Model Participants, Compensation and Selected Geographic Areas

Model Participants

IPI Model participants would include all physician practices and hospital outpatient departments (HOPDs) that furnish the model's included drugs in the selected model geographic areas. CMS is considering whether to also include durable medical equipment (DME) suppliers, Ambulatory Surgical Centers (ASCs), or other Part B providers and suppliers that furnish the included drugs. Model participation would be mandatory for the physician practices, HOPDs, and potentially other providers and suppliers, in each of the selected geographic areas.

CMS says it intends to provide a more comprehensive list of health care providers included under the model ***if a proposed rulemaking*** moves forward.

Final Comment

While CMS says that much remains to develop a proposed rule, it is able to estimate potential savings from its plan.

"For 2020-25, federal Medicare spending is estimated to be reduced by $16.3 billion and Medicaid spending for Medicare-Medicaid dual beneficiaries is expected to be reduced by $1.6 billion, of which $0.9 billion is reduced federal spending and $0.7 billion is reduced State spending."

Our Washington liaison, Larry Goldberg of Larry Goldberg Consulting, has provided us with this summary. Please, contact Jeff Weegar, NCHA, at 919-677-4231, jweegar@ncha.org or Ronnie Cook, NCHA, at 919-4225, rcook@ncha.org with questions.