

Competitive Bidding Update—One Year Implementation Update April 17, 2012

Summary

The Centers for Medicare & Medicaid Services (CMS) competitive bidding program for durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) has saved the Medicare Fee-for-Service program approximately \$202.1¹ million in its first year of implementation, a percentage drop in expenditures of over 42 percent in the nine markets currently participating in the program. CMS real-time claims monitoring has found no disruption in access to needed supplies for Medicare beneficiaries. Moreover, there have been no negative health care consequences to beneficiaries as a result of competitive bidding. CMS claims monitoring results are supported by the fact that the agency has largely received routine beneficiary or caregiver inquiries with only minimal complaints. In 2013, the program will be expanded to an additional 91 metropolitan areas and a national mail order program for diabetic testing supplies. The CMS Office of the Actuary (OACT) estimates that the program will save the Medicare Part B Trust Fund \$25.7 billion between 2013 and 2022. Beneficiaries are expected to save an estimated \$17.1 billion during the same 10 year period due to the reduction in coinsurance reduced premiums.

Background

In 2010, the Medicare Part B Trust Fund and beneficiaries paid approximately \$14.3 billion² for DMEPOS. About 15.5 million beneficiaries used DMEPOS in 2010. Studies of the Medicare DMEPOS benefits have found that prices were excessive and that the program is vulnerable to abuse. In addition, Medicare's durable medical equipment (DME) benefit is associated with a payment error rate of 61 percent. In response to these concerns, section 302 of the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 (P.L. 108-173) established a competitive bidding process for Part B DME, enteral nutrition, and off-the-shelf orthotics as a permanent part of the Medicare program. This provision of law has been amended by subsequent legislation, including the Medicare Improvements for Patients and Providers Act (MIPPA) of 2008 (P.L. 110-275) and the Affordable Care Act of 2010 (P.L. 111-148 and P.L. 111-152).

CMS began the new payment system on January 1, 2011, and it has been in operation for over a year. This implementation followed the previous start of the payment system in 2008, which was halted by Congress following only two weeks of operation. The program is now operating in nine metropolitan statistical areas,

¹ Source: Medicare fee-for-service claims. Savings derived by comparing 2010 to 2011 Part B-allowed charges, which include program expenditures and beneficiary cost-sharing. Claims for 2011 are estimated to be 98 percent complete.

² 2010 Medicare allowed charges for competitively bid items and retail diabetic supplies in the first nine competitive bidding areas were \$483.4 million. Retail diabetic supply allowed charges are relevant to savings calculations (see footnote 3).

which include 2.3 million beneficiaries in Fee-for-Service Medicare. The nine areas include:

- Charlotte-Gastonia-Concord (North Carolina and South Carolina)
- Cincinnati-Middletown (Ohio, Kentucky, and Indiana)
- Cleveland-Elyria-Mentor (Ohio)
- Dallas-Fort Worth-Arlington (Texas)
- Kansas City (Missouri and Kansas)
- Miami-Fort Lauderdale-Pompano Beach (Florida)
- Orlando (Florida)
- Pittsburgh (Pennsylvania)
- Riverside-San Bernardino-Ontario (California)

The competitive bidding program includes nine DMEPOS product categories:

- Oxygen Supplies and Equipment
- Standard Power Wheelchairs, Scooters, and Related Accessories
- Complex Rehabilitative Power Wheelchairs and Related Accessories (Group 2)
- Mail-Order Replacement Diabetic Supplies
- Enteral Nutrients, Equipment, and Supplies
- Continuous Positive Airway Pressure (CPAP) and Respiratory Assist Devices (RADs), and Related Supplies and Accessories
- Hospital Beds and Related Accessories
- Walkers and Related Accessories
- Support Surfaces (Group 2 mattresses and overlays) in Miami only

Results of the Round 1 Competitive Bidding Project

Average Bids

CMS announced the final set of Round 1 contract suppliers on November 3, 2010, which included 1,217 contracts awarded to 356 individual suppliers. Ninety-two percent of suppliers who submitted a bid and were offered a contract accepted the contract terms. Each Round 1 area had multiple winners for each product category due to CMS policy to ensure a choice of suppliers for all beneficiaries living in the area. Approximately 51 percent of the winning suppliers are small suppliers, defined as those with annual gross revenue of \$3.5 million or less. This exceeded CMS's stated goal of 30 percent.

The competitive bidding program has reduced prices significantly for beneficiaries living in these nine areas. The average percentage savings in comparison to the fee schedule was 35 percent of the total 42 percent reduction in expenditures, which varied by product category and by geographic area. For example, in the competitive bidding areas, Medicare suppliers would have been paid based on a fee schedule amount of \$173.31 per month in 2011 for stationary oxygen equipment (e.g., oxygen

concentrators), of which the beneficiary would have paid 20 percent. The supplier would have received \$2,079.72 over the course of the year, of which the beneficiary would have paid \$415.94. Under the competitive bidding program, the average Medicare allowed monthly payment for stationary oxygen equipment has been reduced by 33 percent from \$173.31 to \$116.16. A beneficiary's cost sharing responsibility for stationary oxygen equipment rental for a year has been reduced by an average of \$137.

Table 1: Number of Suppliers and Price Reductions for Oxygen Supplies and Equipment

	Charlotte, NC	Cincinnati, OH	Cleveland, OH	Dallas, TX	Kansas City, MO & KS	Miami, FL	Orlando, FL	Pittsburgh, PA	Riverside CA
# of Suppliers	27	12	19	37	14	83	33	17	17
Price Reduction (% off of fee schedule)	29	34	37	29	27	27	33	37	28

Table 2: Number of Suppliers and Price Reductions for Standard Power Wheelchairs, Scooters, and Related Accessories

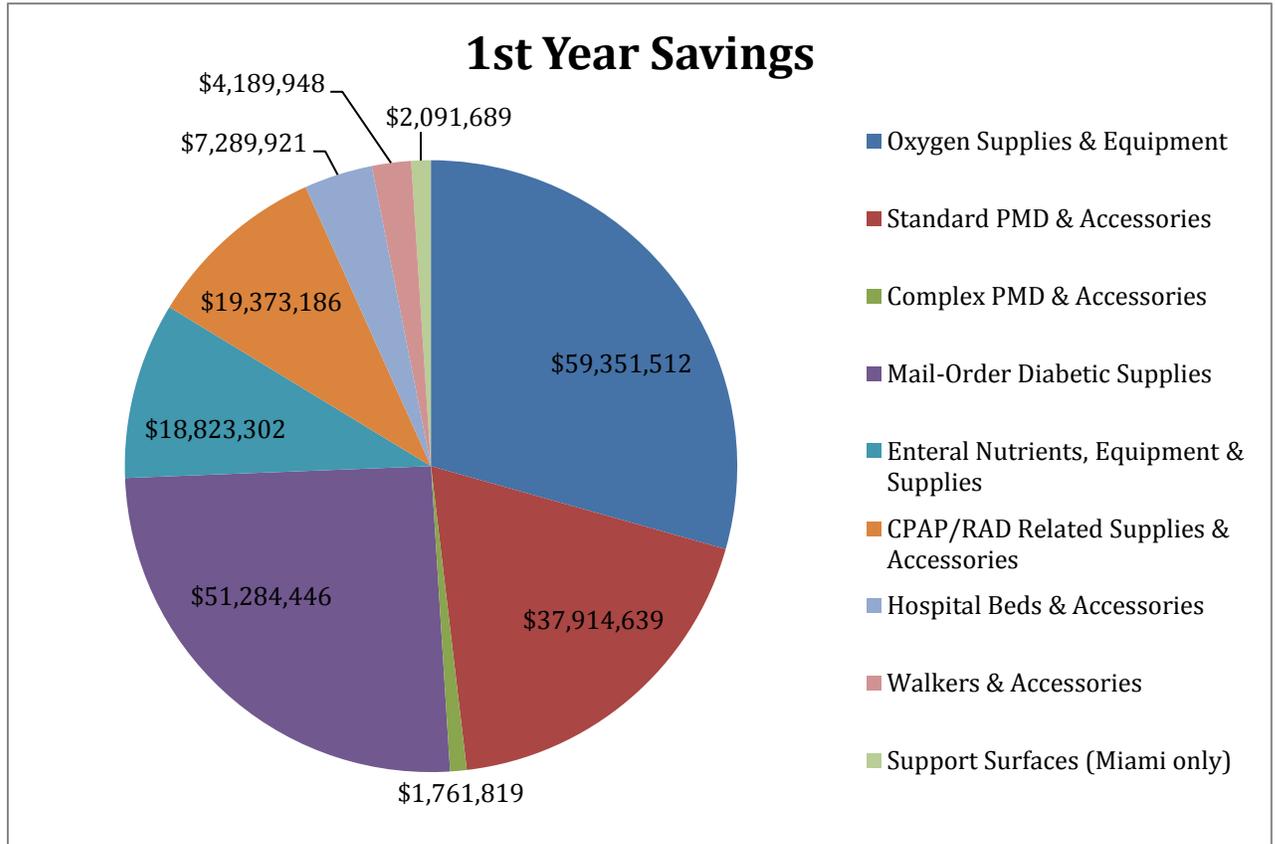
	Charlotte, NC	Cincinnati, OH	Cleveland, OH	Dallas, TX	Kansas City, MO & KS	Miami, FL	Orlando, FL	Pittsburgh, PA	Riverside CA
# of Suppliers	19	15	15	26	9	19	12	16	43
Price Reduction (% off of fee schedule)	18	16	21	26	21	31	30	22	18

First Year Savings

According to the CMS analysis of claims from 2010 and 2011, the competitive bidding program has reduced DMEPOS spending by \$202.1 million in the nine Round 1 areas, representing an overall percentage reduction of 42 percent from lower prices and reduced inappropriate utilization. Three product categories resulted in the bulk of the savings: oxygen and oxygen supplies, mail-order diabetic supplies³, and standard power wheelchairs.

³ Retail diabetic testing supplies were not bid in the first nine areas, and beneficiaries could choose to obtain testing supplies from mail order contract suppliers or non-contract retail suppliers. To ensure an accurate portrayal of total savings for diabetic testing supplies, combined allowed charges for retail and mail order diabetic testing supplies were compared.

Chart 1: Distribution of \$202.1 million First Year Savings, by Product Category



Real-Time Claims Monitoring

CMS has closely monitored the results of the competitive bidding program since implementation on January 1, 2011 to ensure that savings goals of the program have been achieved and—more important—to ensure that beneficiary access to appropriate supplies and equipment has not been compromised. To ensure effective monitoring, CMS implemented a real-time claims monitoring system which analyzes the utilization of the nine product categories in all competitive bidding areas. Since one of the goals of the new model is to reduce use of inappropriate items and supplies, the CMS claims monitoring system pays particular attention to potential changes in key secondary indicators such as hospital admissions, emergency room visits, physician visits, and admissions to skilled nursing facilities before and after the implementation of the new payment model. The monitoring system looks at three comparison groups of beneficiaries over time: 1) all Medicare beneficiaries living in one of the nine areas compared to beneficiaries living in a similar geographic area not yet subject to competitive bidding (e.g., Orlando vs. Tampa); 2) beneficiaries in one of the nine areas most likely to use a particular item compared to beneficiaries in a similar geographic area most likely to use the item; and 3) beneficiaries actually using an item living in one of the nine areas compared

to beneficiaries actually using an item living in a similar geographic area. Beneficiaries are considered likely to use a competitively bid item based on the presence of particular health conditions (for instance, patients with pulmonary disease are monitored for use of oxygen therapy).

For the first year of the program, the CMS real-time claims monitoring and subsequent follow-up has indicated that beneficiaries' access to necessary and appropriate items and supplies has been preserved. Moreover, the rate of use of hospital services, emergency room visits, physician visits, and skilled nursing facility care has remained consistent with the patterns and trends seen throughout the rest of the country.

CMS's monitoring revealed declines in the use of mail-order diabetes test strips and continuous positive airway pressure (CPAP) supplies in the competitive bidding areas. In response to these declines, CMS initiated three rounds of calls to users of these supplies in the nine competitive areas, two rounds of calls for users of mail-order diabetes test strips and one round of calls to users of CPAP supplies. In each round, CMS staff randomly identified 100 beneficiaries who used the items before the program began but had no claims for the items in 2011. The calls revealed that in virtually every case, the beneficiary reported having more than enough supplies on hand, often multiple months' worth, and therefore did not need to obtain additional supplies when the program began. This would suggest that beneficiaries received excessive replacement supplies before they became medically necessary. CMS concludes that the competitive bidding program may have curbed inappropriate distribution of these supplies that was occurring prior to implementation.

Examples of CMS real-time claims tracking can be found in Appendix I of this report and at the following website

http://www.cms.gov/DMEPOSCompetitiveBid/01A3_Monitoring.asp#TopOfPage

Beneficiary Complaints

The results of CMS's real-time claims monitoring is supported by the low number of beneficiary complaints the agency has received. Since implementation, CMS has been carefully monitoring complaints coming into its regional offices, its toll-free number 1-800-Medicare, and to the Medicare Competitive Acquisition Ombudsman's office. CMS received 127,466 beneficiary inquiries regarding the competitive bidding program during 2011. This represented less than 1 percent of total call volume at the 1-800-Medicare call center. The vast majority of inquiries were about routine matters, such as questions about the program or finding a contract supplier. The number of overall beneficiary complaints, defined as inquiries that express dissatisfaction with the program and cannot be resolved by a call center operator, continues to be minimal. All complaints were assigned to program experts for prompt resolution. In the fourth quarter of calendar year 2011,

CMS received six beneficiary complaints. This is a minute fraction of the 2.3 million Fee-for-Service beneficiaries residing in the nine competitively bid MSAs for 2011.

Table 3: Beneficiary Complaints by Quarter, 2011

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Beneficiary Complaints	43	73	29	6	151

Beneficiary Out-of-Pocket Savings

In addition to programmatic savings, the competitive bidding program has substantially reduced out-of-pocket costs for beneficiaries.

Three examples:

Example 1: Beneficiaries renting oxygen concentrators in 2011 will save between \$10 and \$14 per month, depending on the competitive bidding area in which they reside. Oxygen concentrator rental payments can continue up to 36 months, so total savings will amount to approximately \$360 to \$504 per beneficiary.

Example 2: Beneficiaries who began renting semi-electric hospital beds in January 2011 saved between \$7.43 (Kansas City) and \$10.80 (Cincinnati and Cleveland) per month for the first three months of rental. Hospital bed rental payments can continue up to 13 months, so total savings amounted to \$72.42 to \$105.34 per beneficiary.

Example 3: Beneficiaries purchasing mail order diabetic test strips saved between \$3.56 (Cleveland) and \$3.90 (Riverside) per batch of 50 strips. Many diabetics will use several times that number of strips per month indefinitely, leading potentially to large savings over time (\$128 to \$140 for the year 2011 for a beneficiary who uses three batches per month).

Round 2 Expansion

CMS is currently in the process of expanding the program to 91 additional metropolitan areas as required by MIPPA and the Affordable Care Act. Currently CMS is evaluating bids for 91 metropolitan areas. Appendix II includes the list of these metropolitan areas. Given the success of the Round 1 implementation, the Round 2 program will work essentially the same as the Round 1 process with a few important process improvements. First, we are strengthening our bona fide bid review process. We are building on Round 1's rigorous, comprehensive process to check that very low bids are sustainable by checking more of those bids. We have also enhanced our successful bidder education program by improving and streamlining the request for bids instructions, updating policy fact sheets, and offering a series of educational webcasts that can be viewed 24 hours a day/7 days a week.

Budgetary Savings Estimates

CMS's independent Office of the Actuary has revised its estimates of the DMEPOS competitive program for the FY 2013 President's Budget baseline. The new estimates predict more savings than earlier estimates because the Round 1 actual savings indicate a greater reduction in expenditures than originally anticipated. In addition, the current estimates reflect an earlier implementation of the national mail order program for diabetic testing supplies than past estimates. OACT's estimates of the program's savings are substantial when fully phased-in. In addition to expanding the program to 91 additional areas, the Affordable Care Act requires that all areas of the country are subject either to DMEPOS competitive bidding or payment rate adjustments using competitively bid rates by 2016. According to the current budget baseline, OACT estimates that the program will save the Medicare Part B Trust Fund \$25.7 billion and beneficiaries \$17.1 billion between 2013 and 2022.

Conclusion

In its first year of operation, the DMEPOS competitive bidding program has reduced overall Medicare spending without any negative effects on access to necessary supplies or beneficiary health indicators. Real-time claims monitoring and beneficiary outreach has found that the program appears to have curbed inappropriate use of mail-order diabetes testing supplies and CPAP supplies. CMS is on track to expand the program substantially during 2013. CMS will continue to carefully monitor the program through all phases of implementation to ensure that Medicare savings are achieved without negative consequences to Medicare beneficiaries.

Appendix I: Examples of Real-Time Claims Monitoring

The following charts display monthly mortality and morbidity rates for the nine areas participating in the competitive bidding program. Each chart also includes results for nine “comparator” regions that are similar to the Competitive Bidding Areas but not yet subject to the program.

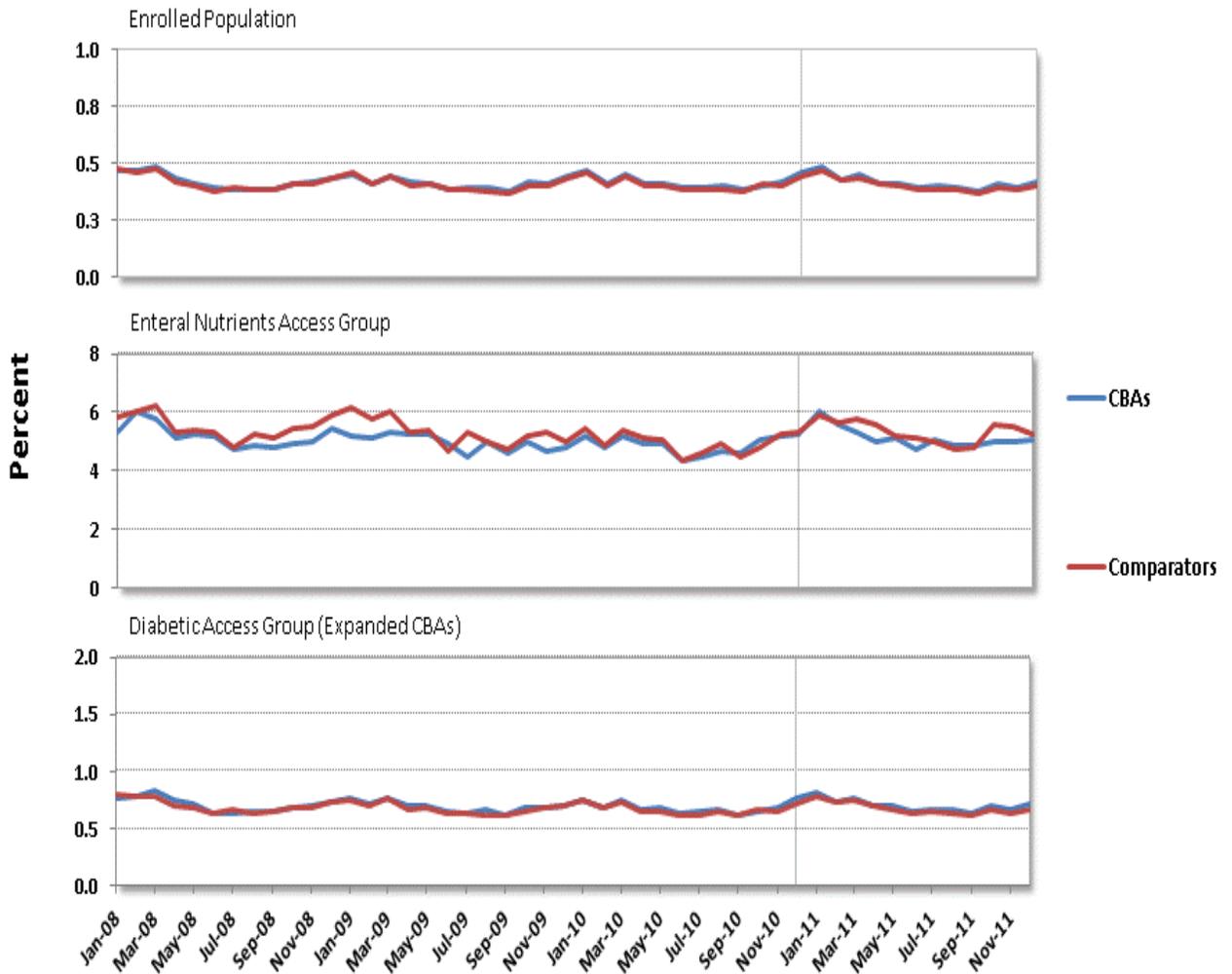
Each chart includes results for the Original Medicare population as well as two groups of beneficiaries that are likely to use a particular competitively bid item based on health characteristics.

Additional examples are available at this website:

http://www.cms.gov/DMEPOSCompetitiveBid/01A3_Monitoring.asp#TopOfPage

Aggregate Rate of Death for CBAs and Comparators, By Subpopulation

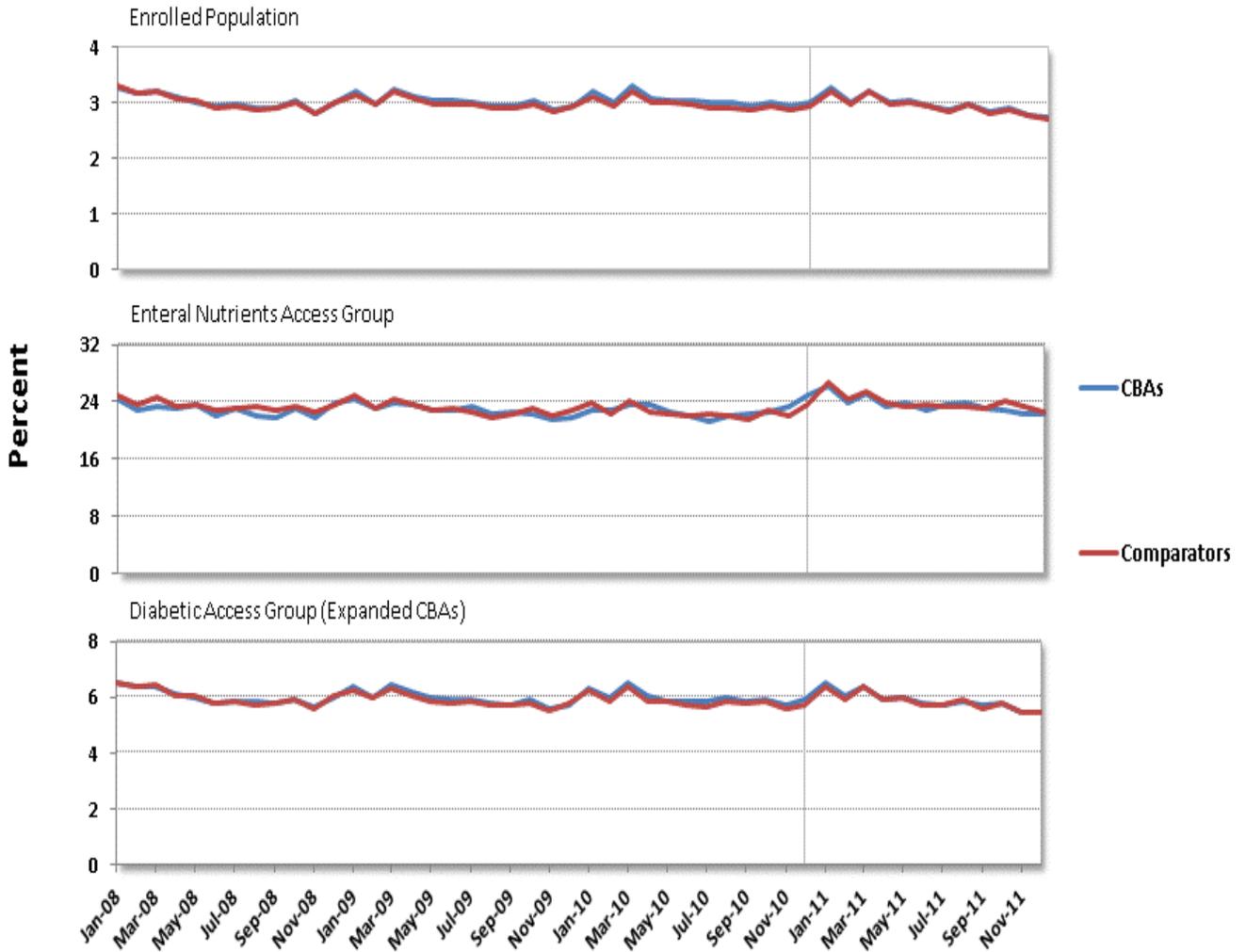
Data: Medicare A/B FFS Claims Processed by 2/17/2012



These charts show that there is no detectable difference in rates of mortality between competitive bidding areas and comparator MSAs for three comparisons: among the entire enrolled Medicare population; among patients likely to need enteral nutrition products, according to the medical history; and among patients likely to need diabetic testing supplies, according to their medical history. This indicates that DMEPOS competitive bidding has not changed the rates of mortality according to any of these comparisons.

Aggregate Rate of Hospitalizations for CBAs and Comparators, By Subpopulation

Data: Medicare A/B FFS Claims Processed by 2/17/2012



These charts show that there is no detectable difference in rates of hospitalization between competitive bidding areas and comparator MSAs for three comparisons: among the entire enrolled Medicare population; among patients likely to need enteral nutrition products, according to the medical history; and among patients likely to need diabetic testing supplies, according to their medical history. This indicates that DMEPOS competitive bidding has not changed the rates of hospitalization according to any of these comparisons.

Aggregate Rate of ER Visits for CBAs and Comparators, By Subpopulation

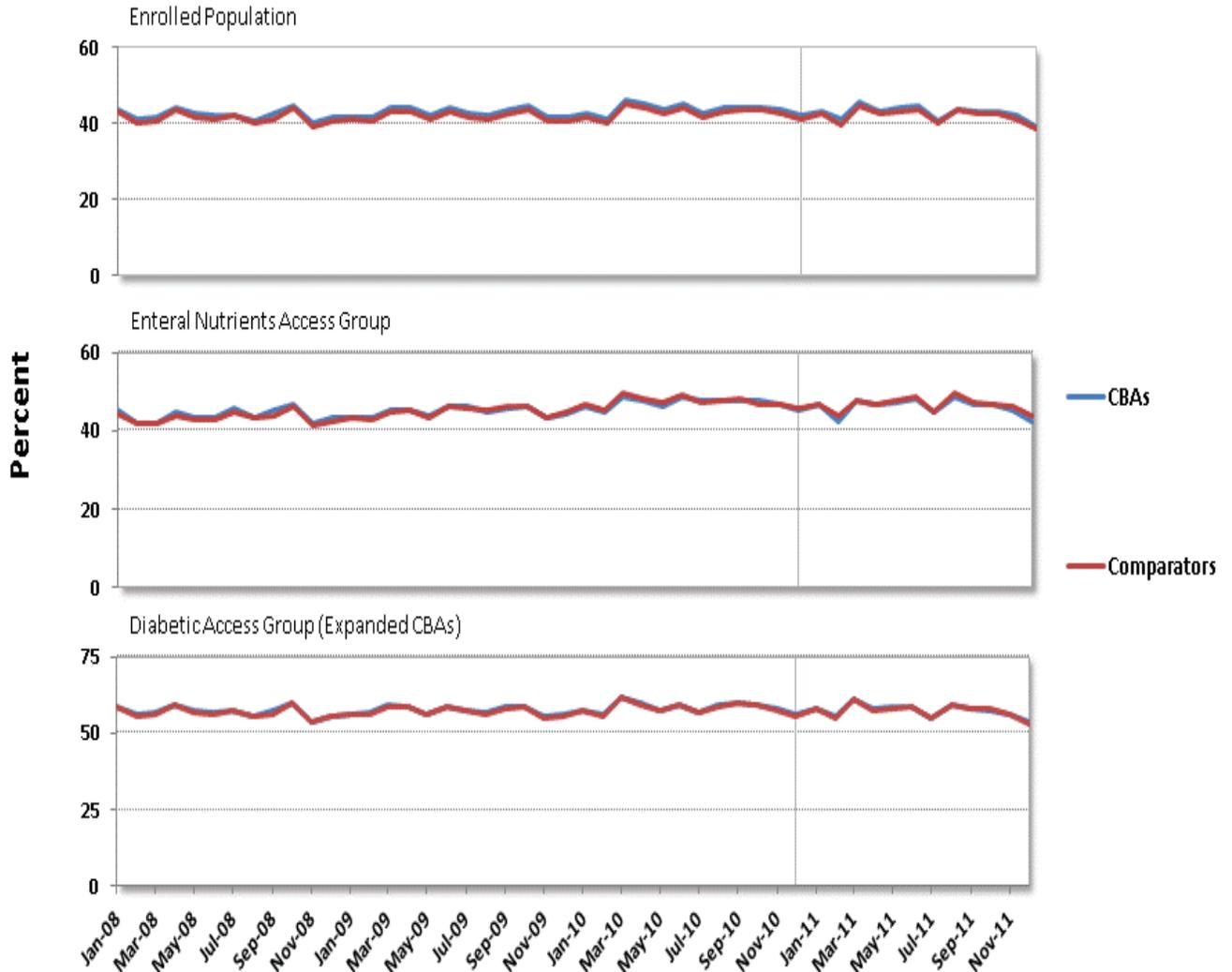
Data: Medicare A/B FFS Claims Processed by 2/17/2012



These charts show that there is no detectable difference in rates of emergency room visits between competitive bidding areas and comparator MSAs for three comparisons: among the entire enrolled Medicare population; among patients likely to need enteral nutrition products, according to their medical history; and among patients likely to need diabetic testing supplies, according to their medical history. This indicates that DMEPOS competitive bidding has not changed the rates of emergency room visits according to any of these comparisons.

Aggregate Rate of Physician Visits for CBAs and Comparators, By Subpopulation

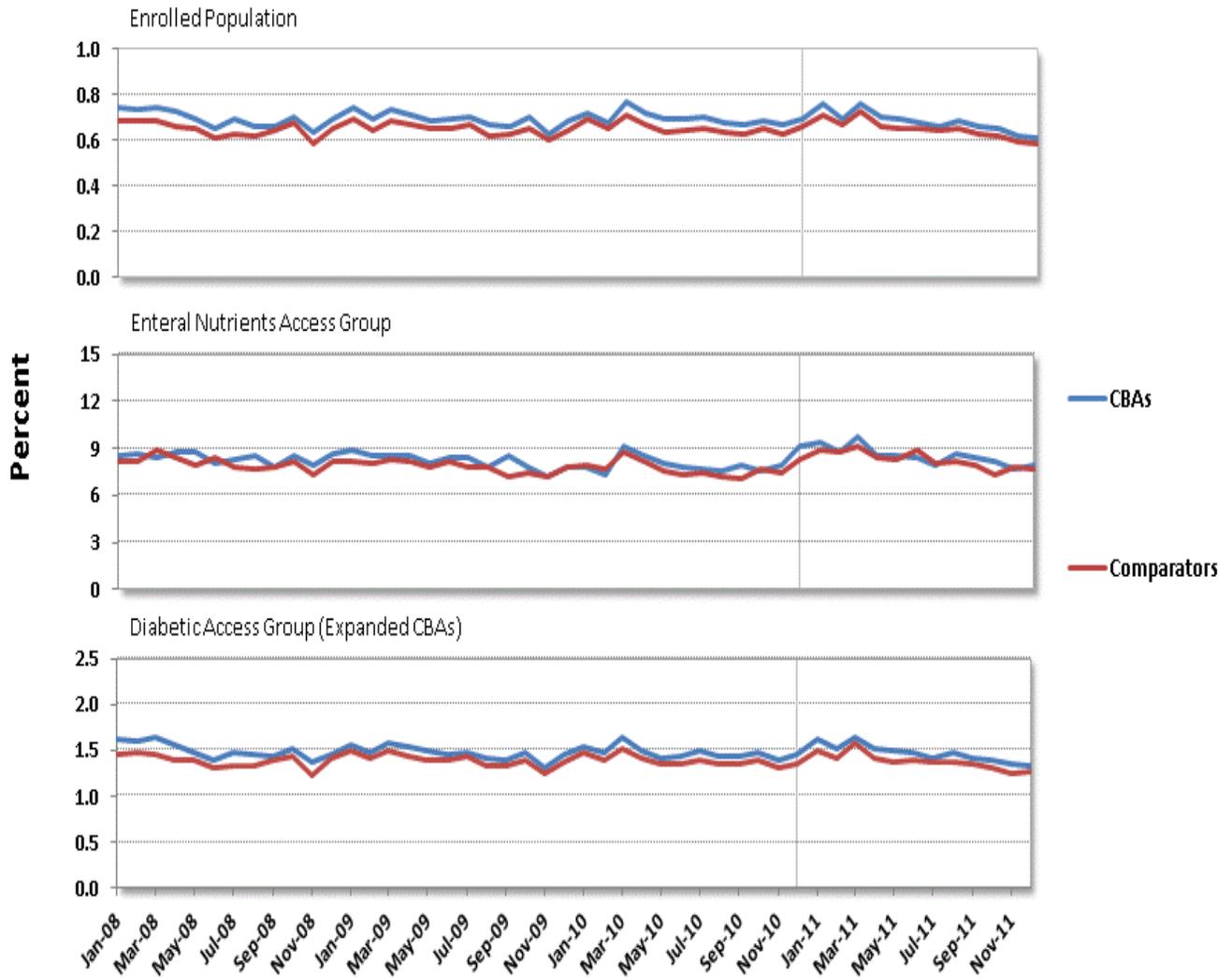
Data: Medicare A/B FFS Claims Processed by 2/17/2012



These charts show that there is no detectable difference in rates of physician office visits between competitive bidding areas and comparator MSAs for three comparisons: among the entire enrolled Medicare population; among patients likely to need enteral nutrition products, according to their medical history; and among patients likely to need diabetic testing supplies, according to their medical history. This indicates that DMEPOS competitive bidding has not changed the rates of physician office visits according to any of these comparisons.

Aggregate Rate of SNF Admissions for CBAs and Comparators, By Subpopulation

Data: Medicare A/B FFS Claims Processed by 2/17/2012



These charts show that there is no detectable difference in rates of skilled nursing facility (SNF) admissions between competitive bidding areas and comparator MSAs for three comparisons: among the entire enrolled Medicare population; among patients likely to need enteral nutrition products, according to their medical history; and among patients likely to need diabetic testing supplies, according to their medical history. This indicates that DMEPOS competitive bidding has not changed the rates of SNF admissions according to any of these comparisons.

Appendix II: Round 2 MSAs

1. Albuquerque, NM
2. Bakersfield-Delano, CA
3. Boise City-Nampa, ID
4. Colorado Springs, CO
5. Denver-Aurora-Broomfield, CO
6. Fresno, CA
7. Honolulu, HI
8. Las Vegas-Paradise, NV
9. Los Angeles-Long Beach-Santa Ana, CA
10. Oxnard-Thousand Oaks-Ventura, CA
11. Phoenix-Mesa-Glendale, AZ
12. Portland-Vancouver-Hillsboro, OR-WA
13. Sacramento--Arden-Arcade--Roseville, CA
14. Salt Lake City, UT
15. San Diego-Carlsbad-San Marcos, CA
16. San Francisco-Oakland-Fremont, CA
17. San Jose-Sunnyvale-Santa Clara, CA
18. Seattle-Tacoma-Bellevue, WA
19. Stockton, CA
20. Tucson, AZ
21. Visalia-Porterville, CA
22. Akron, OH
23. Chicago-Joliet-Naperville, IL-IN-WI
24. Columbus, OH
25. Dayton, OH
26. Detroit-Warren-Livonia, MI
27. Flint, MI
28. Grand Rapids-Wyoming, MI
29. Huntington-Ashland, WV-KY-OH
30. Indianapolis-Carmel, IN
31. Milwaukee-Waukesha-West Allis, WI
32. Minneapolis-St. Paul-Bloomington, MN-WI
33. Omaha-Council Bluffs, NE-IA
34. St. Louis, MO-IL
35. Toledo, OH
36. Wichita, KS
37. Youngstown-Warren-Boardman, OH-PA
38. Asheville, NC
39. Atlanta-Sandy Springs-Marietta, GA
40. Augusta-Richmond County, GA-SC
41. Austin-Round Rock-San Marcos, TX
42. Baltimore-Towson, MD
43. Baton Rouge, LA
44. Beaumont-Port Arthur, TX

45. Birmingham-Hoover, AL
46. Cape Coral-Fort Myers, FL
47. Charleston-North Charleston-Summerville, SC
48. Chattanooga, TN-GA
49. Columbia, SC
50. Deltona-Daytona Beach-Ormond Beach, FL
51. El Paso, TX
52. Greensboro-High Point, NC
53. Greenville-Mauldin-Easley, SC
54. Houston-Sugar Land-Baytown, TX
55. Jackson, MS
56. Jacksonville, FL
57. Knoxville, TN
58. Lakeland-Winter Haven, FL
59. Little Rock-North Little Rock-Conway, AR
60. Louisville/Jefferson County, KY-IN
61. McAllen-Edinburg-Mission, TX
62. Memphis, TN-MS-AR
63. Nashville-Davidson--Murfreesboro--Franklin, TN
64. New Orleans-Metairie-Kenner, LA
65. North Port-Bradenton-Sarasota, FL
66. Ocala, FL
67. Oklahoma City, OK
68. Palm Bay-Melbourne-Titusville, FL
69. Raleigh-Cary, NC
70. Richmond, VA
71. San Antonio-New Braunfels, TX
72. Tampa-St. Petersburg-Clearwater, FL
73. Tulsa, OK
74. Virginia Beach-Norfolk-Newport News, VA-NC
75. Washington-Arlington-Alexandria, DC-VA-MD- WV
76. Albany-Schenectady-Troy, NY
77. Allentown-Bethlehem-Easton, PA-NJ
78. Boston-Cambridge-Quincy, MA-NH
79. Bridgeport-Stamford-Norwalk, CT
80. Buffalo-Niagara Falls, NY
81. Hartford-West Hartford-East Hartford, CT
82. New Haven-Milford, CT
83. New York-Northern New Jersey-Long Island, NY-NJ-PA
84. Philadelphia-Camden-Wilmington, PA-NJ-DE-MD
85. Poughkeepsie-Newburgh-Middletown, NY
86. Providence-New Bedford-Fall River, RI-MA
87. Rochester, NY
88. Scranton--Wilkes-Barre, PA
89. Springfield, MA
90. Syracuse, NY

91. Worcester, MA