



Highlights of [GAO-06-372](#), a report to congressional committees

Why GAO Did This Study

In 2003, the Medicare Modernization Act required the Centers for Medicare & Medicaid Services (CMS) to establish payment rates for a set of new pharmaceutical products—drugs and radiopharmaceuticals—provided to beneficiaries in a hospital outpatient setting. These products were classified for payment purposes as specified covered outpatient drugs (SCOD). The legislation directed CMS to set 2006 Medicare payment rates for SCODs equal to hospitals' average acquisition costs and included requirements for GAO. As directed, GAO surveyed hospitals and issued two reports, providing information to use in setting 2006 SCOD rates. To address other requirements in the law, this report analyzes SCOD price variation across hospitals, advises CMS on future surveys it might undertake, and examines both lessons from the GAO survey and future challenges facing CMS.

What GAO Recommends

GAO recommends that the Secretary of Health and Human Services seek to ensure that CMS's SCOD payment rates are based on sufficiently reliable data by (1) validating data collected on drug prices and (2) basing payment rates for each radiopharmaceutical SCOD on the price of a ready-to-use unit dose. Although expressing some reservations, particularly concerning the burden of data collection, HHS agreed to consider GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-372.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7119 or steinwalda@gao.gov.

MEDICARE HOSPITAL PHARMACEUTICALS

Survey Shows Price Variation and Highlights Data Collection Lessons and Outpatient Rate-Setting Challenges for CMS

What GAO Found

Analyzing pharmaceutical price data collected from its 2004 survey of hospitals, GAO found that prices hospitals paid for SCOD products varied across hospitals. Certain factors—namely, whether the hospital had a major teaching program or not, was in an urban or rural area, and had a large or small hospital outpatient department—were associated with whether hospitals paid higher or lower prices for SCOD products. Major teaching hospitals paid prices that were an estimated 3.2 percent lower than those paid by nonteaching hospitals for drug SCODs; rural hospitals paid prices an estimated 4.4 percent higher than those paid by urban hospitals for radiopharmaceutical SCODs; and large hospitals paid prices an estimated 1.4 percent lower than those paid by small hospitals for drug SCODs and 3.1 percent lower for radiopharmaceutical SCODs. Combining these factors, GAO found that large, urban, major teaching hospitals—compared with other hospitals—generally paid lower prices, on average, for all SCOD products.

From conducting its hospital survey, GAO learned a key lesson that CMS could use in the future: such a survey would not be practical for collecting the data needed to set and update SCOD rates routinely but would be useful for validating, on occasion, CMS's rate-setting data. GAO's survey produced accurate hospital drug price data, but it also created a considerable burden for hospitals as the data suppliers and considerable costs for GAO as the data collector. Nonetheless, the benefit of collecting actual prices paid by hospitals could make such surveys advantageous for occasionally validating CMS's proxy for SCODs' average acquisition costs—the average sales price (ASP) data that manufacturers report.

CMS will face important challenges as it seeks to obtain accurate data on hospitals' acquisition costs for drug and radiopharmaceutical SCODs.

- Regarding drugs, CMS lacks the detail on manufacturers' ASP data needed to determine if rates developed from these data are appropriate for hospitals. Manufacturers report ASP as a single price paid by all purchasers, making it impossible to distinguish the price paid by hospitals alone. CMS instructs manufacturers to report ASP net of rebates but does not specify how to allocate individual product rebates when several products are purchased.
- Regarding radiopharmaceuticals, GAO found that the diversity of forms in which they can be purchased—ready-to-use unit doses, multidoses, or separately purchased radioactive and non-radioactive substances—complicates CMS's efforts to select a data source that can provide reasonably accurate price data efficiently. Efficiency as well as accuracy is a factor in selecting a data source because radiopharmaceuticals account for only 1.5 percent of Medicare hospital outpatient spending. GAO's experience suggests that the best option available to CMS, in terms of accuracy and efficiency, is to collect price data on radiopharmaceuticals purchased in ready-to-use unit doses, the form in which an estimated three-quarters of hospitals purchase these products.