

# Medicare to test new payment model for some outpatient drugs

March 8 2016, by Ricardo Alonso-Zaldivar

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Medicare proposed a nationwide experiment Tuesday into new ways to pay for drugs administered in a doctor's office, including many cancer treatments.

Chief Medical Officer Patrick Conway said the government won't be telling doctors which drugs to prescribe.

Instead, the goal is to address financial incentives in the current payment system that can encourage the use of a more expensive drug, when a cheaper medication is just as effective.

"Perverse incentives" in the current rules do not benefit patients or Medicare, Conway said.

Drugs administered in doctor's offices or outpatient hospital departments cost Medicare about \$20 billion in 2015, a fraction of what the program spends overall on prescription medications.

Under current rules, Medicare pays the average sales price of a drug plus a 6 percent fee. Many experts have already pointed out what seems obvious: that 6 percent of a more expensive drug translates into higher revenue for a medical practice or hospital.

"Two drugs may have the same effectiveness and there may be a penalty for choosing the lower-cost drug, because the reimbursement is less," Conway explained. Medicare has heard from cancer doctors complaining

they're pressured into prescribing more expensive chemo to maximize revenue, he added.

Under the elaborate experiment being proposed by Medicare, parts of the country would operate under different payment rules for physician-administered medications. The results would then be compared, and if new approaches can maintain or improve quality while showing potential to curb costs, permanent changes could follow across the whole country.

The basic alternative approach would pay doctors 2.5 percent of the cost of a drug, plus a flat per-day fee. Conway said the experiment is designed to have no initial budget impact.

Other payment alternatives to be tested include reducing or eliminating a patient's share of costs for drugs deemed highly effective, as well as paying a premium for drugs that deliver demonstrably better results. Medicare hopes to launch its experiment later this year.

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