



**Statement Before the Advisory Panel on Ambulatory Payment Classification
Groups
August 27-29, 2008**

My name is Justine Coffey and I am representing the American Society of Health-System Pharmacists (ASHP). ASHP is the professional and scientific association that represents pharmacists who practice in hospitals, health maintenance organizations, long term care facilities, and other components of health systems.

At a previous meeting of the Advisory Panel on Ambulatory Payment Classification Groups (the Panel), ASHP, along with other stakeholders, asked the Panel to recommend that CMS reimburse all separately-payable drugs at no less than Average Sales Price (ASP) plus six percent. The Panel agreed, and recommended that CMS continue to reimburse for separately payable drugs at a rate of the average sales price of plus six percent for 2008. However, CMS refused to follow the Panel's recommendation, and effective January 1, 2008, reduced payments to ASP plus 5%.

CMS is now proposing to pay for the combined average acquisition and pharmacy overhead cost of separately payable drugs and biologicals at ASP plus four percent under the CY 2009 OPPTS.

Reimbursement of separately-payable drugs at average sales price (ASP) plus four percent is insufficient to cover pharmacy costs. Our members' experiences underscore the fact that reimbursement at ASP plus four percent does not adequately cover the costs of managing medications. In fact, the Medicare Payment Advisory Commission's (MedPAC) June 2005 Report to the Congress found that costs relating to pharmacy services overhead are significant, ranging from 26% to 28% of pharmacy departments' direct costs, with the rest of the costs attributed to the acquisition cost of drugs. Hospitals and health systems and their pharmacy departments bear the burden of the lower reimbursement rate, while providing necessary patient care, knowing that current reimbursement does not cover the costs incurred. Additionally, the current CMS methodology does not comply with the statutory requirement to reimburse drugs at the average acquisition cost for the drug for the year.

The July 2008 RTI International report further underscores the flaws in CMS's methodology, finding that CMS substantially underestimates the actual costs of acquiring and supplying separately paid drugs. When RTI's recommended adjustments are applied

to CMS's calculations, the estimated mean unit cost of separately paid drugs is ASP plus 20 percent.

Based on the above analyses, ASHP asks the APC Panel to recommend that CMS reimburse separately paid drugs at the rates applicable in physicians' offices. Specifically, CMS should reimburse separately paid drugs at no less than ASP plus six percent.

At the March, 2008 Panel meeting, ASHP, along with other stakeholders, presented a proposal to establish more appropriate payments for drugs and services. Under the proposal, CMS would continue to package payment for drugs that have a cost per day of less than \$60. However, CMS would package payment for the drug at ASP plus six percent instead of its costs derived from charges, which would ensure that OPSS rates for all drugs more accurately reflect hospitals' acquisition costs. CMS would then use the difference between payment for all drugs at ASP plus six percent and the estimated costs under the current methodology to create a pool to fund payments for pharmacy services.

As noted by CMS in the 2009 OPSS proposed rule, because CMS would redistribute pharmacy overhead cost when modeling payment rates for rate setting, the suggested methodology would be administratively simple for hospitals. This approach also would refine the existing OPSS methodology for estimating pharmacy overhead cost in a budget neutral manner, without redistributing money from the payment for nondrug components of other services to payment for drugs.

ASHP asks the APC Panel to recommend that CMS adopt this stakeholder proposal, and further recommend that CMS allocate the funds in the resulting pool using a three-tiered system to set different payments depending on the level of pharmacy services.

ASHP also asks the APC Panel to recommend that CMS not implement its proposed changes to Medicare cost reports for drugs charged to patients by breaking the single standard cost center 5600 into two standard cost centers, Drugs with High Overhead Cost Charged to Patients and Drugs with Low Overhead Cost Charged to Patients. The proposed rule would also require hospitals to use HCPCS codes for all drugs in the inpatient setting. These requirements would pose a substantial administrative burden to hospitals and will likely take at least two years to produce data for rate setting purposes.

Finally, ASHP asks the APC Panel to recommend that CMS make separate payment for all drugs with Healthcare Common Procedure Coding System (HCPCS) codes or, at a minimum, not increase the packaging threshold for drugs.

Thank you for the opportunity to present these comments.