

**American Society of Health-System Pharmacists
Presentation at the Meeting of the Advisory Panel
on Ambulatory Payment Classification (APC)
Groups—March 1- 3, 2006**



American Society of
Health-System Pharmacists*

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The American Society of Health-System Pharmacists (ASHP) is pleased to provide comments to the APC panel regarding the reimbursement rates for drugs under the Hospital Outpatient Prospective Payment System (HOPPS), and recommends that the Centers for Medicare & Medicaid Services (CMS) work with stakeholders to ensure that Medicare beneficiaries have access to appropriate hospital outpatient care by providing separate and appropriate reimbursement for pharmacy handling costs in the HOPPS. ASHP is the 30,000-member national professional and scientific association that represents pharmacists who practice in hospitals, health maintenance organizations, long-term-care facilities, and other components of health systems.

In our comments submitted to CMS on the agency's Proposed Rule establishing HOPPS reimbursement rates for 2006, ASHP noted that the changes to drug reimbursement proposed by CMS will have a substantial detrimental effect on the ability of hospital outpatient departments to provide the level of patient care needed by Medicare beneficiaries. We are beginning to hear confirmation of that from our members.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) mandated the Medicare Payment Advisory Commission (MedPAC) to prepare "a report on adjustment of payment for ambulatory payment classifications for specified covered outpatient drugs to take into account overhead and related expenses, such as pharmacy services and handling costs." MedPAC's report, submitted to Congress in June 2005, noted that these expenses were "not insignificant" and that they "made up 26 percent to 28 percent of pharmacy departments' direct costs."

In our comments to CMS, ASHP noted that the agency's reimbursement formula would be inadequate to cover pharmacy service and handling costs of drugs reimbursed under the HOPPS. Although special payment provisions have been made for drug reimbursement for physician offices, no similar response has been made in the final rule to problems faced by hospital outpatient departments which are often the providers of last resort for patients. Combined with reductions in reimbursement for some services,

including pharmacy handling and overhead costs, hospitals may be forced to reduce expenditures through lay-offs of essential staff who are critical to the preparation and delivery of medications and associated support services.

In the final rule for 2006 HOPPS rates, however, CMS dropped its earlier proposal of adding a reimbursement of 2% of a drug's ASP to cover a hospital outpatient pharmacy's handling costs for covered drugs, stating that the agency believes "that it is appropriate for us to base payment for average acquisition and overhead costs for separately payable drugs and biologicals on ASP+6 percent for CY 2006 because both acquisition and overhead costs are reflected in the charges submitted by hospitals for these items. We have no reason to believe that, in the aggregate, a payment rate of ASP+6 percent would be insufficient to provide combined appropriate payment for both the hospital acquisition and overhead costs related to providing drugs and biologicals to hospital outpatients."

ASHP believes that payment for drugs and biologicals at 106% of their ASP may be an appropriate reimbursement formula for hospitals' costs for acquiring drugs, but it is far short of adequate reimbursement for the substantial costs hospitals incur in safely preparing, storing, transporting, dispensing, and disposing of drugs and biologicals. Some of these costs include salaries and benefits, space and equipment, regulatory compliance and quality control, inventory management, reviewing drug orders, calculating dosages, reconstituting drugs or radiopharmaceuticals for administration to patients, preparing patients for chemotherapy, monitoring patients during an infusion, and treating side effects.

The June 2005 MedPAC report had recommended that CMS make separate payments for pharmacy handling costs by creating a set of handling-cost APCs to which drugs would be assigned according to their attributes that affect handling costs. In its proposed rule, CMS adopted this recommendation, creating three categories of drugs, each identified by a HCPCS C-code and a corresponding APC. CMS intended to collect data on hospital charges for these C-codes for two years to determine accurate handling costs, and the agency would consider basing payment for the corresponding drug handling APCs on the charges reduced to costs in 2008.

When, in its final rule, CMS abandoned its add-on for drug handling costs, the agency also determined not to finalize its proposal to collect data on pharmacy overhead costs in 2006 and 2007 by soliciting "input from the industry, APC Panel, and hospitals to explore alternative methodologies for capturing meaningful and complete pharmacy overhead costs, for potential use in providing appropriate payments to hospitals for such services in future updates of the OPSS." ASHP believes that gathering such data is imperative before CMS develops its proposed HOPPS rates for 2007. CMS claims and cost report data are held as a viable data source; to the extent that a solution to the problem of appropriate reimbursement for drug handling costs could be developed using these data, CMS should not abandon the concept of gathering appropriate data. ASHP is in the process of gathering preliminary data on the feasibility of hospital outpatient pharmacy departments capturing pharmacy handling data.

Moreover, the entire HOPPS system is under funded, and CMS should work with stakeholders to improve funding for the entire system to ensure that Medicare beneficiaries have access to appropriate hospital outpatient care. CMS needs to provide separate and appropriate reimbursement for pharmacy services in the HOPPS in a manner that can be implemented and administered in as uncomplicated a manner as possible. At a minimum, CMS should preserve the ASP + 6% reimbursement rate -- which CMS says includes the 2% pharmacy add-on adjustment -- until more detailed data can be collected and analyzed.

ASHP appreciates the opportunity to present comments on this important patient care issue. Feel free to contact us if you have any questions regarding our comments.