

Anatomy of a Failed "Auction" for Medicare Supplies

Today the Centers for Medicare and Medicaid Services (CMS) set arbitrary prices for Medicare Durable Medical Equipment (DME) supplies based on CMS' flawed bidding process. It was not the *bidders* who set the prices, but *CMS* through its arbitrary manipulation of the quantities associated with each bidder. CMS was able to pick any price between the lowest bid made by any bidder and the highest bid made by any bidder through its selection of quantities. The CMS-set quantities are never revealed and never used for anything but setting the price. This is why the CMS process is not an auction at all, but an arbitrary pricing process.

The process may sound like administrative pricing—the administrator is setting the price—but it is much worse, since rather than allowing any qualified supplier to supply at the CMS set price, only those who bid at or below the set price can participate. This restriction of who can supply is what creates the incentive for suicide bids and guarantees that CMS will have the opportunity to select prices as low as CMS believes are possible without market collapse. It is neither surprising nor impressive that CMS set prices that resulted in deep discounts from the current administrative prices (a 72 percent drop for mail-order diabetes and a 45 percent drop on average for other categories). The lower prices take effect in 1 July 2013. Time will tell whether CMS set the “right prices.”

One thing is certain: these are not competitive prices set by the competitive bids of suppliers. And there is no basis to believe that the set of “winning” suppliers includes those who can supply quality goods and services at least cost. Both the prices and the set of winners were arbitrarily set by CMS without any explanation. On this all experts agree. It is difficult to imagine a more flawed process.

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30 January 2013

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