

Comment on Cramton and Katzman: Medicare Competitive Bidding Lowered Expenditures

THOMAS J. HOERGER

Dear Editors,

One of the underlying premises of the paper by Cramton and Katzman is that Medicare's previous pilot runs of competitive bidding had "serious problems." This contention ignores the results of a prospective and comprehensive evaluation of the demonstration projects in question.¹

We examined the impact of the demonstration projects on prices, Medicare allowed charges (i.e., price x quantity), beneficiary access, and quality. We found that bidding reduced most—but not all—prices. Most price increases occurred in a single product category that had relatively low quantities. Overall, bidding reduced Medicare allowed

charges by 17.9 percent in one site and by 20.5 percent in the other site. To evaluate access and quality, we conducted beneficiary surveys in the demonstration and comparison areas, made site visits, and analyzed beneficiary claims. We concluded that the demonstration had relatively little effect on beneficiary access, quality, and product selection. Notably, beneficiaries remained as satisfied with their DMEPOS suppliers during the demonstration as they were before the demonstration.

In moving to the national bidding program, Medicare made some changes to the bidding design that was used in the demonstration program, most notably adopting a median pricing rule instead of the modified

second price auction rule that was used in the demonstrations. I agree with Cramton and Katzman that this is a flaw, but whether this amounts to a fatal flaw and “a scandal” is debatable. In the current bidding, 356 suppliers signed 1217 contracts (some suppliers will serve multiple product categories) in nine cities to provide equipment at prices that were reportedly 32 percent lower than the existing fee schedule.²

Although it is impressive that 167 leading economists signed a letter opposing the current bidding design, it is probable that many of them had little knowledge about what happened during the demonstration projects. If they had known that bidding reduced Medicare allowed charges by 18-20 percent with little impact on access and quality, they might have been less pessimistic about the current program.

Thomas J. Hoerger, PhD

Senior Fellow

RTI International

3040 Cornwallis Road

Research Triangle Park, NC 27709

tjh@rti.org, 919-541-7146

NOTES

1. The final evaluation report was included as an attachment on the Centers for Medicare & Medicaid Services (CMS) Report to Congress in 2004 and was, along with the two preceding annual reports, publicly available on the CMS website. The links have eroded over the years, and the reports are now harder to find. Here are current links:
Karon, S., Jewell, K., Hoerger, T., Broglio, K., Bernard, S., Gibbons, C., Lindrooth, R., Waters, T. Evaluation of Medicare's Competitive Bidding Demonstration for DMEPOS: First-Year Annual Report. January 2001. https://www.cms.gov/DemoProjectsEvalRpts/downloads/karon_2001_1.pdf.
Karon, S., Jewell, K., Hoerger, T., Bernard, S., Finkelstein, E., Tate, K., C., Lindrooth, R., Waters, T. Evaluation of Medicare's Competitive Bidding Demonstration for DMEPOS: Second-Year Annual Report. April 2002. https://www.cms.gov/reports/downloads/karon_2002_3.pdf.
Hoerger, T., Karon, S., Bernard, S., Tate K., Lindrooth, R., Waters, T., Jewell, K. Evaluation of Medicare's Competitive Bidding Demonstration for DMEPOS: Final Evaluation Report. November 2003. http://www.rti.org/pubs/dmepos_final-report.pdf.

Tommy G. Thompson. "Final Report to Congress: Evaluation of Medicare's Competitive Bidding Demonstration For Durable Medical Equipment, Prosthetics, Orthotics, and Supplies. Department of Health and Human Services. 2004. <https://www.cms.gov/DemoProjectsEvalRpts/downloads/CMSrtc.pdf>.

2. Centers for Medicare & Medicaid Services. "Contract Suppliers Selected Under New Medicare Program." November 3, 2010. Searchable here: http://www.cms.gov/apps/media/press_releases.asp.

Also available by cutting and pasting this link: <http://www.cms.gov/apps/media/press/release.asp?Counter=3861&intNumPerPage=10&checkDate=&checkKey=&srchType=1&numDays=3500&srchOpt=0&srchData=&keywordType=All&chkNewsType=1%2C+2%2C+3%2C+4%2C+5&intPage=&showAll=&pYear=&year=&desc=&choOrder=date>.