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Conference to address replacing Medicare competitive bidding program

U. of Md. Prof. Peter Cramton to demonstrate a new auction system for controversial medical equipment program

COLLEGE PARK, Md. – Auction experts will demonstrate at an upcoming conference how a new bidding system could transform Medicare’s current unsustainable competitive bidding program for durable medical equipment into an approach that would provide better quality and fairer prices.

The April 1 conference, sponsored by the National Science Foundation and the University of Maryland, will bring together representatives from government agencies, suppliers and congressional offices as well as auction experts and Medicare beneficiaries. The goal is to explore alternatives to a competitive bidding program recently launched on a limited basis that has prompted hundreds of complaints from Medicare beneficiaries about service problems and lack of supply.

Competitive bidding for durable medical equipment in Medicare was mandated by the Balanced Budget Act of 1997 as a way to control costs, but the Centers for Medicare and Medicaid Services experienced a series of problems with pilot programs. The program did not get off the ground until the beginning of 2011 and is initially limited to nine cities. It is slated to be expanded to 91 cities later this year and eventually to the entire country.

Prof. Peter Cramton of the Economics Department at the University of Maryland has been a leading critic of the program and was one of 167 auction experts to send a [letter to Congress](#) saying that fundamental design flaws in the program destined it to failure. For example, the program’s rules encourage low-ball bidding, which has resulted in prices that in some cases are below suppliers’ costs from manufacturers – an unsustainable situation for suppliers that causes equipment shortages.

“Medicare’s goal should be to assure seniors access to what they need at prices rewarding the least-cost suppliers of quality goods and services,” Cramton said. “But the competitive bidding program is failing both seniors and suppliers.”

“The current system is arbitrary and nontransparent in its selection of suppliers and if anything is biased against those who want to compete honestly and fairly,” Cramton said. “It encourages such behavior as

low-ball bidding, which distorts prices. The objective of any properly designed auction is to allow all providers to compete in an open and transparent process to supply Medicare beneficiaries. Such a process establishes competitive market prices, which are sustainable in the long-run and which support an efficient market structure.”

Durable medical equipment includes such items as wheelchairs, oxygen supplies and diabetes testing supplies. Under the existing system, which operates everywhere but the nine initial competitive bidding cities, Medicare sets the prices that suppliers can charge through an antiquated approach of administrative pricing.

“Unfortunately, the current auction program is even worse than the administrative pricing it intends to replace,” Cramton said. “The current program radically transforms the industry but in an arbitrary way that harms Medicare beneficiaries and providers. In contrast, the approach that will be demonstrated on April 1 is highly efficient, setting the lowest sustainable prices for Medicare supplies. This is a win-win-win for Medicare providers, beneficiaries, and the taxpayer.”

The April 1 conference is an opportunity for collaboration among the stakeholders of the competitive bidding program, including government agencies, durable medical equipment providers, Medicare beneficiaries, congressional staff and auction experts.

“The best way to learn and understand the issues is by doing. To this end, we will conduct a highly-realistic mock auction. The mock auction will use the same simple rules based on proven methods that are likely to realize the promise of market methods. Moreover, the mock auction will demonstrate the feasibility of the approach and identify the remaining challenges,” Cramton said. “The stakes could not be higher. There are many tens of trillions of unfunded Medicare expenses going forward. Without innovation in the pricing and provision of Medicare services, Medicare becomes unsustainable.”

Among those who have committed to attend are representatives of the Centers for Medicare and Medicaid Services, the Department of Health and Human Services, the Medicare Payment Advisory Commission, the Congressional Budget Office, the White House Council of Economic Advisors and the National Science Foundation. Dozens of leaders from the Medicare provider community have also committed to attend.

The conference will be held from 8:30 a.m. to 5 p.m., Friday, April 1, at the Inn and Conference Center on the University of Maryland campus in College Park. Registration is available at [123signup](#) on a first-come, first served basis. Attendance is limited to about 200 participants.