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CALIFORNIA HEALTHCARE INSTITUTE

Statement of the California Healthcare Institute (CHI)
Submitted to the
House Committee on Energy & Commerce
Subcommittee on Health

Hearing on "Examining Reforms to Improve the Medicare Part B Drug Program for Seniors"

June 28, 2013

CHI – California Healthcare Institute, the statewide public policy organization representing California's leading biomedical innovators – including over 275 research universities and private, nonprofit institutes, venture capital firms, and medical device, diagnostic, biotechnology and pharmaceutical companies – appreciates the opportunity to present its views and voice our opposition to any Medicare benefit redesign proposal that would seek to reduce payments for providers of drugs and biologics under Medicare Part B.

California's more than 2,300 biomedical companies and institutions, clustered throughout the state, lead the world in life sciences research and development, which has led to groundbreaking therapies and technologies to diagnose, treat and prevent conditions such as cancer, cardiovascular disease, diabetes, HIV/AIDS, chronic pain, Alzheimer's, Parkinson's Disease, and others. Just as important, the sector is an increasingly important component of our state's economic engine, employing nearly 270,000 people, paying $15.5 billion in wages and accounting for $20 billion in exports.

Timely and appropriate coverage and payment policies are critical to biotechnology innovation and, most important, patient care. That is why it is vital for Congress to protect programs that are working. Medicare Part B, which provides coverage for therapies that are physician-administered, injected or infused, is a program that is working well and that provides vital access to treatments for patients fighting debilitating and life-threatening diseases such as cancer and multiple sclerosis. As part of the *Medicare Modernization Act (MMA) of 2003,* Congress set the reimbursement rate for most Part B drugs at ASP plus six percent (ASP +6%) and since its implementation, Part B spending growth has been low, benefitting both patients and taxpayers.

ASP plus six percent reimbursement is designed to cover the costs of an efficient provider and according to a 2007 study by MedPAC, for most physicians it provides a "slim" difference between cost and reimbursement. ASP is – by definition – an averaging system and there are some providers whose costs will be higher than the average. For example, providers in small practices with low patient volumes and/or in rural areas may be less likely to have significant purchasing volumes. The additional reimbursement of six percent above ASP reduces the likelihood that these providers will face reimbursement below their acquisition costs. While ASP +6% has been working well, cuts to the six percent add-on could put small, independent or rural providers at risk, threatening access and care for extremely ill Medicare patients.

Compounding the problem for small and rural providers is a growing trend of certain health care services moving out of the community or individual clinic, and into the hospital outpatient setting. This is particularly true and troublesome with respect to oncology treatments. In addition to reports from CHI member companies, a 2013 report by the Moran Company on behalf of the US Oncology Network, Community Oncology Alliance, and ION Solutions found that chemotherapy treatments are moving into the hospital outpatient setting at a rate of 1.5 - 3.25 percent per year. Furthermore, a 2012 report by Avalere found that chemotherapy patients treated in the hospital outpatient setting cost on average 24 percent more than those receiving treatment received in a physician's office, regardless of the length of chemotherapy treatment. The result is increased costs for patients, as their out-of-pocket cost-sharing amount is determined by the reimbursed rate, which is higher in the hospital setting.

CHI understands the pressures Congress faces as it considers ways to reduce the budget deficit. While reducing payments below ASP +6% may provide near-term costs savings on paper, any potential benefit from near-term savings will pale in comparison to the real-life impact on providers and the Medicare patients they serve. Already, cuts to Medicare Part B payments due to sequestration have forced some cancer clinics to turn away patients. Furthermore, the overwhelming majority of patients receiving treatments reimbursed under Part B are elderly, and critically ill – factors like a patient's comfort in being treated by their community physician's office, their proximity to those clinics, and the simple fact that immune-compromised people shouldn't be in the hospital where they are at increased risk for healthcare-acquired infections are also important considerations in determining the most appropriate site of care.

It is for these reasons that we are gravely concerned that the quality of care for our nation's seniors will not be well-served by continued erosion of the ASP reimbursement scheme, and urge you to resist any proposals that seek to further reduce payments for Medicare Part B drugs and biologics.

We would be pleased to provide additional information on the damaging impact of such policies in our state. Thank you again for the opportunity to present our views.