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HHS Advances Payment Model to Lower Drug Costs for Patients

The International Pricing Index (IPI) Model would lower costs for physician-administered drugs by resetting Medicare payments based on international prices and introducing competition

On Thursday, the U.S. Department of Health and Human Services, through the Centers for Medicare & Medicaid Services (CMS), announced and sought input on a new "International Pricing Index" (IPI) payment model to reduce what Americans pay for prescription drugs.

Under the IPI model, described in an Advance Notice of Proposed Rulemaking (ANPRM), Medicare's payments for select physician-administered drugs would shift to a level more closely aligned with prices in other countries. Overall savings for American taxpayers and patients are projected to total $17.2 billion over five years.

"President Trump promised that he would bring down drug prices and put American patients first," said HHS Secretary Alex Azar. "With this innovative approach, he is now proposing historic changes to how Medicare pays for some of the most expensive prescription drugs, securing for the American people a share of the price concessions that drug makers voluntarily give to other countries."

"In an era where the pharmaceutical industry is pricing drugs at levels approaching a million dollars—and jeopardizing the future of our safety net programs—the time has come to fix the perverse incentives in the Medicare program that are fueling price increases," said CMS Administrator Seema Verma. "I appreciate President Trump and Secretary Azar's bold leadership to lower seniors' prescription drug costs and provide relief."

The move from current payment levels to payment levels based on international prices would be phased in over a five-year period, would apply to 50 percent of the country, and would cover most drugs in Medicare Part B, which includes physician-administered medicines such as infusions. The model would correct existing incentives to prescribe higher-priced drugs and, for the first time, address disparities in prices between the United States and other countries. Since patient cost sharing is calculated based on Medicare's payment amount, patients would see lower costs under the model.

Physicians currently purchase the drugs that they administer to patients and receive payment from Medicare for those drugs at an amount equal to the average sales price plus an "add-on" fee. The add-on is calculated as a percentage of the average sales price of the drug.

This creates several problems. First, the dollar amount of the add-on increases with the price of the drug, which encourages prescribing higher-cost drugs. Second, Medicare accepts sales prices for Part B drugs, with no negotiation. Together, this results in higher out-of-pocket costs that burden American seniors.

The pharmaceutical industry offers deep discounts abroad while taking advantage of the payment system in Medicare Part B which drives the cost in the U.S., even though Medicare is the world's largest drug purchaser. The IPI model would take on this issue and pay vendors for Part B drugs at a level approaching international prices.

For the first time in Medicare, the IPI model would create a system in which private vendors procure drugs, distribute them to physicians and hospitals, and take on the responsibility of billing Medicare. Vendors would aggregate purchasing, seek volume-based discounts, and compete for providers' business, thereby creating competition where none exists today.

Under the model, instead of the current percentage-based add-on payment, physicians and hospitals would receive a set payment amount for storing and handling drugs that would not be tied to drug prices. Therefore, the IPI model would remove the financial incentive to prescribe higher-cost drugs. The model also frees physicians from having to "buy and bill" high priced drugs, which creates financial risk that jeopardizes their practice and the ability to serve their community.

The agency is considering a randomized approach to determine which geographies in the country would participate in the model.

The IPI model would achieve several goals:

- Reduce costs for Medicare beneficiaries, and thereby increase adherence and access to prescription drugs.
- Introduce competition to the system of paying for physician-administered drugs by bringing in private-sector vendors.
- Reduce providers' burden and the financial risk associated with managing drug inventories, so physicians can focus on patient care.
- Maintain financial stability for physicians while removing incentives for higher drug prices.
- Address the disparity in drug prices between the U.S. and other countries.
- Reduce costs to the American taxpayers and Medicare beneficiaries who fund these programs.

The ANPRM ensures an open and transparent approach with opportunity for public input. CMS will carefully review comments and is considering issuing a proposed rule for the IPI in the spring of 2019, with a potential model start in spring 2020.

For a **policy brief** on the ANPRM, please visit: https://www.hhs.gov/about/leadership/secretary/priorities/drug-prices/ipi-policy-brief/index.html

For a **fact sheet** on the ANRPM, please visit: https://www.cms.gov/newsroom/fact-sheets/anprm-international-pricing-index-model-medicare-part-b-drugs

Comments on the ANPRM will be accepted until December 31, 2018 and may be submitted electronically through the CMS e-Regulation website at: https://www.cms.gov/Regulations-and-Guidance/Regulations-and-Policies/eRulemaking/index.html?redirect=/eRulemaking

The ANPRM can be downloaded at: https://www.cms.gov/sites/drupal/files/2018-10/10-25-2018%20CMS-5528-ANPRM.PDF

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