ALLIANCE FOR
SITE NEUTRAL
PAYMENT REFORM

July 13, 2018

The Honorable Alex Azar
Secretary of Health and Human Services
Hubert H. Humphrey Building
200 Independence Avenue, SW
Washington, DC 20201

RE: Site Neutrality for Physician-Administered Drugs

Dear Secretary Azar,

As members of the Alliance for Site Neutral Payment Reform, we appreciate the opportunity to offer support for the site neutral payment provision for physician-administered drugs in the *American Patients First Blueprint* and urge the Administration to consider further expansion of site neutral payments for outpatient services.

The Alliance for Site Neutral Payment Reform is a coalition of patient advocates, providers, employers, manufacturers and payers advocating for payment parity across sites of service to decrease Medicare and commercial spending, ensure patients receive the right care in the right setting, lower taxpayer and beneficiary costs, and increase patient access and choice.

The *American Patients First* (the *Blueprint*) correctly recognizes that costs for physician administration of covered Medicare vaccines and other drugs vary dramatically according to the site of service. Under current rules, hospital outpatient departments (HOPDs) are reimbursed at significantly higher rates than independent physician practices for providing the exact same services. For the administration of chemotherapy drugs, for example, the payment to a hospital outpatient facility is more than double the rate paid to a community cancer clinic ($281 vs $136), and Medicare patients paid more than $4 million more in out-of-pocket costs between 2009 and 2012 due to higher cost sharing amounts at HOPDs than at freestanding clinics for receiving the exact same chemotherapy services.[1]. As a result, patients are paying higher out-of-pocket costs and employers, Medicare, and taxpayers are saddled with increasing costs to the health care system.

Payment differentials are not limited to the administration of covered drugs and medications. An analysis of Medicare spending from 2012-2015 found Medicare spent an additional $2.7 billion more on certain services delivered in an HOPD compared to an independent physician's office. For patients, the same study estimated an additional $411 million more in patient out-of-pocket costs over a three-year period when those services were delivered in an HOPD[2].

[1] Berkeley Research Group, Impact on Medicare Payments of Shift in Site of Care for Chemotherapy Administration, June 2014.
[2] Physicians Advocacy Institute: Implications of Hospital Employment of Physicians on Medicare & Beneficiaries, November 2017.

The adverse impacts of payment disparities across sites of service are well documented. According to reports from the Centers for Medicare & Medicaid Services (CMS), the Government Accountability Office (GAO), and the National Institute for Health Care Reform, both individual patients and the Medicare system as a whole pay more when the same services are delivered in an HOPD setting, as opposed to in a freestanding physician office for a wide variety of services, including: chemotherapy: $281 vs. $136[3]; cardiac imaging: $2,078 vs. $655; colonoscopy: $1,383 vs. $625[4]; even a basic E/M visit costs $51 more when performed in a HOPD[5].

Payment disparities across healthcare settings negatively impact patients by increasing out-of-pocket costs, reducing patient choice, and limiting patients' access to community-based care. According to a 2013 MedPAC report to Congress, enacting site neutral payment reform in 66 groups of services would save Medicare beneficiaries an estimated $140-$380 million in cost-sharing in one year.

The Administration's *Blueprint* requests comments on the impact of site neutral payment reform for physician-administered drugs, which the Alliance addresses below:

- What effect would a site neutral payment policy for drug administration procedures have on the location of the practice of medicine?
- How would this change affect the organization of health care systems?
- How would this change affect competition for health care services, particularly for cancer care?

Effects of Site Neutral Payment Policy on the Location of the Practice of Medicine

Under Medicare Part B, physicians can administer drugs to patients at independent physician offices or HOPDs. However, payment parity is likely to have a positive effect in stemming the rate of consolidation and could inject additional competition into the marketplace, providing patients with more choice and increased access to various care settings.

Site neutral payments could be particularly impactful in rural communities where health care delivery systems are often limited. One analysis found 16 percent of the U.S. mainland population lives 30 miles or more away from the closest hospital,[6] underscoring how rural patients will especially benefit from site neutral payment reform, as it is usually closer and more convenient to seek care at an independent physician's office rather than drive many miles to the nearest hospital. By reducing the rate of consolidation, site neutral payment policy allows more community clinics to remain open.

Implications for the Organization of Healthcare Systems

Under current policy, there is a tremendous financial incentive for hospitals to buy out independent physician offices. By absorbing them into their ecosystems, a process known as vertical integration, hospitals can command significantly higher reimbursement rates without any meaningful changes in the quality or scope of service. Between the six-month period of July 2014 and January 2015 alone, more than 13,000 freestanding physician offices were bought out and converted into HOPDs.[7]

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[3] Medicare Program; Revisions to Payment Policies under the Physician Fee Schedule and Other Revisions to Part B for CY 2018 (CMS-1676-P)
[4] Location, Location, Location: Hospital Outpatient Prices Much Higher than Community Settings for Identical Services, The National Institute for Health Care Reform (NIHCR): Published online June 2014
[5] GAO, Medicare: Increasing Hospital-Physician Consolidation Highlights Need for Payment Reform, December 2015
[6] CNN analysis of data from Centers for Medicare and Medicaid Services, August 2017, https://www.cnn.com/2017/08/03/health/hospital-deserts/index.html
[7] Community Oncology Alliance: 2016 Practice Impact Report, October 2016

According to the Government Accountability Office (GAO), the number of vertically consolidated physicians nearly doubled from about 96,000 to 182,000 between 2007 and 2013, while the number of vertically integrated hospitals rose from 1,400 to 1,700.[8]

Furthermore, a study on the cost drivers of cancer care found the portion of chemotherapy infusions delivered in hospital outpatient departments increased from 15.8 percent in 2004 to 45.9 percent 2014 in the Medicare population, meaning more Americans are receiving cancer care from oncologists whose practices have been bought by hospitals and subsequently render care in an outpatient hospital setting.

This type of consolidation increases costs for patients, employers, taxpayers, and payers across the health care system. Hospital outpatient departments charge approximately 126 percent higher fees for administering common cancer drugs and 100 percent higher fees for drug infusion services overall compared to community cancer clinics.[9] Because many hospitals take advantage of the reimbursement differential to exact significantly higher rates for performing the same services as community practices, patients experience higher cost sharing amounts and payers are required to provide higher levels of reimbursement. These costs add up.

Site neutral payment reform would remove the incentives that fuel vertical integration, resulting in a reduced number of hospital acquisitions. As a result, the policy would likely protect thousands of independent physician practices and community clinics from being absorbed by larger hospitals systems.

Implications for Competition for Healthcare Services

Research suggests that monopolized healthcare markets limit competition, reduce quality and increase costs to patients and payers. Therefore, site neutral payment reform is needed to ensure competition for health care services, especially for cancer care. By removing existing financial incentives to absorb community clinics, hospitals will be much less likely to abuse the current loopholes that allow them to charge significantly higher rates than independent practices.
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Congress recognized the negative consequences this policy has on patients, Medicare, taxpayers and businesses and passed legislation aligning payments between newly built and newly acquired HOPDs and independent physician practices. Beginning on January 1, 2017, under Section 603 of the Bipartisan Budget Act of 2015, a site neutral payment policy was implemented for all newly built or acquired provider based off-campus hospital outpatient departments (HOPD). This policy is estimated to save Medicare approximately $9 billion over 10 years, but there is more that can be done. The Alliance commends a provision in President Trump's FY2019 Budget that would expand site neutral payments for all hospital-owned outpatient departments which would save Medicare an estimated $33.9 billion over ten years and reduce patients' cost-sharing by hundreds of millions per year.

With a level playing field, hospitals and physician practices would compete on price and quality in order to attract patients. This is ultimately a positive development for patients and payers because it will help keep costs down and promote continuous quality improvement while maintaining patient

[8] United States Government Accountability Office: Medicare: Increasing Hospital Physician Consolidation Highlights Need for Payment Reform, GAO-16-189, December 2015.
[9] Milliman, Cost Drivers of Cancer Care: A Retrospective Analysis of Medicare and Commercially Insured Population Claim Data 2004-2014

choice. As patients would likely pay less out-of-pocket, payers such as Medicare would be able to save billions over the next decade, ensuring that taxpayer dollars are spent more wisely.

On behalf of the Alliance for Site Neutral Payment Reform, thank you for the consideration of our comments on neutralizing payments for physician-administered drugs in the *American Patients First Blueprint*. We urge the Administration to consider further expansion of site neutral payments for all outpatient services and are happy to serve as a resource as you work to implement the President's policies. Moving forward, we welcome any questions about the issues, concerns and suggestions discussed above.

Sincerely,

The Alliance for Site Neutral Payment Reform
www.siteneutral.org