



Highlights of [GAO-05-72](#), a report to congressional committees

## Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) revised the payment formula for most of the outpatient drugs, including inhalation therapy drugs, covered under Medicare part B. Under the revised formula, effective 2005, Medicare's payment is intended to be closer to acquisition costs. The Centers for Medicare & Medicaid Services (CMS), the agency that administers Medicare, also pays suppliers of inhalation therapy drugs a \$5 per patient per month dispensing fee. Suppliers have raised concerns that once drug payments are closer to acquisition costs, they will no longer be able to use overpayments on drugs to subsidize dispensing costs, which they state are higher than \$5. As directed by MMA, GAO

(1) examined suppliers' acquisition costs of inhalation therapy drugs and (2) identified costs to suppliers of dispensing inhalation therapy drugs to Medicare beneficiaries.

## What GAO Recommends

GAO recommends that the Administrator of CMS evaluate the costs of dispensing inhalation therapy drugs and modify the dispensing fee, if warranted, to ensure that the fee appropriately accounts for the costs necessary to dispense the drugs. CMS agreed with GAO's recommendation.

[www.gao.gov/cgi-bin/getrpt?GAO-05-72](http://www.gao.gov/cgi-bin/getrpt?GAO-05-72).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Laura A. Dummit at (202) 512-7119.

# MEDICARE

## Appropriate Dispensing Fee Needed for Suppliers of Inhalation Therapy Drugs

### What GAO Found

Using cost data obtained from 12 inhalation therapy suppliers that accounted for more than 42 percent of 2003 Medicare inhalation therapy payments, GAO found that 2003 acquisition costs for the three inhalation therapy drugs representing approximately 98 percent of Medicare inhalation therapy drug expenditures varied widely. For example, per unit acquisition costs for ipratropium bromide, the inhalation therapy drug with the highest Medicare expenditures, ranged from \$0.23 to \$0.64. Although costs varied, they were not always lower for the 4 largest suppliers. The lowest acquisition cost for ipratropium bromide was obtained by one of the small suppliers, and the highest by one of the large suppliers. GAO estimated that the 2003 Medicare payment rate per patient, per month was between \$119 to \$129 higher than suppliers' acquisition costs for a typical monthly supply of albuterol sulfate and between \$162 to \$187 higher for a typical monthly supply of ipratropium bromide.

GAO estimated 2003 per patient monthly dispensing costs of \$7 to \$204 for the 12 inhalation therapy suppliers, which included patient care costs, such as pharmacy and shipping, and administrative and overhead costs, such as billing. Large suppliers did not necessarily have lower dispensing costs. Because Medicare payments for drugs have been much higher than suppliers' acquisition costs, suppliers indicated they were able to provide services that benefited both beneficiaries and their physicians, a fact that raises questions about the services necessary to dispense inhalation therapy drugs. For example, several suppliers reported that they incur substantial costs to ship drugs overnight to beneficiaries; most did so on an as-needed basis, although one did so routinely. All suppliers in GAO's sample made phone calls to beneficiaries to ask them if they needed medication refills, to coordinate a refill delivery, and to check on the beneficiaries' compliance with their prescribed drug regimens. Most suppliers made these calls on a monthly basis, but one reported that it did so twice a month.