

TO: ALL PROVIDERS

FROM: CAREFIRST, INC., MEDICARE PART A

DATE: FEBRUARY 6, 2003

SUBJECT: STANDARDIZING PRICES FOR MEDICARE COVERED DRUGS

On January 1, 2003, the Centers for Medicare & Medicaid Services (CMS) will be implementing a single drug pricer (SDP) for drugs and biologicals (hereinafter "drugs") with respect to drugs covered under Medicare Part B and priced by local carriers.

In the past, CMS has received much criticism concerning excessive expenditures related to the payment rates for the approximately 400 drugs that are currently paid based on 95% average wholesale price (AWP); i.e., physicians' offices, outpatient hospitals, dialysis centers, etc. Currently, this payment rate is set at 95 percent of the drug's AWP; however, these payments have sometimes varied depending upon the individual local carrier's application of the payment methodology. Accordingly, CMS is establishing the SDP to correct identified differences amongst its local carriers and is establishing a uniform Medicare payment allowance as contemplated by the regulation (42 C.F.R. 405.517). Drug prices will be established centrally and will be more closely monitored. As a result, physicians and other practitioners will each receive the same payment for the same drug regardless of where their claim for the drug is submitted.

CMS will continue, in accordance with its longstanding practice, to set a price for each drug based on 95% of AWP, and will continue to rely on published compilations (e.g., *RedBook* and *First Data Bank*) to identify wholesale drug prices. Carriers, with the exception of DMERCs, and fiscal intermediaries will be furnished with drug pricing files from CMS and will begin processing claims they receive, for each drug identified on the file, on the basis of the prices shown on these files.

CMS believes that this initiative reflects an innovative approach to resolving some of the problems relating to the pricing of Medicare-covered drugs.

Reference: AB 02-174, Change Request 2381

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