

Stopping "Competitive" Bidding in 2013 Webinar

July 17 at 2:45pm ET

Host: Jay Witter, VP of Government Affairs, AAHomecare

Guest: Rep. Glenn Thompson (R-Pa.)



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Representative Glenn 'G.T.' Thompson, Jr. (R-PA)

- Rep. Thompson has been a true champion of the HME sector and has demonstrated understanding of the valuable role that homecare plays in our overall healthcare system
- In the 111th Congress, Rep. Thompson was an original cosponsor of the Meek bill (H.R. 3790) and was a vocal critic of Round 1 of competitive bidding.
- In the 112th Congress, Rep. Thompson worked closely with his House colleague Rep. Jason Altmire (D-PA) to introduce H.R. 1041 (legislation to repeal competitive bidding).



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Representative Glenn “GT” Thompson -- continued

- He organized a Congressional staff briefing and press conference to build support for the bill. Rep. Thompson also met with the Congressional Budget Office (CBO) to discuss the cost estimate of H.R. 1041.
- The Congressman also supports and worked for the passage of the Market Pricing Program (MPP). He cosponsored H.R. 6490 last year and was an original cosponsor of H.R. 1717 this year.
- Rep. Thompson organized a congressional sign-on letter to pressure CMS to delay Round 2. When CMS failed to act, the Congressman introduced legislation with Rep. Bruce Braley (D-IA) to delay Round 2 to give Congress more time to investigate the flaws with competitive bidding and replace it with MPP.
- The Congressman's support is not just limited to competitive bidding. Rep. Thompson also led an effort in the House to restore the first month purchase option for standard power wheelchairs.



AAHomecare: HME's Voice in Washington

- The national voice for homecare providers and HME manufacturers in Washington.
- AAHomecare fights for better Medicare policy that is good for homecare.
- We are a member-driven association.
- Most of our members are small providers.



HME Sector Virtual Fly-in on July 18

When

Thursday, July 18
9:00am to 5:00pm ET

Who

HME Providers, patients, caregivers, referral sources, consumer groups, and everyone else who is impacted by the Medicare bidding program

How

- Call your members of Congress. Look up their phone numbers at action.aahomecare.org/congress/ or call the Capitol Switchboard at 1-202-224-3121.
- Email your members of Congress. Use the pre-written email at action.aahomecare.org/ and customize it with your own personal story. Or, if you have had previous contact with someone on your Representative's or Senators' staff, and have their email address, use that to remind them of past conversations and renew your request for their support.
- Forward this email to patients, caregivers, referral sources, and everyone else who is impacted by the Medicare bidding program. Make sure they know that they can—and should—be a part of the effort to stop bidding.
- For more information, please go to www.aahomecare.org.



The ASK!

Ask your Representative and Senators to stop competitive bidding and replace it with MPP:

- Describe your concerns about the current bidding program and describe its impact on your customers, your company, your employees and your community.
- Use the information from People for Quality Care to discuss patient complaints in your state (Medicare Beneficiary Complaint Hotline Report at www.aahomecare.org/downloads/322).
- In the House, Representatives can cosponsor HR 1717.



Plan for Passage in 2013

- On April 24, Reps. Tom Price (R-GA) and John Larson (D-CT) introduced the *Medicare DMEPOS Market Pricing Program Act of 2013* (H.R. 1717).
- Legislation is similar to H.R. 6490.
- H.R. 1717 has 137 cosponsors.
- Push for H.R. 1717 should draw from H.R. 6490 cosponsors (94) and 170+ cosponsors from H.R. 1041 (Rep. Thompson & Altmire bill—*Fairness in Medicare Bidding Act*).
- AAHomecare is working with the Senate on the introduction of companion legislation to H.R. 1717.
- MPP must be “budget-neutral” if it is to pass.

Patient and Provider Stories

To stop competitive bidding, Congress needs concrete evidence that Round 2 is failing. AAHomecare is asking for the following actions:

Providers

1. Send details of what's happening at your company to CBRound2Problems@aahomecare.org.
2. Direct patients to the Medicare Complaint Hotline at 1-800-404-8702. Calls will be answered by the staff of People for Quality Care.

Patients, Caregivers, Referral Sources & Others

1. Call the Medicare Complaint Hotline at **1-800-404-8702**. Calls will be answered by the staff of People for Quality Care. They will transfer callers to the Capitol Hill switchboard if the callers want to talk to their Representative and Senators.
2. Send an email to Congress using the AAHomecare Action Center at action.aahomecare.org.

Bidding Problems

- **Not competitive—“suicide bidding” has created a race to the bottom.**
- **DME providers can’t survive not being a Medicare provider.**
- **AAHomecare’s concerns:**
 - **80% reduction in the number of providers**
 - **Anti-competitive**
 - **Interference with patient access to homecare**
 - **Diminution in the quality of care**

More Bidding Problems

- **Violates basic principle of auction design: bids must be binding.**
- **Flawed pricing rule—reimbursement based on median bid price.**
- **Bid areas don’t reflect true geographic markets for DME providers.**
- **Lack of transparency allowing CMS to manipulate the program.**
- **Round 1 contracts started in January 2011. Round 2 and Round 1 Re-compete process started last year.**
- **Delays in obtaining equipment and services—longer than necessary hospital stays.**
- **Over 440 HME providers have gone out of business or have exited the market.**

Predicted Problems Realized

- On January 30, 2013, CMS published payment rates for items subject to Round 2.
- Based on CMS' calculations, reimbursement rates will be reduced by an average of 45% below current fee schedule rate and 72% below current allowables for diabetic supplies.
- The huge cut to diabetic supplies will affect beneficiaries all across the country, through mail-order and retail.
- Round 2 contracts went into effect on July 1, 2013.
- Round 2 payment rates are unrealistically low, unsustainable, and a direct result of CMS ignoring recommendations from auction experts, grave concerns expressed by providers and consumers, and a mandate from Congress to fix the fundamentally flawed program prior to implementation.
- Nearly 80% of providers in the bid areas are excluded from providing bid items.
- Sequestration will compound the impact of Round 2 with an additional 2% cut.



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Sample P&L

Example of a standard P&L for a \$3.5 million DME company that won contracts in Round 2, assuming Medicare is 60% of total revenue, and oxygen is 50% of that Medicare revenue. This is not atypical, and if Medicare and/or oxygen is a higher percentage of revenue, the cuts could be deeper.

	Mix	Before	CB Cut	After
Oxygen	50%	\$ 1,050,000	-41%	\$ 619,500
Sleep	30%	\$ 630,000	-47%	\$ 333,900
HME	20%	\$ 420,000	-45%	\$ 231,000
Medicare	60%	\$ 2,100,000	-44%	\$ 1,184,400
Oxygen	50%	\$ 700,000		\$ 700,000
Sleep	30%	\$ 420,000		\$ 420,000
HME	20%	\$ 280,000		\$ 280,000
Non-Medicare	40%	\$ 1,400,000		\$ 1,400,000
Net Revenue	100%	\$ 3,500,000		\$ 2,584,400
Gross Profit		\$ 2,450,000		\$ 1,534,400
Gross Margin %		70%		59%
EBITDA		\$ 525,000		\$ (390,600)
EBITDA Margin %		15%		-15%
Depreciation		\$ 350,000		\$ 350,000
% of Net Revenue		10%		14%
EBIT		\$ 175,000		\$ (740,600)
EBIT Margin %		5%		-29%



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Congress Must Take Action to Stop Bidding Program

- After the announcement of Round 2 prices, AAHomecare initiated an aggressive lobbying campaign to discredit the results.
- AAHomecare is asking Congress to stop the program.
- If Congress does not take action, beneficiaries will lose access to the high-quality and essential products and services that keep them safe and secure in their homes.
- Homecare providers and HME manufacturers need to urge Congress to stop the program.

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Market Pricing Program (MPP)

- AAHomecare examined ways to fix the current program and explored alternative approaches to finding market-based prices for reimbursement.
- MPP replaces competitive bidding based-problems that economists and auction experts identified in the current program.
- MPP has gained wide industry approval.

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Key Components of MPP

- MPP includes the same DME items as the current program and is implemented across the country;
- In areas subject to auctions, two categories are auctioned per geographic area. Eight additional categories in that same area would have prices adjusted based on auctions conducted simultaneously in comparable geographic areas;
- In areas not subject to auction, prices will be adjusted for all ten product categories, and any qualified supplier may provide those items;
- Bid areas are smaller than metropolitan statistical areas (MSAs) and more homogeneous;
- Bids are binding and cash deposits are required to ensure only serious bidders participate;

Key Components of MPP (continued)

- The bid price is based on the “clearing price,” not the median price of winners;
- The same areas that are exempted under the bidding program will be exempted under MPP;
- MPP is designed to be budget-neutral.

MPP vs. CMS Design

Feature	CMS Design	MPP
Auction Design	CMS staff and Research Triangle Institute	Auction experts hired by HHS via a competitive process; applicants must have government auction expertise; collaborative with all stakeholders
Monitoring of the Auction and the Market	None	Market monitor contracted by HHS via competitive process; must have substantial expertise to monitor the market and recommend improvements; reports to Congress



MPP vs. CMS Design (continued)

Feature	CMS Design	MPP
Binding Bids	No	Yes, bidders must accept contract if they win and must [perform or forfeit deposit for failure. Discourages low ball bids.
Obligation to meet Performance Standards	No	Bid deposit becomes performance bond to assure delivery of product and service; forfeitable if Market Monitor finds non-performance



MPP vs. CMS Design (continued)

Feature	CMS Design	MPP
Capacity to Provide	No clear rules	Current suppliers bid for current market share, new entrants allotted 1% share. (Used to establish number of winners)
Small Business	30%	30%
Accreditation, Licensing	Required	Required



MPP vs. CMS Design (continued)

Feature	CMS Design	MPP
Length of Auction	Occurs more than a year before winners announced and contracts begin	Can occur within weeks of contracts beginning.
Transparency	None	Complete transparency (e.g., auction rules)
Grandfathering	Yes	Yes



MPP vs. CMS Design (continued)

Feature	CMS Design	MPP
Geographic Areas Included	US Census Bureau MSAs, but crosses state lines, and can be much larger than service area	Auction expert can use cities/counties/aggregation of counties to define a "market area," will generally be geographically smaller than MSAs
Pricing Methodology	CMS calculates composite bid for each bidder, assigns capacity arbitrarily and adopts the median of selected bids.	Clearing price – where supply equals demand – sets price.



Q & A



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