The Cancer Care Prompt Pay Problem

Background & Solution in H.R. 800

What are prompt pay discounts?

Prompt pay discounts are contractual terms provided by pharmaceutical manufacturers to drug distributors. Prompt pay discounts compensate distributors for the costs of shipping, handling, and distributing drugs to physicians and also reflect the time value of money and risks incurred in the distribution process. These discounts are not typically passed on to physician offices that directly provide drugs to their patients — notably, community cancer clinics that administer IV chemotherapy and related cancer drugs and other specialties that administer injectable drugs on site.

What is the problem with prompt pay discounts?

The problem is not with the discounts but that they are included in the calculation of Medicare drug reimbursement rates. Inclusion artificially reduces payments to cancer clinics and other providers and adversely impacts cancer care.

The Medicare Modernization Act of 2003 (MMA) created Average Sales Price (ASP), which is now the basis for Medicare drug reimbursement. The MMA requires that pharmaceutical manufacturers provide CMS with the ASP for each of their drugs on a quarterly basis. CMS then generates Medicare drug reimbursement rates (ASP + 6%). However, in the calculation of ASP, manufacturers are required to account for all discounts and rebates, which include manufacturer-to-distributor prompt pay discounts. Including prompt pay discounts in the calculation of ASP artificially lowers Medicare drug reimbursement to cancer clinics and other providers, because they do not receive the benefit of these discounts. The impact of this can be as great as 2%, meaning that ASP + 6% can be effectively as low as ASP + 4%.

How does this impact cancer care?

Community cancer clinics treat 4 out of 5 cancer patients. Depending on size, geography, and other factors, clinics may purchase cancer drugs below, at, or above ASP. Because a clinic’s cost includes not only the expense of the drug, but also the costs of procurement, storage, pharmacy, and inventory, even at ASP + 6% clinics are finding more drugs are reimbursed at a rate lower than their total costs. The inclusion of prompt pay discounts artificially lowers Medicare reimbursement and causes more drugs to be reimbursed at less than cost. Because most private insurers use ASP for their drug reimbursement, Medicare’s clout is leveraged.

Reimbursement pressures are forcing more cancer clinics to close and especially to be absorbed by hospitals, which is documented by Milliman as increasing costs of cancer care for Medicare and senior cancer patients. These pressures are also causing patient access issues, especially in rural areas. Additionally, pressuring Medicare drug reimbursement downward has been associated with causing drug shortages.

What is the solution?

H.R. 800 is legislation that eliminates prompt pay discounts from the calculation of ASP. The bill was introduced by Congressman Ed Whitfield and 31 cosponsors from both sides of the aisle. Contact Taylor Booth in Congressman Ed Whitfield’s office or Nathaniel Tipton in Congressman Gene Green’s office to cosponsor this critical bill for cancer care.