

**Average Sales
Price
Reimbursement:**
Significant Savings
from Prior Benchmark

December 2018

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Prior to the enactment of the Medicare Prescription Drug and Modernization Act of 2003 (MMA), the Balanced Budget Act of 1997 had set reimbursement for drugs and biologics provided incident to physician services under Part B of the Medicare Program at 95% of Average Wholesale Price (AWP). AWP as a benchmark was subject to a variety of criticisms and reports indicating that in most cases it significantly exceeded providers' costs.¹ As a result, the Congress created Average Sales Price (ASP) as a benchmark intended to more accurately reflect the cost to physicians and hospitals of furnishing Part B drugs.²

The shift from AWP based reimbursement to ASP reimbursement created significant savings for Medicare and its beneficiaries beginning January 1, 2005 and continuing under current law.³ The Moran Company was asked by PhRMA to analyze the impact the switch to the ASP system had on Part B medicine spending relative to the prior AWP reimbursement methodology.

Highlights of Our Findings:

- Using a consistent group of drugs and biologics to examine the impact of the shift from AWP based reimbursement to the ASP metric, we project that the MMA implementation of ASP pricing cut baseline drug spending for Part B drugs by ~34%.
- We estimate this reduced drug spending by the federal government and Medicare beneficiaries by a total of \$132B from 2005-2017.
- We project that total drug spending from 2019-2028 will be \$229B lower than it would have had the MMA cuts never occurred.
- Post-MMA, annual drug price growth was temporarily unstable but not substantially different than drug price growth prior to enactment of the MMA.
- We caution readers that our estimates do not attempt to control for other provisions of the MMA that were designed to provide temporary relief to physicians for the cuts incurred from the AWP to ASP change—but these provisions did not affect Medicare reimbursement for Part B drugs and biologics.

The balance of this report provides more details on these results and the methodology underlying our analysis.

¹ See, for example, US Government Accountability Office: Medicare: Payments for covered outpatient drugs exceed providers' cost. Washington, DC, Pub. No. GAO-01-1118 (2001).

² Section 1842(o) of the Social Security Act established 106% of ASP as defined in section 1847A of the Act as the reimbursement metric for most Part B drugs beginning January 1, 2005.

³ Reimbursement under prior law was 95% of AWP, while the MMA shifted payments to 106% of ASP.

Methodology

To estimate the savings from the change to ASP, we first limited the Physician Supplier/Procedure Summary Master File (PSPS) down to only those drugs that were present in every year of our study (1998 through 2010). We constructed a pre-policy baseline of spending for Part B drugs from 1998 to 2003. We calculated the weighted average unit price change for all of the selected drugs, providing an AWP annual growth rate. For the post-policy trend in weighted unit price change based on ASP, we analyzed the PSPS data for 2006 through 2010. In addition, the intervening years between pre- and post-period (2004 and 2005) were also assessed. Large fluctuations in per unit pricing occurred during this shift in policy, and these years were not included in either pre- or post-period trending.

We then applied the AWP trend to the total spending for Part B drugs for 2005-2017 in both the physician office and hospital outpatient departments to estimate how spending would have grown if AWP had remained in place. We also trended Part B spending forward from 2019-2028 using both the AWP and ASP trends to show the savings that will continue to accrue to Medicare and its beneficiaries in the future from this significant reimbursement change.

Detailed Results

We find that prices for the drugs included in our study decreased by 33.9% from 2003 to 2005. Applied to all Part B drugs, this suggests that the MMA saved the federal government and Medicare beneficiaries a total of \$4.4B in 2005 alone. Since drug prices did not increase faster after ASP-based reimbursement began, we conclude the drug prices continue to be 34% lower than they otherwise would have been had the MMA not been enacted. Thus, from 2005-2017 the total drug price savings from the switch to ASP-based reimbursement saved \$132B dollars. Since the baseline for drug prices remains lower to this day, we project that the policy will result in a total reduction in drug spending for beneficiaries and the federal government of \$229B over the next 10 years. Figure 1 demonstrates the reduction in baseline spending post-MMA drug price changes.

Figure 1. Reduction in Drug Spending Attributable to Switch to ASP-Based Reimbursement for Drugs under Medicare Part B

