

charges) that we use for setting payment rates.

We considered several options to address the fluctuations in median costs for separately payable drugs and radiopharmaceuticals. One option was to base payment on our 2002 claims data without modification. A second option was to adopt for 2004 the same methodology that we used to moderate payment decreases in 2003.

A third option was to create drug and radiopharmaceutical cost bands for separately payable drugs and radiopharmaceuticals (for example, all drugs with median costs per unit of \$60.01 to \$70 would be assigned a proxy median of \$70), which would be based on their median costs calculated using 2002 claims data. We considered adopting two sets of cost bands: one for separately payable drugs and biologicals other than radiopharmaceutical agents and one for separately payable radiopharmaceutical agents. The cost bands for drugs and radiopharmaceuticals would be assigned based solely on cost, with no consideration given to the therapeutic use or chemical composition of the drug.

When we applied the dampening methodology used for the 2003 OPPS to drugs and radiopharmaceuticals that will be separately payable in 2004, we observed that this methodology did not sufficiently limit payment reductions for many of the drugs and radiopharmaceuticals with large decreases in median cost from 2003 to 2004. Therefore, a fourth option that we considered and are proposing for 2004 is a variation of the methodology used for the 2003 OPPS. For separately payable drugs and radiopharmaceuticals whose 2004 median costs decreased by more than 15 percent from the applicable 2003 median cost, we propose to limit the reduction in median costs to one fourth of the difference between the value derived from claims data and a 15 percent reduction (for example, for a drug whose cost decreased by 35 percent from the applicable 2003 median cost, the allowed reduction from 2003 to 2004 would be 15 percent +  $(\frac{1}{4} \text{ times } 35 - 15) \text{ percent} = 20 \text{ percent}$ ). For separately payable drugs and radiopharmaceuticals whose median costs decreased by less than 15 percent from 2003 to 2004, we propose to establish their payment rates using the median costs derived from the 2002 claims data. We believe that it is appropriate to determine payment rates based on our claims data where those data show the cost of drugs and radiopharmaceuticals to be stable over 2

years. In cases where costs show significant fluctuation, we believe it is appropriate to mitigate the potential for underpayment. We believe our proposal bases payment rates on our claims data as required by statute and addresses the potential for making underpayments. However, based on more complete claims data we expect to have for the final rule and on the comments from the public, we will re-evaluate the appropriateness of adjusting median costs for drugs for which median costs would decline in 2004.

We also propose a separate payment policy, which is described below, for drugs, biologicals, and radiopharmaceuticals that have generic alternatives approved by the Food and Drug Administration (FDA) between October 2001 and December 2002.

We solicit comment on both our proposed methodology and payment rates for separately payable drugs and radiopharmaceuticals for 2004. Commenters who disagree with the proposed rate for a drug or radiopharmaceutical should submit verifiable information that shows our payment rate does not reflect the price that is widely available to the hospital market. Thus, information should demonstrate actual, market-based pricing of drugs and radiopharmaceuticals and should be prices at which a broadly based, national sample of hospitals are routinely able to procure the drug or radiopharmaceutical. We do not consider the published average wholesale price (AWP) for a drug to be an indication of its market-based price.

#### 4. Proposed Payment Methodology for Drug Administration

Currently, payment for drug administration is made separately using HCPCS codes Q0081, Q0083, Q0084, Q0085, 90782, 90783, 90784, and 90788 with certain drugs packaged into the median cost for administration. The amount packaged should reflect the costs of the packaged drugs in relation to the frequency with which they are administered. Each of these codes is to be reported once per visit no matter how many drugs are administered. When a hospital administers only packaged drug(s), the appropriate HCPCS code is reported once and no separate payment is made for the drugs. When a hospital administers only separately payable drug(s) the appropriate HCPCS code is reported once; in addition, separate payment is made for the drugs. Because the payment for administration includes payment for packaged drugs, a hospital receives inappropriate reimbursement

every time it administers a separately payable drug.

In order to facilitate accurate payments for drugs and drug administration, we are considering whether to make several changes in our current payment policy with regard to payment for Q0081, Q0083, Q0084, and Q0085. We are not considering changes to payment policy for HCPCS codes 90782, 90783, 90784, and 90788 at this time, although we are interested in receiving comments regarding payment for these codes.

We are proposing to continue our current policy of packaging drugs and radiopharmaceuticals that cost less than \$150 per episode of care into the APC with which they are associated (for example, nuclear medicine scans, drug administration).

We are considering whether and how to make different payments to hospitals for administration of packaged drugs and administration of unpackaged drugs. We would like to ensure that when a hospital administers a separately paid drug, it would receive payment for the drug and the drug administration, but not for any drugs packaged into the administration. We also would like to ensure that the payments that are made for administration of packaged drugs are appropriate for the costs of the drugs as well as the cost of the administration.

In order to achieve the above objectives, we considered several coding and payment options and analyzed our claims data for the period April 1, 2002 through December 31, 2002.

#### Summary of Findings and Alternatives

As explained in greater detail below, we carefully examined data for administration of packaged and separately paid drugs billed under Q0081, Q0083, Q0084 and Q0085. We found that the data showed that paying based on a median cost for the APC for each of the current four codes generally results in underpayment when packaged drugs are billed on the claim and overpayment when separately paid drugs are billed on the claim. In the sections that follow, we discuss our data analysis in detail. We also discuss four alternatives to the current codes and APC payments in detail. In summary, those alternatives are:

1. Maintain the current codes and APCs with payments based on the median costs of all claims in the APC.
2. Eliminate the four current codes and create eight new codes to enable hospitals to report that they administered a packaged drug or a separately paid drug. We would pay a different APC amount for each of the