

Vantage Point

TRENDS AND FORECASTS IN GOVERNMENT, COMMERCE AND POLITICS | Edited by Mike Christensen

Once Bid, Twice Shy

The new Medicare bidding process backfires

WHEN CONGRESS OVERHAULED the Medicare program five years ago, it sought to control spending by requiring competitive bidding among the companies that provide the elderly with the government-paid-for medical equipment they use at home. The expectation was, the requirement would impose better business practices and economic discipline on the \$10-billion-a-year industry, which has been historically tarnished by tales of excessive billing and other sorts of fraud.

Instead, it's triggering a civil war among the equipment suppliers.

The companies that lost in the first round of bidding this spring, to serve 10 metropolitan areas, are complaining that the government mismanaged the competition by giving conflicting information about what documentation was required from the bidders, then rejecting nearly half the companies seeking the contracts because they weren't properly accredited or had missing information.

Those grievances got the attention of the leaders of the House Ways and Means Health Subcommittee, Democratic Chairman **Pete Stark** of California and ranking Republican **Dave Camp** of Michigan, who introduced a bill this month that would throw out the results and delay the bidding process for 18 months. The leaders of the Senate Finance Committee, Democratic Chairman **Max Baucus** of Montana and top Republican **Charles E. Grassley** of Iowa, have arranged to include similar language in their legislation to adjust Medicare payments to physicians, which could move this week.

That, predictably, isn't sitting well at all with the winning bidders. And so the head of one such company, First Priority Medical Services of Hollywood, Fla., is organizing a coalition of aggrieved suppliers by launching his own trade association. Its catchy name: the Contracted Medical Equipment Suppliers of America.

"Initially, we felt it was more appropri-

ate to just be gracious in victory and be silent," said First Priority's **Jeffrey Holman**. But in the face of intensifying bipartisan support for rebidding the work, he rushed last week to send the other 324 winning firms a letter that began, in bold type: "You're about to lose your Medicare Contract."

Holman maintains that the bidding process is essential to cleaning up the industry that pro-

NO COMPETITION, HIGH PRICES

Last month a senior Medicare official, Laurence D. Wilson, told Congress that the government routinely pays much more for the elderly's medical equipment than is charged online. A new system of competitive bidding is designed to close the disparity.



RESPIRATORY SLEEPING AID DEVICE

Average Internet price: **\$281**

Medicare pays: **\$1,452** Difference: **517%**



OXYGEN GENERATOR

Average Internet price: **\$677**

Medicare pays: **\$2,380**

Difference: **352%**



BREATHING ASSISTANCE DEVICE

Average Internet price: **\$1,348**

Medicare pays: **\$3,335**

Difference: **247%**



HOSPITAL BED

Average Internet price: **\$754**

Medicare pays: **\$1,825**

Difference: **242%**



POWERED WHEELCHAIR

Average Internet price: **\$2,174**

Medicare pays: **\$4,023**

Difference: **185%**

vides wheelchairs, oxygen tanks, hospital-style beds and other "durable medical equipment" (or DME in health-speak). The winners in the first round not only had to compete on cost but also had to be accredited by the same professional organization that accredits hospitals — the Joint Commission — and had to prove they were financially viable concerns to Medicare regulators. Such conditions, in theory, reduced the prospects of fly-by-night operators cheating the system; the Government Accountability Office has concluded that more than 10 percent of the payments Medicare gave to DME suppliers last year, which total at least \$1 billion, were "improper."

"Billions and billions of dollars have been bilked from the Medicare program by fraudulent DME companies," said Holman.

But his effort to keep the bidding results in place faces decidedly long odds. That's because the losing bidders outnumber the winners 3-to-1, and because the losers are located in many dozens of congressional districts from coast to coast.

The American Association for Homecare (AAH), the industry's established lobbying arm, contends that competitive bidding will drive many of its members out of business, because Medicare payments constitute such a huge proportion of their revenue. That, in turn, could restrict seniors' options for securing the equipment that keeps them alive and living outside a hospital. The trade group — which includes such big industry players as Invacare Corp., Sunrise Medical Inc. and Covidien — has agreed not to fight a provision in the Stark-Camp measure that would cut Medicare payments by 9.5 percent nationwide beginning next year for products that would have been subject to bidding.

Holman says he's willing to delay future rounds of bidding, but he is pressing Congress to guarantee contracts to those firms that won the first round. But AAH's spokesman, **Michael Reinemer**, isn't bending. "We believe the flaws were so severe and so sweeping that the way to go forward is to have the delay and rebid round one," he says.

All of which appears to give the losers the upper hand.

— ALEX WAYNE