# DURABLE MEDICAL EQUIPMENT PAYMENT SYSTEM

*payment***basics**

*Revised:*
*October 2018*

Medical equipment needed at home to treat a beneficiary's illness or injury is covered under the durable medical equipment (DME) benefit. Medicare spent about $6.1 billion on DME in calendar year 2017, a decrease from the $6.3 billion spent in 2016 and substantially below Medicare's peak DME spending of $8.7 billion in 2008.[1]

DME is defined as equipment that:

- can withstand repeated use,
- primarily and customarily serves a medical purpose,
- generally is not useful to a person without an illness or injury, and
- is appropriate for use in the home.

Medicare Part B covers medically necessary DME prescribed by a physician. Some examples of DME covered by Medicare include walkers, wheelchairs, and home oxygen equipment and related supplies. Medicare also covers certain prescription medications and supplies used with DME, even if they are disposable or used only once. For example, Medicare covers medications used with nebulizers.

Medicare does not cover DME that is unsuitable for use in the home (such as equipment used in hospitals or skilled nursing facilities) or that is intended to help outside the home (such as a motorized scooter for getting around outside the home). In addition, most items that are generally for convenience or comfort (such as grab bars) or disposable supplies not used with DME (such as incontinence pads) are not covered.

## DME fee schedule

For items not subject to competitive bidding, Medicare pays for DME using a fee schedule. The fee schedule amounts for DME are calculated on a statewide basis. Medicare payment is equal to 80 percent of the lower of either the actual charge for the item or the fee schedule amount for the item. The beneficiary is responsible for 20 percent coinsurance.

CMS calculates the DME fee schedule amounts for the following DME payment categories.

- *Inexpensive and other routinely purchased items:* These items have a purchase price of $150 or less; are generally purchased (as opposed to rented) 75 percent of the time or more; or are accessories used in conjunction with certain nebulizers, aspirators, and ventilators. If covered, these items can be purchased new or used. They can also be rented, but total payment amounts cannot exceed the purchase-new amount for the item.
- *Frequently serviced items:* If covered, these items can be rented as long as they are medically necessary.
- *Oxygen and oxygen equipment:* One bundled monthly payment amount is made for all covered equipment, oxygen, and accessories. Medicare payment for oxygen equipment may not continue beyond 36 months of continuous use. After the 36-month rental cap, Medicare will continue to pay for oxygen and maintenance but not the equipment itself.
- *Other covered items that are necessary for the effective use of DME:* If covered, Medicare pays for the purchase of these supplies.
- *Capped rental items:* These items are not covered in any other DME category and are generally expensive items that have historically been rented. If covered, Medicare generally pays for the rental of these items for a period of continuous use not exceeding 13 months. The fee schedule amount is based on the base year purchase price and varies by rental month.

Fee schedule amounts are not calculated for certain customized items. If covered, Medicare pays a lump-sum amount for the

*This document does not reflect proposed legislation or regulatory actions.*

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purchase of the item, as determined by the Medicare Administrative Contractor. In addition, inhalation and home infusion drugs used with DME are paid at average sales price plus 6 percent.

### Competitive bidding

Competitive bidding in Medicare for DME items was first tested in a demonstration program in two areas from 1999 to 2002. In that demonstration, competitive bidding lowered Medicare payments for selected items by 19 percent overall. Analyses of the demonstration also found that beneficiary access and quality of service were essentially unchanged.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) mandated that a competitive bidding program for DME, prosthetics, orthotics, and related supplies be phased in nationwide, starting with 10 metropolitan statistical areas (MSAs) in 2008 and expanding to 80 MSAs by 2009. The first round of competition took place, and contracts were awarded in 10 product categories, effective July 1, 2008. However, the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) terminated the contracts awarded in the first round and required CMS to rebid the competition. To offset the cost of delaying the program, the fee schedule amounts for selected items were reduced by 9.5 percent nationwide in 2009.

Since 2011, the competitive bidding program has been implemented through several rounds. Table 1 summarizes each round, with respect to competitive bidding areas, selected product categories, and the contract period covered by the round.

Under the competitive bidding program, suppliers operating in a competitive bidding area (CBA) submit a bid for selected products. Bids are evaluated based on the supplier's eligibility, financial stability, and bid price. Contracts are awarded to the suppliers who offer the best price and meet applicable quality and financial standards. For each item, the payment amount—referred to as the single payment amount (SPA)—is derived from the median of all winning bids for the item. Suppliers awarded contracts (i.e., contract suppliers) must agree to accept assignment on all claims for bid items and be paid the SPA.

Beginning in 2016, CMS adjusts fee schedule payment rates in non-CBAs (i.e., small/moderate sized urban areas and rural areas) using information from competitive bidding. In 2016, Medicare paid a 50/50 blend of historical fee schedule rates and rates derived from competitive bidding. From January 2017 through May 2018, Medicare paid rates that were 100 percent derived from competitive bidding. Beginning June 2018, Medicare reverted to a 50/50 blend for rural and non-contiguous non-CBAs, while continuing to pay rates that are 100 percent derived from competitive bidding in urban, contiguous non-CBAs.

Competitive bidding has driven down the cost of DME for Medicare and beneficiaries. Compared with payment rates in the year before competitive bidding, Medicare's payment rates for some of the highest expenditure DME products have fallen by an average of roughly 50 percent. In 2012, CMS estimated that competitive bidding would save more than $42 billion over 10 years—$25 billion in savings for the program and $17 billion in savings for beneficiaries. ■

1 These numbers include payments for DME, prosthetics, orthotics and supplies, a category to which DME belongs under Medicare.

**Table 1 Summary of the competitive bidding program for durable medical equipment under Medicare**

| Round | Number of competitive bidding areas | Product categories | Contract period |
|---|---|---|---|
| Round 1 rebid | 9 | 9 product categories:<br>• Complex rehabilitative power wheelchairs and related accessories<br>• CPAP/RAD and related supplies and accessories<br>• Enteral nutrients, equipment and supplies<br>• Hospital beds and related accessories<br>• Mail-order diabetic supplies<br>• Oxygen supplies and equipment<br>• Standard power wheelchairs, scooters and related accessories<br>• Support surfaces<br>• Walkers and related accessories | January 2011 to December 2013 |
| Round 1 recompete | 9 | 6 product categories:<br>• Enteral nutrients, equipment and supplies<br>• External infusion pumps and supplies<br>• General home equipment and related supplies and accessories<br>• Negative pressure wound therapy pumps and related supplies and accessories<br>• Respiratory equipment and related supplies and accessories<br>• Standard mobility equipment and related accessories | January 2014 to December 2016 |
| Round 1 2017 | 13 | 7 product categories:<br>• Enteral nutrients, equipment and supplies<br>• General home equipment and related supplies and accessories<br>• Nebulizers and related supplies<br>• Negative pressure wound therapy pumps and related supplies and accessories<br>• Respiratory equipment and related supplies and accessories<br>• Standard mobility equipment and related accessories<br>• Transcutaneous electrical nerve stimulation devices and supplies | January 2017 to December 2018 |
| Round 2 | 100 | 8 product categories:<br>• CPAP/RAD and related supplies and accessories<br>• Enteral nutrients, equipment and supplies<br>• Hospital beds and related accessories<br>• Negative pressure wound therapy pumps and related supplies and accessories<br>• Oxygen supplies and equipment<br>• Standard power wheelchairs, scooters and related accessories<br>• Support surfaces<br>• Walkers and related accessories | July 2013 to June 2016 |
| Round 2 recompete | 117 | 7 product categories:<br>• Enteral nutrients, equipment, and supplies<br>• General home equipment and related supplies and accessories<br>• Nebulizers and related supplies<br>• Negative pressure wound therapy pumps and related supplies and accessories<br>• Respiratory equipment and related supplies and accessories<br>• Standard mobility equipment and related accessories<br>• Transcutaneous electrical nerve stimulation devices and supplies | July 2016 to December 2018 |
| National mail-order program | All parts of the U.S. | Mail-order diabetic testing supplies | July 2013 to June 2016 |
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Note: CPAP (continuous positive airway pressure [device]), RAD (respiratory assist device).

Source: CMS fact sheets.