

**Memorandum**

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From Bryan B. Mitchell *Bryan Mitchell*
Principal Deputy Inspector General

Subject OIG Management Advisory Report: "Intraocular Lens Costs,"
OEI-05-92-01031

To See Addressees Below

The purpose of this report is to provide you with preliminary information on the costs of intraocular lens (IOL) implants used in cataract surgery.

Background

In March 1986, the Office of Inspector General issued a report describing costs and trends in cataract surgery. We found that the average list price for an IOL was \$325. However, we also found that purchasers of IOLs seldom paid list price and that discounts were not passed on to the Medicare program, resulting in Medicare paying double or triple the actual purchase price for IOLs.

The 1986 report also determined that U.S. manufactured IOLs were readily available for under \$200 in Canada. The same lenses sold in England and other European countries for \$125 or less. A subsequent report, issued in 1990, documented that IOLs were available in the U.S. marketplace below \$200. Both reports concluded that Medicare reimbursement policies encouraged inflated prices for IOLs. The first report addressed this issue by recommending a national cap be established for IOL reimbursement. The second report recommended that cap be lowered to a flat rate of \$150 per IOL.

Currently, Medicare pays a flat fee of \$200 per IOL to ambulatory surgical centers (ASC). Hospital outpatient departments are reimbursed according to a blended formula which uses 58 percent of the ASC rate and 42 percent of hospital costs. Medicare payment for an IOL implanted in a physician's office is based on the reasonable charge which may not exceed the actual acquisition cost for the lens plus up to a 5 percent handling fee.

We are now conducting a study to provide the latest information on IOL costs and other matters related to cataract surgery. We drew a random sample of 361 Medicare patients who had cataract surgery during calendar year 1991, the latest year for which full data was available. We contacted the ophthalmic surgeon and the hospital outpatient department (OPD) or ASC, where the

procedure was performed, to obtain information on IOL acquisition costs. We now have information on IOL costs for 82 percent of the beneficiaries in our sample.

Preliminary Findings

According to IOL purchasers, ASCs are currently paying about \$126, or \$74 less than the \$200 reimbursement they receive from Medicare. The OPDs, on the other hand, pay \$215, an average of \$89 more than ASCs for each lens purchased. The reason for this difference in acquisition costs has little to do with the type of lens purchased. Rather, it appears to be related to stronger incentives present for ASCs to reduce their acquisition costs.

For the same type of IOL, acquisition costs across all purchasers vary significantly. For example, acquisition costs for one model of IOL ranged from \$97 to \$375. Among the factors that may affect acquisition costs are Medicare reimbursement, volume commitments, financial arrangements, and related products included with the IOL.

Approximately 35 percent of the cataract procedures for which we now have information were performed in ASCs. Physicians performing surgery at ASCs reported little or no difficulty in obtaining a particular IOL model despite efforts by ASCs to limit the number of sources from whom they buy IOLs and other cataract related supplies. Sixty-five percent of the cataract procedures were performed by OPDs.

Preliminary Conclusions

Based on these preliminary results, we believe that it may be reasonable to reduce the \$200 flat fee currently paid for IOLs in ASCs. It is also important to reexamine Medicare's method for reimbursing OPDs for the IOLs they obtain.

It appears that Medicare policy establishing a fixed reimbursement rate of \$200 to cover the cost of procuring an IOL has provided incentives to ASCs to be prudent buyers. Indeed, ASCs have been able to negotiate favorable acquisition costs that could allow Medicare to reduce its costs further. On the other hand, while our analysis is not complete, we believe that we have sufficient information on the cost of procuring IOLs to establish that Medicare's current payment method for OPDs provides little incentive for hospitals to control their IOL acquisition costs. This payment method enables OPDs to pass inflated IOL costs on to Medicare. Manufacturers know this and, not surprisingly, tend to charge OPDs more for their IOLs than ASCs.

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As we continue our analysis and formulate our findings and recommendations, we welcome any comments or thoughts on this preliminary information. If you have any questions or comments, please feel free to call me or Michael Mangano, Deputy Inspector General for Evaluation and Inspections, or have your staff contact Penny Thompson at 410-966-3138.

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