

A SECOND, NEW, INDEPENDENT STUDY FINDS FAULT WITH “COMPETITIVE BIDDING” PROGRAM

“WILL COMPETITIVE BIDDING DECREASE MEDICARE PRICES?”¹

An important, peer-reviewed study of the CMS “competitive bidding” program was published in the January 2008 edition of the prestigious *Southern Economic Journal* and answers its own title question with a resounding “no.” Authored by economic researchers Dr. Brett Katzman from Kennesaw State University in Georgia and Dr. Kerry Anne McGeary from Drexel University in Philadelphia, the study is the culmination of a four-year research project into the CMS DMEPOS competitive bidding demonstration projects in Polk County, FL and San Antonio, TX.

The study’s abstract states that the CMS competitive bidding process is “inefficient, leads to price increases, and may cause decreases in the quality of services.” Some of the Katzman-McGeary study’s key findings (which by and large support the findings of the recent Robert Morris University study) are:

- The CMS “competitive bidding” program is based on a flawed design and a “fundamental misunderstanding of auctions;” namely, the “misconception” that the “desirable properties of single-unit auctions extend to multi-unit auctions.”
- Requiring DME suppliers to bid on “multiple units” is a critical error according to the authors. Successful competitive bidding efforts typically involve a relatively small universe of potential bidders and a single bid category. Successful government bidding efforts typically involve individual units such as trash collection, building construction, F-16 fighter jets, etc. A well-designed competitive bidding program will normally involve a single product or task. The larger the list of items bid (and this program involves a series of very large lists) the less ideal the outcome.
- Service quality suffered in the demonstration projects to such an extent that they had to create a quality assurance function. CMS initiated “quality check site visits” for all winning providers, and further hired an outside firm to conduct quality assurance surveys of Medicare beneficiaries. (It is unfortunate that the government was forced to spend money to ensure quality of service when competition and patient choice could take care of such problems for free.)
- The resulting program has been so unwieldy that successful bidders in Polk County and San Antonio have attempted to get out of their obligations. This is important information that has unfortunately been kept under wraps by CMS.
- The CMS bid analysis did not necessarily favor “the most optimal bid.”

“The problem with the CMS process is that the bid scoring and price formulation procedures are inconsistent with the bidding behavior that CMS wishes to induce. That is, overly complex rules for choosing winners and setting prices distort the incentives that bidders face and may actually result in increased prices for some consumers.”



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