

for both new and used DME within this category. The fee schedule amounts for purchased new, purchased used, and rental DME within this category are based on the average reasonable charges for purchased new, purchased used, and rental DME, respectively, from the base year period of July 1, 1986 through June 30, 1987.

II. Summary of the Proposed Notice

We published a proposed notice in the **Federal Register** on January 6, 1994, (59 FR 755) to announce our intention to establish special payment limits for standard home blood glucose monitors.

We had anticipated that the proposed notice would be published during calendar year (CY) 1993 and we used CY 1993 information to calculate the proposed special payment limits for home blood glucose monitors. We proposed the following special payment limits for a home blood glucose monitor furnished before January 1, 1994:

- For a new monitor furnished to Medicare beneficiaries in the continental U.S., the upper payment limit would be \$57. In Alaska, Hawaii, Puerto Rico, and the Virgin Islands, the upper payment limit would be \$65.
- For a used monitor, the upper payment limit would be 75 percent of the special payment limit for a purchased new monitor. If the special payment limit for a purchased new home blood glucose monitor in the continental U.S. would be \$57, the special payment limit for the used monitor would be \$42.75.
- For a rented monitor, the special payment limit would be equal to 10 percent of the special payment limit for a purchased new monitor. The total payment for a rented monitor would not be allowed to exceed the lower of the actual charge or the fee for the purchase of the monitor.

In the preamble to the proposed notice (59 FR 756), we described how the 1993 fee schedule amounts for code E0607 accurately reflected the average reasonable charges for home blood glucose monitors in 1986, adjusted by 1.7 percent (the percentage increase in the CPI-U for the 6-month period ending with December 1987) and by the cumulative covered item update factor. The average 1993 fee schedule amount for purchased new home blood glucose monitors, excluding the fee schedule amounts for the Virgin Islands, Alaska, Hawaii, and Puerto Rico, was \$178.73. However, as we explained in the proposed notice, due to manufacturers' widespread practice of issuing consumer rebates, the fee schedule amounts substantially exceeded the effective purchase amount (the list

purchase amount less any rebate) paid by the general public in all localities.

In the proposed notice (59 FR 756), we discussed how we reviewed numerous sources of pricing and rebate information for the years 1986 through 1993. We also discussed our decision to focus on home blood glucose monitor pricing and national rebate programs listed in the Winter 1993 edition of the Bruce Medical Supply catalog (Vol. 15, No. 1). We explained that the Bruce catalog listed the largest number of home blood glucose monitors made by the largest number of home blood glucose monitor manufacturers, and reflected the national rebate programs offered by these manufacturers. Six different brands of home blood glucose monitors, manufactured by five different organizations, could be purchased from the Bruce catalog from any location in the United States, Puerto Rico, and the United States Virgin Islands and were covered under Medicare. We estimated that the six monitors listed in the Bruce Catalog accounted for approximately 90 percent of the market. By choosing the Bruce catalog as the source of data for proposing payment limits, we were not recommending that future purchases of home blood glucose monitors by Medicare beneficiaries be made through the Bruce catalog. We were confident, however, that comparable net prices were available in all localities from the various other mail order or retail outlets. Therefore, we believed that beneficiaries would have access to home blood glucose monitors for the payment limits we were proposing.

Our finding that new home blood glucose monitors are generally available to the general public at a net cost that is well below the fee schedule amounts proposed for code E0607 was supported by the Office of the Inspector General's (OIG) report "Durable Medical Equipment—Review of Medicare Payments for Home Blood Glucose Monitors" (A-09-92-00034)—issued in December of 1992. In this report, the OIG states that excessive Medicare payments have been made for home blood glucose monitors because claims were not adjusted to reflect manufacturers' rebates. The OIG reviewed a sample of 80 Medicare claims for monitors processed by 2 carriers. From this sample, the OIG identified 50 claims for which rebates were available at the time the monitors were purchased. The OIG found that Medicare payment for only 5 of these 50 claims were reduced by the amount of the rebate. The OIG concluded that the fee schedule amounts established for code E0607 based on pre-1987 historic charges were excessive.

A. Special Payment Limits for Code E0607

We proposed that payment for home blood glucose monitors be equal to 80 percent of the lesser of the actual charge for the monitor or the appropriate special payment limit as described below.

1. New Home Blood Glucose Monitors

For purchased new home blood glucose monitors furnished to Medicare beneficiaries, we proposed the following special payment limits:

INITIAL YEAR SPECIAL PAYMENT LIMITS

Continental U.S.	Alaska, Hawaii, Puerto Rico and Virgin Islands
\$57	\$65

These limits were based on pricing and manufacturers' rebates contained in the Winter 1993 edition of the Bruce Medical Supply catalog. We based the final limits for the continental U.S. on the median net cost, rounded to the nearest dollar, of five of the six monitors listed in the catalog. We omitted one monitor because this monitor was relatively new to the market and had little market history. We determined the cost for each monitor to be equal to the Bruce Medical Supply list price decreased by the manufacturer's mail-in rebate (if applicable) and increased by appropriate shipping and handling charges effective December 1992. After making the adjustments for rebates and shipping and handling charges, we proposed a limit of \$57, which exceeded the final cost for four of the six monitors listed in the catalog. We permitted an additional shipping charge of \$8 for monitors purchased in Alaska, Hawaii, Puerto Rico, and the U.S. Virgin Islands.

In the proposed notice, we recognized that shipping and handling costs are unique to mail-order outlets and are not generally experienced by retail outlets; however, we chose to include these shipping and handling costs, without regard to the type of supplier, as a proxy for similar costs such as transportation and overhead that might be incurred by retail stores. The average shipping and handling cost per monitor in the continental U.S. is approximately \$7, an amount that we believe sufficiently reflects expenses incurred by retail stores that supply home blood glucose monitors. The additional shipping allowance of \$8 is intended to reflect additional costs of shipping outside the continental U.S.