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Invacare: Many Suppliers In DME Comp Bid Program Are Financially Weak

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Many medical equipment suppliers that won contracts in Medicare’s new DME competitive bidding program are financially shaky, according to Invacare, the Elyria, OH,-based home medical equipment manufacturer that has begun a financial review of suppliers with which it contracts. CMS strongly denounced Invacare's claims and said suppliers must meet strict financial standards, plus other standards that include accreditation, licensing and Medicare supplier standards.

Invacare is reviewing 359 contract winners from the competitive bidding program, and the company said preliminary results show that more than 40 percent of contract winners have credit limits lower than $10,000, are on credit hold, have no home care account with the company or are so far behind on payments that their accounts have either been turned over to collections agencies or are in legal proceedings to recoup the money.

A consultant following the competitive bid program says the Invacare findings are the most substantial criticism of the program to date because the manufacturer is in a position to know the financial stability of many suppliers. Suppliers usually finance purchases with manufacturers, and Invacare is one of the largest in the country.

The Invacare review casts doubt on the ability of many suppliers to live up to their contracts and provide needed supplies, according to David Green of David Green Communications, a public relations firm that represents diabetic testing suppliers. The program's result for seniors will be undependable supplies, reduced quality and fraud, Green said.

When CMS was reviewing bids, agency officials said they took into account companies' financial stability -- including liquid assets and availability of credit -- when determining how much supply those companies could be relied on to deliver. The agency was conservative with estimates, agency officials said. Industry sources take this to mean that CMS would attribute less capacity to suppliers with weak finances, rather than banning them from the program.

A CMS spokesperson said industry is mischaracterizing agency statements about how it would judge whether companies could expand capacity. “We have said in the past that EVEN higher standards are applied to companies seeking to expand beyond historical capacity,” the spokesperson stated in an e-mail. “The result being that CMS may not count (or credit) this expanded capacity for a supplier when determining the number of suppliers for an area if the higher standards aren’t met (i.e., CMS would just credit/count their historical capacity). This is to ensure that there are more than enough experienced suppliers to afford access to items and services for our beneficiaries.”

“We are NOT allowing suppliers in the competitive bidding program with 'questionable' finances,” the spokesperson added. “All suppliers MUST meet the financial standards established for the program--plus a number of additional standards and regulations applicable under the program (e.g., quality/accreditation, licensing, Medicare supplier standards, etc.)”

However, CMS has declined to release the financial standards it used to determine eligibility for the program so it is not possible to compare Invacare's findings to CMS' determination of eligibility. The Center for Regulatory Effectiveness, which represents oxygen suppliers, is involved in a lawsuit aimed at forcing the agency to establish those standards with public rulemaking. The CRE said Invacare's study shows that CMS needs to release the standards it uses to judge the financial soundness of suppliers in the program. CMS' “trust us” approach does not suffice, the CRE's Bruce Levinson said. “The companies are not as weak as CMS' excuses for not releasing their financial standards,” he said.

Levinson also said the Invacare study bolsters separate research done by University of Maryland Professor Peter Cramton that questions the design of the competitive bid program. Cramton said non-binding bids, among other things, encourage participants to offer low-ball bids and could lead suppliers to accept contracts they cannot fulfill. Cramton presented CMS officials with an experiment done by California Institute of Technology economists that shows the pillars of the durable medical equipment competitive bidding program are weak (see story). CMS' DME competitive bid program “is not a good procurement auction,” a draft of the Caltech research findings states. “It is based on an inappropriate architecture that cannot deliver services at competitive rates and qualities.” The bidding program cannot be adjusted in some simple way, the Caltech draft report states. The program's use of median bid amounts to set prices must be changed and suppliers should not be allowed to cancel bids, the report states.

CMS, however, does not plan to redesign the program because 92 percent of suppliers offered contracts accepted them, CMS Deputy Administrator Jonathan Blum said Nov. 3 during a call with reporters (see story). -- *John Wilkerson* (*jwilkerson@iwpnews.com*)