

Payments for drugs under part A are made on the basis of reasonable cost. Payments are audited by fiscal intermediaries under contract to the Social Security Administration in accordance with the "prudent buyer concept". Under this concept the Government pays the amount a prudent and cost-conscious buyer would pay for a given item or service.

Under part B of Medicare, coverage of drugs and biologicals is limited to those drugs and biologicals (except for insulin) commonly furnished in physicians' offices which cannot, as determined by regulations, be self-administered. Thus, a drug or biological is reimbursable under part B of Medicare only if it is of a type which is normally not self-administered.

Medicare carriers are responsible for determining whether the services in a given case are reasonable and necessary. In making its evaluation, the carrier is expected to take into account accepted standards of medical practice in its service area. Because accepted standards of medical practice vary from one area to another, the Social Security Administration has issued general guidelines leaving it to the carrier to develop more detailed guidelines which reflect accepted patterns of care in its service area.

Mr. Chairman, this concludes my statement. I shall be happy to answer any questions that you or other members of the Subcommittee may have.