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# Health Care Reform and the Medical Technology Industry

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Payment and Health Care Delivery Policy

The Advanced Medical Technology Association  
(AdvaMed)

# AdvaMed



- **World's largest medical technology association**
- **1,600+ member companies and subsidiaries**



- **Members produce 90% of sales in domestic market, 50% of sales in global market**
- **70%+ of member companies have less than \$30 million in annual revenue**



- **65 staff with global expertise, bi-partisan backgrounds**
- **45 member Board of Directors including 5 from smaller companies**



# HCR: Administration Priority

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## Key Principles for a Plan

- Needs to Reduce Uninsured and Underinsured through Universal Coverage
- Rising Health Costs Must be Controlled
- Health Coverage Must Be Affordable and Provide Choice
- Coverage Should Invest in Wellness and Prevention
- Reform Should Improve Patient Safety and Quality Care



# HCR: Areas of Broad Agreement

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- **Universal coverage**
- **Subsidies to Assure Insurance Affordability**
- **Insurance Reform**
- **Delivery System Reform to Encourage**
  - Quality
  - Efficiency
  - Prevention
  - Better Management of Chronic Disease



## HCR: AdvaMed

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- **AdvaMed Board of Directors adopted a health reform proposal more than two years ago**
  - Supports universal coverage
  - Supports subsidies for low-income individuals and families
  - Supports value-based purchasing
  - Supports greater focus on prevention and chronic disease management



# Medical Technology and Health Care Delivery

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- Medical device and diagnostic manufacturers, with few exceptions, are suppliers to health care providers.
- Major customers include hospitals, ambulatory surgical centers, providers of imaging services, clinical labs, suppliers of durable medical equipment. E.g., hospitals account for about 60% of total device spending in the country and spend about 13% of their revenues on devices.



# Medical Technology and Health Care Spending

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**Devices and other medical technologies have not been a major driver of health care costs.**

- Cutler and McClellan (2001) examined impact of technology at disease level. They found for several diseases that technology often leads to more spending, but health benefits are even greater (measured only in terms of life expectancy).
- Recent study (Smith, Newhouse) shows income (GDP) growth and insurance coverage play critical roles—and much larger roles than previously assumed--in increasing technology spending.



# Medical Technology and Health Care Spending

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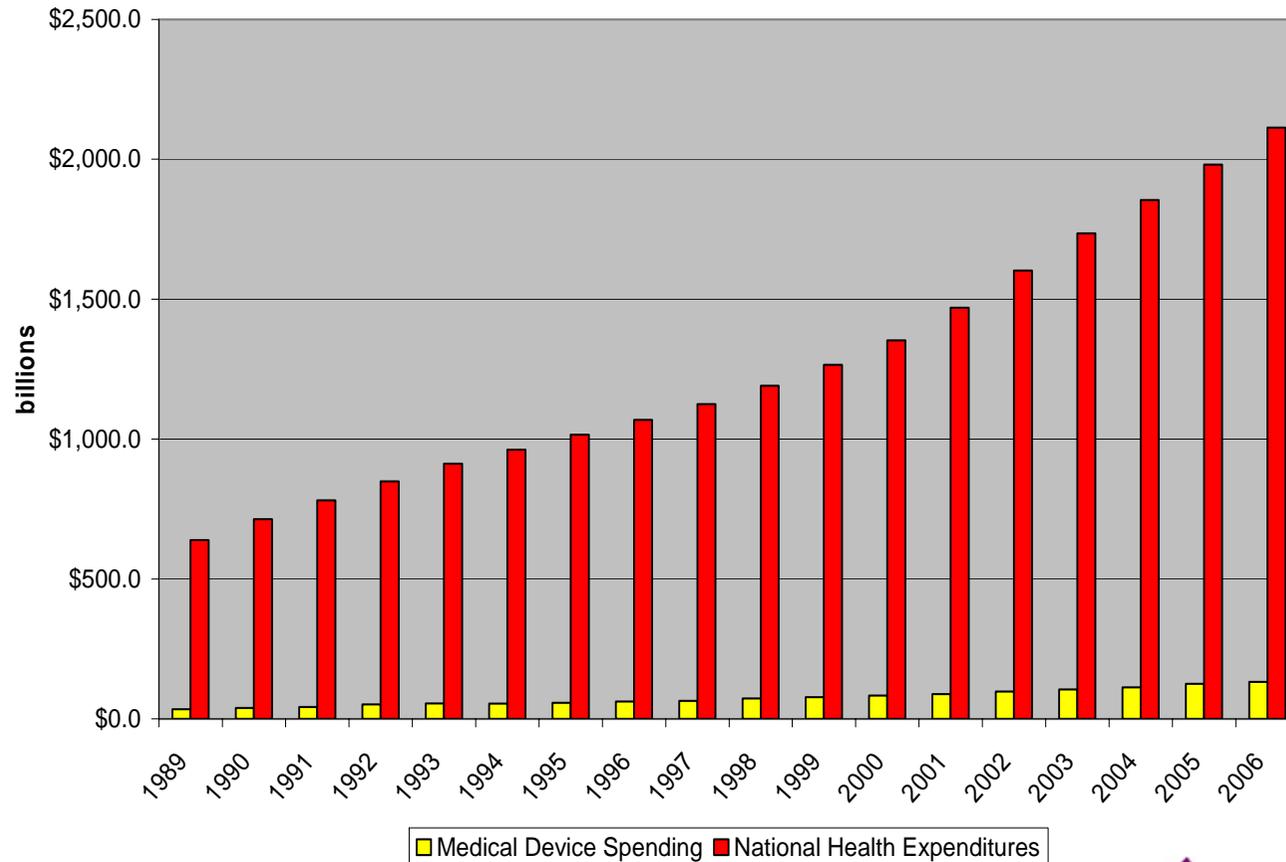
## King-Donahoe Study: Estimates of Medical Device Spending in the United States

- Device spending's share of total national health care expenditures has stayed low and relatively constant for almost two decades
- The medical device industry is highly competitive with price increases far below the rest of the health care industry and even below the general trend of prices for the economy as a whole.



# King and Donahoe Analysis

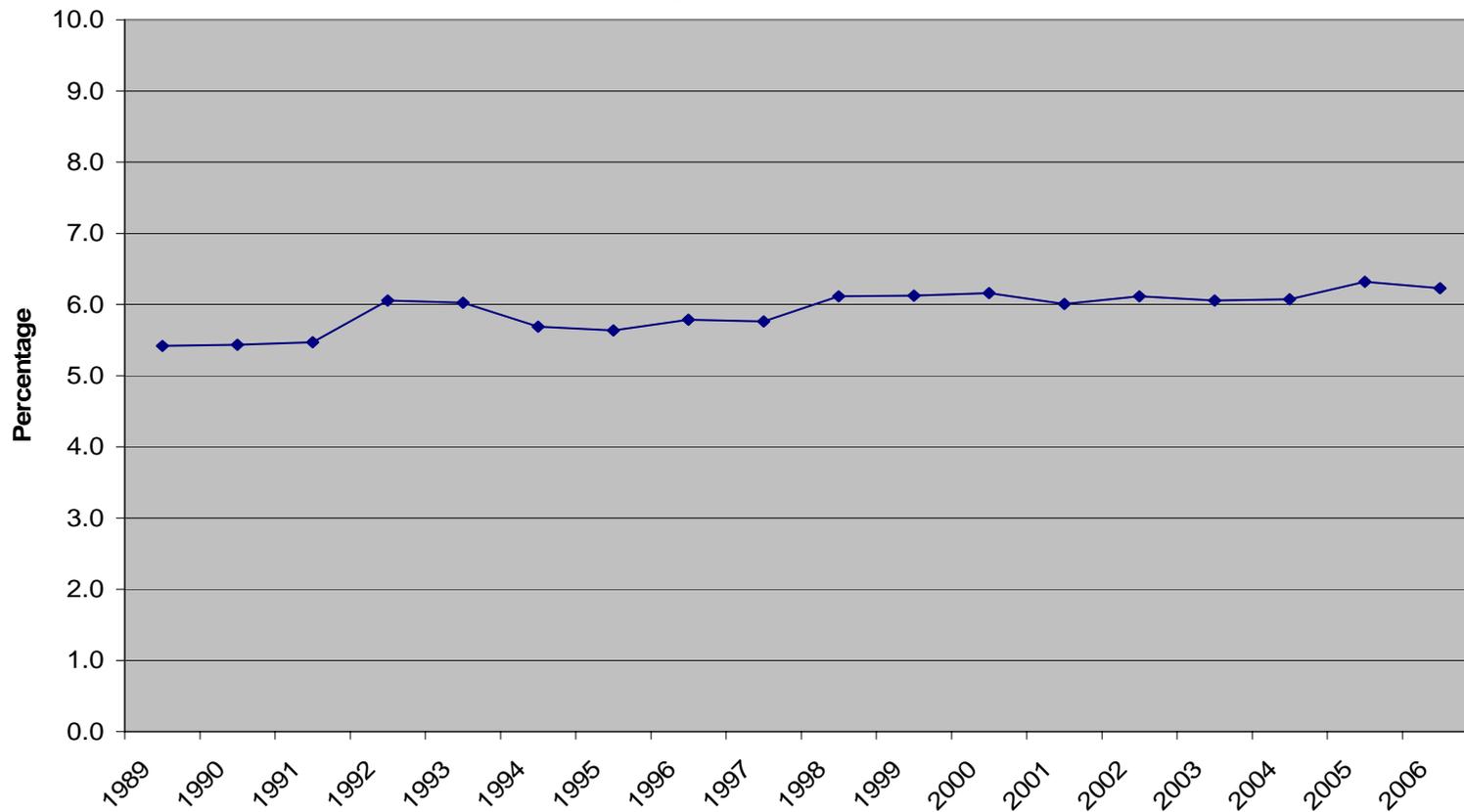
Figure 1: Medical Device Spending vs. National Health Expenditures





# King and Donahoe Analysis

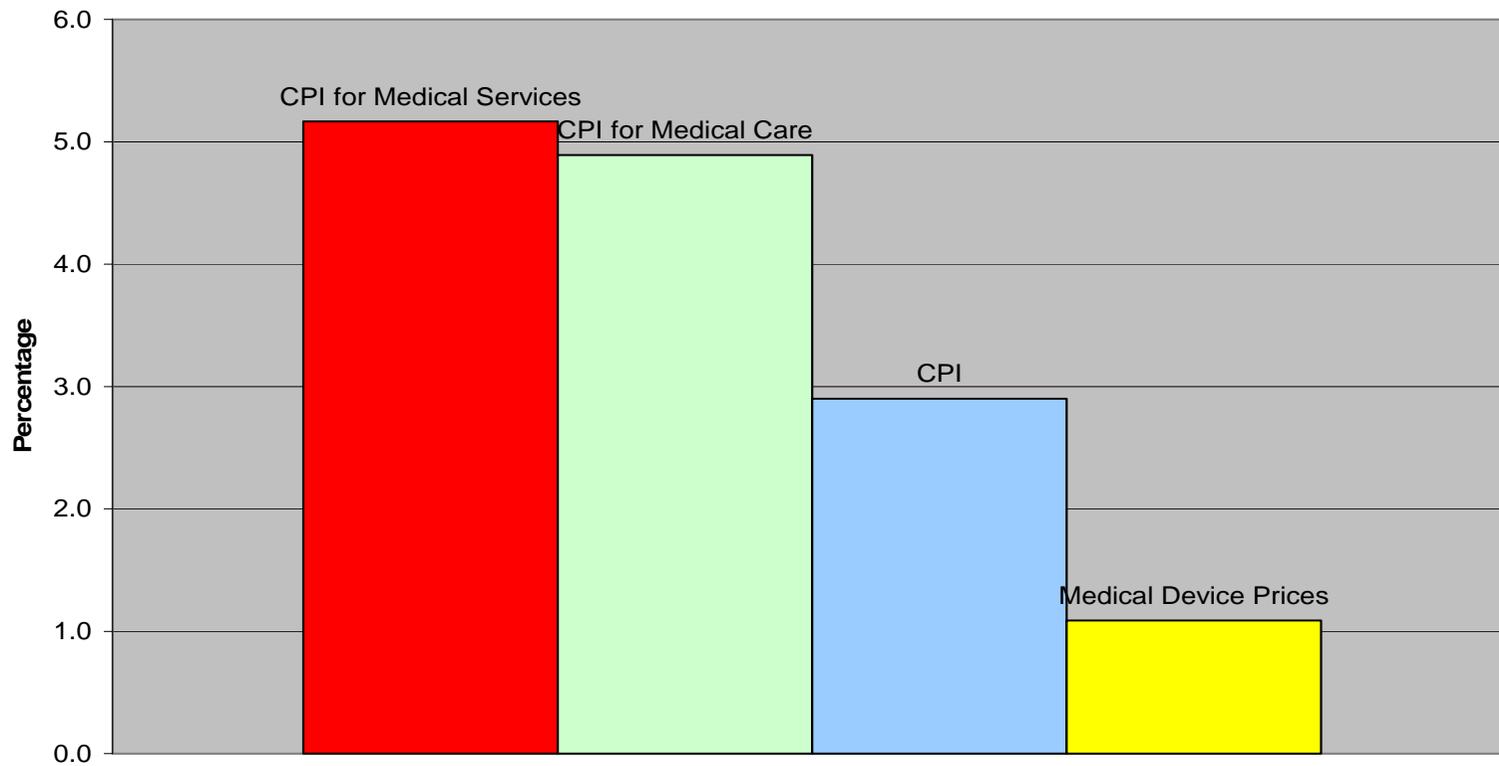
**Figure 2: Device Expenditures as a Percentage of National Health Expenditures**





# King and Donahoe Analysis

**Figure 3: US Consumer Prices and Selected Medical Prices  
1989 - 2006**





# HCR: 5 Key House and Senate Committees

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- **HOUSE**
  - Ways and Means
  - Energy and Commerce
  - Education and Workforce
  
- **Senate**
  - HELP
  - Finance



## HCR: 3 Broad Sections of Bills

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### Device Industry Affected by Each

- Providing Coverage to the Uninsured
- Improving Quality and Efficiency of Health Care
  - System-wide changes
  - Payment “reforms”
- Revenue Provisions



# HCR: Covering the Uninsured

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## Coverage Expansion: Benefits for the Device Industry

Uninsured population shrinks.

- Finance Committee bill: 29 million newly insured persons by 2017.
- House approach: 37 million newly insured by 2018.

Larger demand for care using devices/technologies.

Perhaps higher payments.



# HCR: Improving Quality and Efficiency

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- Device industry supports reorienting the incentives in the health care system.
- But over time these incentives can have a profound impact on our industry.
- Patients must be assured access to appropriate care and medical technologies.



## HCR: Improving Quality and Efficiency

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**Emphasis in bills on moving the health care delivery system toward higher quality through provisions that reward greater coordination of care.**

- Bundling/Accountable Care Organizations
- Primary Care Medical Home
- Improvements in management of chronic diseases across an episode of care → reductions in the need for high tech interventions



# HCR: Improving Quality and Efficiency

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**Bills expand authorities in Medicare to relate payments to quality of care provided.**

- Value-Based Purchasing
- Comparative Effectiveness Research
- Reductions for Preventable Readmissions



# HCR: Improving Quality and Efficiency

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## Emphasis on quality and efficiency →

- Pressure to choose particular products that could reduce demand for certain technologies.
- Pressure to reduce pricing.
- Need to demonstrate product effectiveness.
- Need to show clear impact on patient outcome vs. standard of care.



# HCR: Improving Quality and Efficiency

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## Questions about Impact on Technologies

- Will these forces crowd out more novel, more expensive products?
- Will comparative effectiveness become cost-effectiveness?
- Will greater alignment of hospital-physician-payer incentives lead to less autonomy for physician in product choice?



# HCR: Improving Quality and Efficiency

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## **Medicare payment reductions in the name of payment accuracy.**

- E.g., market basket reductions, rebasing of payments, and productivity adjustments.
- Reductions are mostly indirect for device industry, i.e. they hit first our customers, and then us.
- Virtually every major customer of the device and medical technology industry will be facing significant Medicare cuts.
- Cuts to Medicare providers → impact on manufacturers.



## **HCR: Reductions for Device Industry Customers**

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- **Hospital Payments--\$150-\$155 Billion/10 years**
- **Part A Market Basket and Productivity Adjustments**
  - Hospitals, Home health, Nursing homes
- **Part B Productivity Adjustments**
  - Outpatient hospital, ASCs, Clin labs



# HCR: Reductions for Device Industry Customers

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- **Imaging reductions**—increases in utilization assumption and increases in reductions for imaging contiguous body parts.
- **Productivity adjustment for DME not in competitive bidding**—on top of competitive bidding savings of \$22 billion.



## HCR: Revenue Provisions (Taxes) Senate Bill

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### **Excise tax of \$40 billion on manufacturers of medical devices.**

- Applies to any manufacturer or importer of medical devices offered for sale in U.S. and would include both domestic and foreign manufacturers.
- Sales of medical devices regulated by FDA but excluding Class I products and Class II products sold at retail for up to \$100 per unit.
- Small companies would pay less—
  - 0% of sales up to \$5 million,
  - 50% of sales \$5 million and up to \$25 million,
  - 100% of sales over \$25 million.
- Fee is *not* tax deductible.



## **HCR: Key Concerns— Patient Access and Continued Innovation**

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- **Patient Access**--Concern about impact of reductions and changes in delivery and payment incentives on patients access to appropriate care.
- **Continued Innovation**--Impact on innovation and new discoveries that will improve patient care and outcomes.



# HCR: House and Senate Deliberations

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- **Fluid situation**
- **House**
  - 3 Committees                      Completed action and reported bills.
  - Leadership                        Single bill to Floor, combining 3 bills.
- **Senate**
  - SFC                                    Mark-up
  - Leadership                        Single bill to Floor, combining Finance and HELP bills.



## HCR: Other Key Steps to Enacting Bill

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- Will Senate have to use budget reconciliation process (51 votes instead of 60) to pass bill?
- Will the Senate bill become a base bill favored by White House?
- Will House be able to accept that political decision, if it becomes a reality? What does that mean for a Conference between House and Senate?



Questions?