Healthcare Reform: Implications for the Medical Device Industry

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Presentation by Boston Healthcare for MassMedic’s ‘A New World Order for Health Care’ Meeting
Health reform taps into a broader on-going desire to secure greater value for health care services. Certain health reform elements are designed to spur transition to a value-based purchasing system.
Health Reform Is An Attempt to Address Each of These Issues

One way to attempt to address all three simultaneously is to focus on VALUE
## Health Care Reform Impacts

<table>
<thead>
<tr>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Medical Device Excise Tax</td>
<td>• Coverage expansion</td>
</tr>
<tr>
<td>• Physician Payment Reporting Provisions</td>
<td>• Payment reform concepts:</td>
</tr>
<tr>
<td>• Medicare Cuts</td>
<td>• Quality Measures/ Value-Based Purchasing</td>
</tr>
<tr>
<td></td>
<td>• Bundled Payment for Episodes of Care</td>
</tr>
<tr>
<td></td>
<td>• Medical Homes</td>
</tr>
<tr>
<td></td>
<td>• Independence at Home</td>
</tr>
<tr>
<td></td>
<td>• Comparative Effectiveness Research</td>
</tr>
<tr>
<td></td>
<td>• Accountable Care Organizations</td>
</tr>
<tr>
<td></td>
<td>• Center for Medicare and Medicaid Innovation</td>
</tr>
<tr>
<td></td>
<td>• Independent Payment Advisory Board</td>
</tr>
</tbody>
</table>
Elements with Direct Impact

Medical Device Tax
- 2.3% Excise Tax on sales of all medical devices (except retail products)
- Projected to cost $20 billion between 2013 to 2019
- AdvaMed estimates impact to be a boost in effective tax rate from 23 to 43 percent
- Since it is a fixed percentage, it will fall most heavily on small and start-up companies

Physician Payment Reporting
- Beginning March 31, 2013 companies are required to report payments or other transfers of value between manufacturers and physicians/teaching hospitals
- Includes: cash, in-kind items or services, stock, ownership
- Limited preemption of state laws

Tax will put pressure on margins and reporting requirements will require sales teams to accurately record activity
Medicare Cuts & Coverage Expansion

Medicare Cuts
- Expected $272 billion reduction in Medicare spending over next 10 years
- Largest share will fall on hospitals
  - 60 percent of all sales for medical devices
- Cuts to annual, formula-driven payment updates
- Imaging payments reduced by $2.3 billion over next ten years
- Expanded competitive bidding for durable medical equipment in 2011 (use throughout country in 2016)

Coverage Expansion
- Modest industry benefit
- Increases to Medicaid enrollment and participation in exchange
- Estimated increased use of health care services by previously uninsured will increase national health spending by 1.7 percent between 2014 and 2019

Coverage expansion costs are in theory offset by aggregate cuts to health care costs
Quality Initiatives/Value-Based Payment

- **Hospital**
  - Beginning in 2013, hospitals will receive incentive payments based on performance on quality measures for high-volume conditions if they hit performance targets (paid for by DRG reductions)
  - Reductions in Medicare payments for excess (preventable) hospital readmissions and hospital-acquired conditions by 1 percent

- **Physicians**
  - Incentive programs for physicians where bonuses and payment modifiers are tied to improved outcomes
  - Health reform bill extended quality initiative bonus payments to 2014 however in 2015 system switches to penalties for not reporting
  - Some concern that providers will become overly focused on just the metrics measured by the program

Industry innovators with technologies to measure and improve outcomes related to quality metrics will have strong adoption drivers
Payment Reform Initiatives

- **Expansion of the “financial episode of care”**
  - Establish a national Medicare pilot program to develop and evaluate paying a bundled payment rate for acute, inpatient, outpatient, post-acute care, including physicians
  - An episode of care that begins three days prior to a hospitalization and spans 30 days following discharge
  - Could be expanded nationally if pilot deemed a success

- **Medical Homes**
  - Create a patient focused multi-disciplinary health care team focused on better care coordination, prevention, and management of chronic conditions

- **Independence at Home**
  - Provide high-need Medicare beneficiaries with primary care team services that see them at home and share in any savings if they reduce hospitalizations, improve efficiency of care, reduce costs, and achieve patient satisfaction

Several pilot approaches involve bundled payment; the idea is to avoid fee-for-service, procedural based care incentives and focus on outcomes
Result of Payment Reform Measures is Shifting Financial Risk

Medical device industry will still call on same customers but will need to communicate the value of the products in different ways, in a system where that adoption decision-maker is also at financial risk.
Increasing demand for evidence-based value requires innovators to appraise, demonstrate, and communicate their value.
Key Takeaways

- Immediate direct impact (i.e., taxes, cost-cutting) elements will impact system before coverage gains
- Value-based payment concepts, demonstration projects and new payment model testing may eventually alter the payment system
- Common themes:
  - Overall shift in financial risk holding from payers to hospitals and physician organizations
  - Moving away from fee-for-service payment to outcome-based payment
  - Emphasis of quality and value
- New payment models reward cost reduction while maintaining quality
  - Manufacturers should attempt to align products and positioning with quality metrics
  - Less emphasis on per-procedure payment more focus on clinical outcomes and provider-focused health economic story
- Some products will need to differentiate themselves based on possible impact producing outcomes/evidence data
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