

“Paying for Technology: Cost and Value”

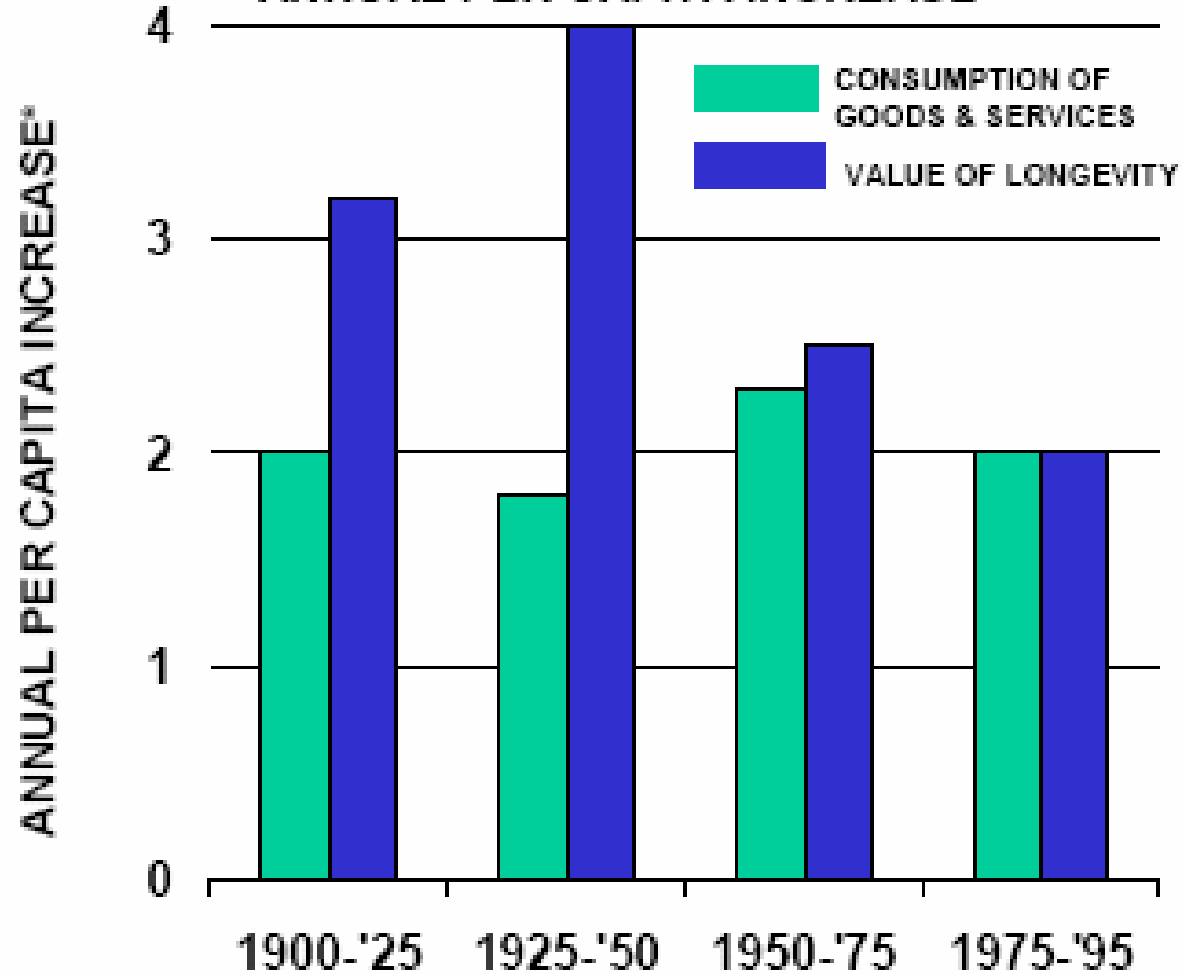
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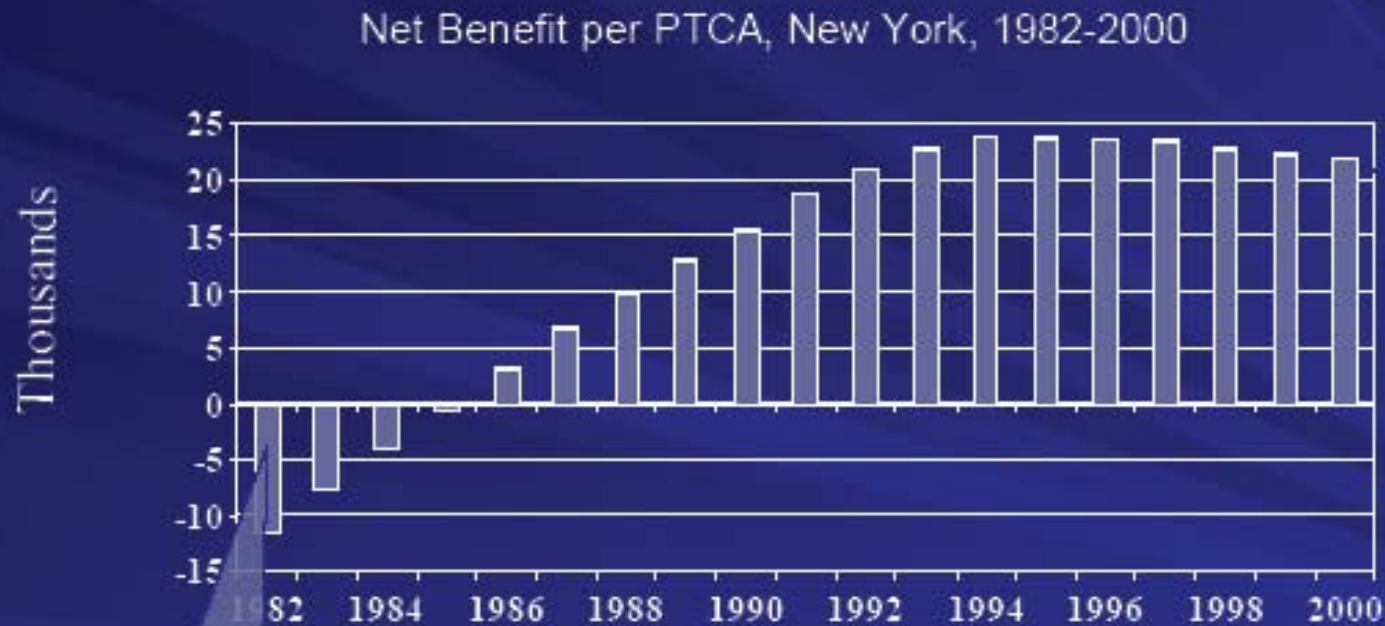
THE VALUE OF HEALTH

ANNUAL PER CAPITA INCREASE^a



Data: William D. Nordhaus, Yale University

Angioplasty reduces angina, opens blockages



Net cost in
1982 =
(\$11,600)

Net benefit
in 2000 =
\$21,900

"Technological Development and Medical Productivity: Diffusion of Angioplasty in New York State," Cutler D, Huckman, R; National Bureau of Economic Research, Oct 2002

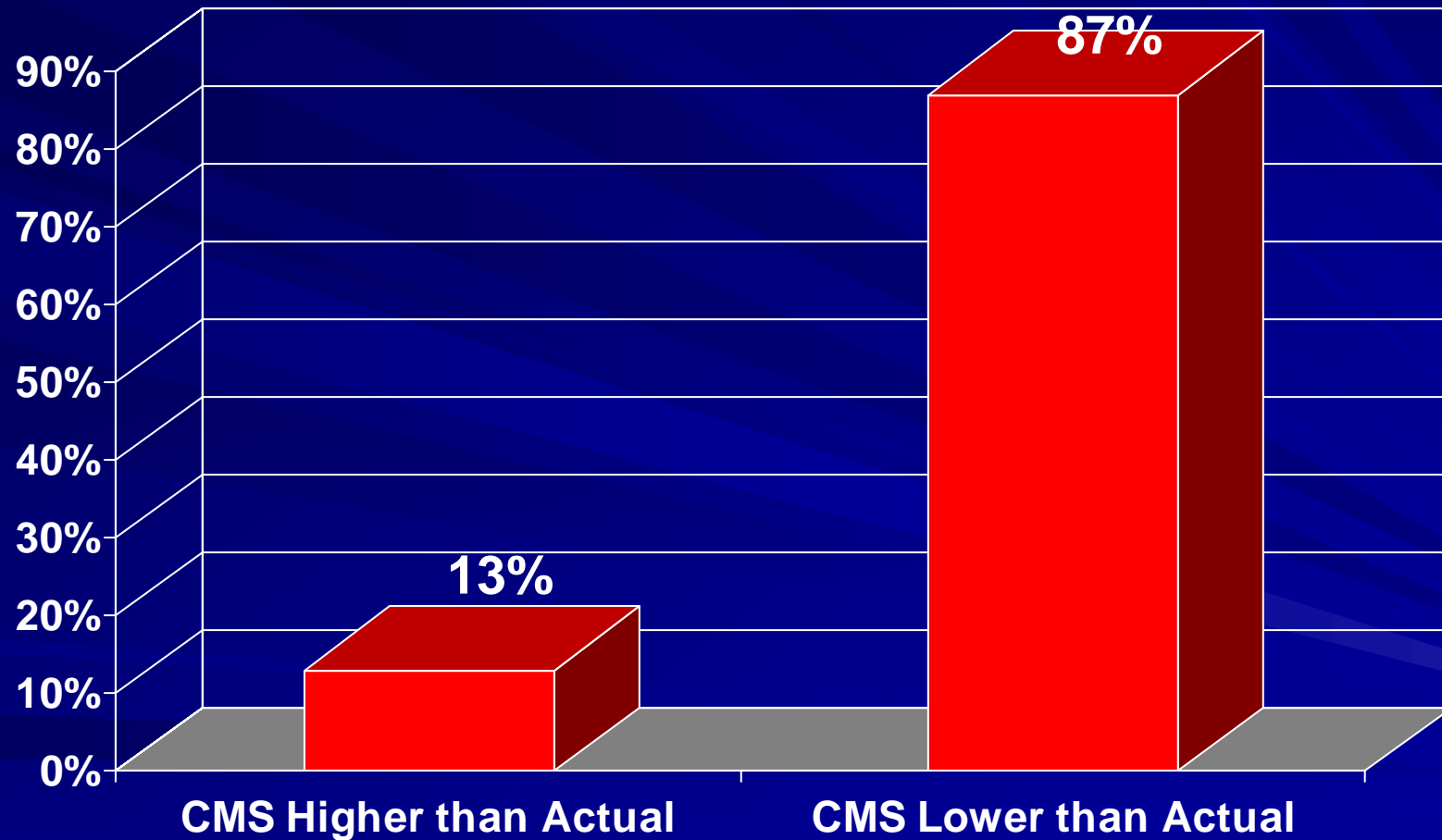
Hospital Payment Paradigms

- Cost
- Perspective payment
- Value-based purchasing
- “Efficiency”-based purchasing

Prospective Payment: Problems with Technology Reimbursement

- Charge compression
- Always lags innovation

Charge Compression: CMS Cost-Finding Estimate vs. Actual Device Acquisition Costs



Source: The Moran Company, April 2003. Data for 712 devices, 2001.

Prospective Payment Lags Innovation

Coding
1 – 2 Years

Coverage
1 – 2 Years

Payment
1 – 2 Years

Coding – Coverage – Payment
1- 6 Years

Steps taken to speed up Coverage and Reimbursement

- Time Limit (one year) for national coverage determinations (MMA/2003)
- Inpatient
 - Add-on to DRG payment for costly news devices (BIPA/2000)
 - Place new technologies in existing DRGs “that most closely approximate the cost of care using the new technology” or provide add-on payment at 80% of difference between the DRG amount and the cost of procedure with new technology (MMA/2003)

Steps taken to speed up Coverage and Reimbursement (cont.)

■ Outpatient

- Transitional payments for three years for costly new technology (BBRA/1999)
- Refinement of transitional payments to apply to categories, not just individual devices (BIPA/2000)
- New Technology APC (CMS/2002)

Value-Based Purchasing/Pay for Performance

- Structural Measures
- Clinical Process Measures
- Outcome Measures

“Efficiency”-Based Purchasing

- Gainsharing

- Physician Profiling

“Efficiency”-Based Purchasing

- Undermines Doctor-Patient Relationship
- Focuses on Cost, Not Value
- Focuses on Short-term Costs
- Rarely based on clear, valid clinical pathways
- Inhospitable to new technology