

Payment for new technologies in Medicare's prospective payment systems

ISSUE: New medical technologies can improve clinical outcomes and quality of care. They are also considered a major source of escalating health care costs. Medicare has a responsibility to pay adequately for beneficial new technologies to ensure beneficiaries' access to care, but must also be a prudent purchaser. Achieving these two goals can involve tradeoffs, and they are not always easily accomplished.

KEY POINTS: The incentives built into prospective payment systems promote the use of new technologies that reduce costs, but may slow adoption of cost-increasing beneficial new technologies. The Congress introduced special payment mechanisms for specific new technologies in both the inpatient and outpatient prospective payment systems. The details of these special payment mechanisms—including the criteria used to assess eligibility for additional payment and the payment formulas themselves—are the tools with which Medicare balances the goals of ensuring adequate payment for beneficial new technologies and being a prudent purchaser.

Currently, for the inpatient PPS, CMS will only consider a new technology eligible for additional payments if it substantially improves, relative to technologies previously available, the diagnosis or treatment of beneficiaries. CMS applies the same clinical criteria in the outpatient PPS when considering the eligibility of new medical devices for additional payment. It does not, however, do so for new drugs and biologicals. Staff propose that the Commission recommend that the Secretary extend the clinical criteria to new drugs and biologicals when considering their eligibility for additional payment under the outpatient PPS.

Other private and public sector payers also deal with the issue of paying for new technology. MedPAC's structured interviews of other payers found that they have adopted negotiation, competitive bidding, and other strategies that incorporate value into decisions about covering and paying for new technology. Discussions with an expert panel suggest that these approaches may not be easily adopted into Medicare's administered price program, but point to value-based purchasing as a concept to pursue.

ACTION: Commissioners should consider the draft recommendation and provide feedback on the draft chapter.

STAFF CONTACT: Chantal Worzala (202-220-3718)