HRI as we see it
Weekly insights from the Health Research Institute pwc.com/hri

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Week of 1/6/2014

This week's regulatory and legislative news:

- **Millions gain coverage under ACA**
- **Study: Expanded Medicaid coverage in Oregon leads to a spike in ED use**
- **Docs struggle to identify costs of common medical devices**
- **Research and development tax credit expires**
- **Providers, consumers could see big changes to Medicare Part D**

Millions gain coverage under ACA

As the ACA heads into its big implementation year, several million have gained coverage as a result of the law's provisions. According to CMS, the total number of exchange enrollees topped 2.1 million for the first three months of open enrollment, which is set to close at the end of March 2014. The agency also reported that 3.9 million individuals were determined eligible for Medicaid and CHIP – although some may be renewing previous coverage. The expansion is also expected to draw individuals who were previously eligible for Medicaid but did not enroll. At least three million young adults under age 26 have also gained coverage through their parents' insurance plans under the ACA.

HRI impact analysis: The numbers reflect a law that is still in the nascent stage of implementation. The Congressional Budget Office estimates that there will be seven million exchange enrollees and nine million new Medicaid/CHIP enrollees in 2014 – but it's still too early to tell whether the administration will hit those estimates. Just over half of states are expanding their Medicaid programs up to 138% of the federal poverty level in 2014 – a decision left to states after the Supreme Court's 2012 ruling. Others may feel pressure to expand as neighboring states see new federal healthcare dollars. The most likely continuing implementation challenges will be consumers making premium payments, duplicate or missing enrollment information, and retroactive claims payments.

Study: Expanded Medicaid coverage in Oregon leads to a spike in ED use

Individuals who gained Medicaid coverage for the first time opted to use the emergency department (ED) for conditions readily treatable in less costly settings, according to a study published in the journal Science. Harvard University researchers tracked the ED use of nearly 25,000 individuals who gained Medicaid coverage in 2008, under a limited expansion in Oregon. Researchers found that after gaining coverage, overall ED use increased by 40% across a range of visits and medical conditions. The finding raises concerns that the ACA's coverage expansion could increase healthcare spending while hindering the shift of newly insured patients to more coordinated care practices. Some analysts say ED visits surged among the newly insured due to a shortage of providers willing to accept new Medicaid patients. The findings mirror what happened in Massachusetts in the two years after it passed universal health coverage in 2006, where hospitals saw an initial increase in ED visits. But ED usage began to decline about three years later, as more of the newly insured took advantage of available primary care services.

HRI impact analysis: Low-income Oregonians who gained Medicaid coverage also utilized primary care and purchased prescription medicine at higher rates. Using $435 as the average cost of an ED visit, the study estimates that Medicaid increases annual spending by about $120 per person. If those estimates hold nationally, the ACA's coverage expansion could inflate medical cost growth this year and next. Operationally, however, the impact on hospitals may be less severe. Many health systems already adjust for ED patient volume, adding more staff during peak hours and tapering as fewer patients are admitted.

It is unclear why Oregon's newly covered sought ED care over other settings, such as outpatient clinics. Factors such as convenience, location and out-of-pocket costs may have contributed to increased ED volume.

Docs struggle to identify costs of common medical devices

Only one-in-five physicians could say how much commonly used orthopedic devices cost—and even fewer residents were able to do so—according to a new survey published in the journal Health Affairs. University of Maryland School of Medicine researchers questioned 503 physicians and residents from seven academic medical centers about the cost of 13 orthopedic devices, including hip arthroplasty components, distal radius locking plates, suture anchors and more. Estimates were considered correct if they were within 20% of the price. The findings: Only 21% of attending physicians correctly estimated the cost of the device, and only 17% of residents did so.

HRI impact analysis: The lack of pricing knowledge—especially around orthopedic devices—is doubly critical since more than $150 billion is spent each year on these physician preference items. Orthopedic and cardiac procedures together account for the lion's share of Medicare's device expenditures, the study found. Even so, most medical device companies consider pricing data confidential, and most contracts with hospitals prohibit the release of such information. What's more, costs often vary from one hospital to the next and prices tend to fluctuate over the course of a given year, researchers found. Still, as employers and consumers become more price sensitive, the importance of clear and transparent pricing will grow. Some employers are already capping how much they pay for procedures such as hip and knee replacements, which has worked to reduce costs.

Research and development tax credit expires

Congress adjourned at the end of last year without renewing an important tax break for innovative companies, including drug and device manufacturers. The research and development tax credit is one of the main tools the federal government uses to spur private investment in innovation. The tax break was established in 1981 to help companies pay for R&D expenses such as staffing and supply costs. Congress intended the program to be temporary, but has never let the credit expire permanently because of its popularity. The most recent renewal occurred as part of a budget deal last January that extended the credit through December 31, 2013, costing the government $14.3 billion.

HRI impact analysis: It's likely Congress will reach a deal to temporarily renew the credit again and make it retroactive so companies don't experience a lapse in the benefit. Organizations will need to stay up to speed on legislative efforts to extend the credit when calculating their tax liability. The tax credit is seen as a valuable element in funding the nation's innovation agenda. The failure of Congress to renew the credit could dampen private domestic investment in new R&D strategies and experimentation models.

Providers, consumers could see big changes to Medicare Part D

Doctors will be expelled from the Medicare program for abusive prescribing practices under a proposed rule issued by CMS this week. The change is part of the agency's effort to crack down on overprescribing by physicians, especially of highly addictive medications such as painkillers. The proposed rule also gives Medicare prescription drug plans more flexibility in designing formularies. In 2003, when Congress created the new drug program, it required participating plans to cover all drugs within six categories, such as anticonvulsants and antiretrovirals. Seven years later, the ACA gave CMS the flexibility to modify these drug categories to help save costs. The agency proposed that drug plans no longer have to cover all antidepressants and immunosuppressants.

HRI impact analysis: Physicians may face new compliance challenges under CMS' proposal. Doctors will need to monitor their prescribing patterns closely so they don't run afoul of the new rule. The proposal to change Part D formularies will likely concern consumers who rely on specific medications that may no longer be covered. According to HRI's report on the customer experience in the pharmaceutical sector, insurance coverage is the most significant factor for consumers when deciding what drugs to purchase. If consumers must switch to a different medication that doesn't work as well, it could reduce adherence. HRI's research shows that one of the top reasons patients stop taking their medication is side effects.

Upcoming events & deadlines

- **January 15** – Deadline to sign up for insurance for those with pre-existing conditions for coverage beginning on February 1, 2014.
- **January 27 –** Comments due for Medicare hospital outpatient prospective payment system and the Medicare ambulatory surgical center payment system rates for 2014.
- **February 3 –** Comments due on FDA's draft guidance on compounded pharmaceuticals.
- **March 31** – Open enrollment in health insurance exchanges closes for 2014.

Quote of the week

"You want people to have consistent insurance coverage, whether you're dealing with someone who's got mental health and substance abuse issues or a variety of undertreated chronic conditions," said Matt Salo, executive director of the National Association of Medicaid Directors. "If you get them into Medicaid at one point and get them stable and on a plan of care, you don't want a transition into a different plan to set them back, and then have those people rebound back into Medicaid." Salo referred to "churn," in which people cycle between Medicaid and exchanges. Millions are expected to churn between Medicaid and health exchanges in 2014.

In the news

A recent article by the New York Times discusses a new report on employer wellness programs. The study, found that while significant cost savings were reported for those programs that encourage people with chronic illnesses to stay healthy through education and reminders, those attempting to mitigate health risks through weight loss or stress management saw no savings.

Factually correct

3.7% - The rate of health care growth in 2012. This marks the fourth consecutive year of low health care spending, with CMS citing the weak economy as cause for the slow growth.

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