HRI as we see it

Weekly insights from the Health Research Institute pwc.com/hri

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Week of 9/23/2013

This week's regulatory and legislative news

- **Federally qualified health centers get a 30% pay raise under proposed rule**
- **New rule lays out framework of basic health program**
- **Medical device costs declining**
- **FDA releases guidance for mobile medical apps**
- **New research on insurer readiness and exchange premiums released**
- **Unique Device Identification final rule released**
- **Medicare Advantage sees higher quality plans, moderate premium growth**
- **Updated HRI health reform map**

Federally qualified health centers get a 30% pay raise under proposed rule

New regulations proposed last week by CMS would move federally qualified health centers away from their current "reasonable cost-based" rates, which cap payments based on location, and put them instead on a path to a Medicare prospective payment system. Under the ACA, Medicare would pay the nation's 8,900 public health clinics a rate that takes into account the type, intensity, and duration of medical services, as well as other factors, such as location. CMS officials estimate that the change, which goes into effect October 1, 2014, would increase payments by about 30% for medical services furnished to Medicare beneficiaries. In 2012, Medicare accounted for about 9% of total health center billing.

HRI impact analysis: The National Association of Community Health Centers said it is generally pleased with the proposal, but it cautioned that parts of the new rule could adversely impact federally qualified health centers. The proposed rule, for example, would eliminate "multiple visit" payments, in which Medicare makes two payments for the same patient during the same visit. This occurs when a patient is treated for two different medical conditions—for example, one payment for a respiratory treatment and another for a mental health evaluation. More broadly, the rule acknowledges that care delivered in outpatient clinics reflects a growing trend as consumers choose care settings closer to home.

New rule lays out framework of basic health program

Last week, HHS released a much-anticipated proposed rule on the basic health program (BHP). The program authorized under the ACA is a state-run alternative health plan for consumers cycling between exchange subsidies and Medicaid eligibility as their income fluctuates. Under the rule, states that are interested in running their own basic health program must submit a "blueprint" similar to that required for exchanges. The proposed rule draws heavily on both Medicaid and exchange requirements in areas such as eligibility, plan certification, and benefits. The program was originally slated to start in January 2014, but it was later postponed to 2015.

HRI impact analysis: The basic health program is a potential win for Medicaid managed care companies, which are well positioned to contract directly with states to provide continuous coverage across both Medicaid and subsidized exchange plans–at least in states that choose to pursue the program. A number of Medicaid managed care plans are already jumping into the public exchanges in 2014 with an eye to this so-called "churn" population—the estimated 36% of individuals who are expected to cycle four or more times between Medicaid and the exchanges in the next four years. Many states are expected not to implement the basic health program, however, because it will take away from exchange enrollment and make it more difficult for states to cover their exchange operating costs.

Medical device costs declining

Prices for major implantable devices are falling, according to a new report released this week. The findings

were released as the Advanced Medical Technology Association (AdvaMed) met in Washington for its Med Tech Conference. Between 2007-2011, hospitals saw a range of price decreases depending on the device. Examples include: defibrillators (-24%), pacemakers (-26%), artificial hips (-23%), artificial knees (-17%), and drug-eluting stents (-34%).

HRI impact analysis: These findings are consistent with HRI's Behind the Numbers report, which shows a slower rate of growth overall. A number of factors may play a role in pushing device prices downward. As hospital mergers continue, the new entities often leverage their size to negotiate better prices. Hospitals are also relying more on sophisticated inventory management systems to track and use high-cost devices more efficiently. Government transparency initiatives, such as the Sunshine Act, may also have an impact as manufacturers reduce consultant fees and other expenditures designed to influence surgeon preference.

FDA releases guidance for mobile medical apps

After more than two years of deliberations, the FDA has released final guidance to the mobile medical app industry on how it plans to regulate their products. The agency has decided that it will use its enforcement discretion to focus only on a small subset of medical applications that it believes pose a high risk to patients if they do not work as intended, such as electrocardiographs or apps that act as remote controls for X-Ray or CT scanning machines. An app that keeps track of drugs to improve medication adherence would not be regulated under the new guidance. The FDA also made clear that it will not regulate the sale or general consumer use of smartphones or tablets, nor will it regulate mobile app distributors such as the "iTunes App store" or the "Google Play store," which was a concern for some members of Congress.

HRI impact analysis: This is welcome news to mobile health app developers whose products are growing in popularity. The industry estimates that 500 million smartphone users worldwide will be using a healthcare application by 2015. By 2018, 1.7 billion smart phone or tablet users will have downloaded an app. HRI's report on Top Health Industry Issues highlights how providers, patients, and family caregivers are increasing their use of the technology to communicate and deliver care.

New research on insurer readiness and exchange premiums released

After months of speculation, HHS has released a snapshot of premium rates for federal exchange states—although it stopped short of releasing all rates, noting some were still under review. According to the report, 56% of uninsured Americans may qualify for exchange coverage that costs less than $100 per month. HRI's own analysis of premium changes across four states—released Wednesday—shows that individual market premiums will decrease for most of the 86% of exchange consumers expected to be eligible for subsidies. For more on the premium analysis and new survey research on how insurers are approaching the exchanges, read HRI's newest report, Open for business: Insurers prepare for new consumer market.

Unique Device Identification final rule released

The FDA released a final rule detailing its plans for a unique device identification system that has been seven years in the making. The rule, which requires manufacturers to include a unique identifier on products or packaging, will be fully implemented in 2020. For more information on the rule, see HRI's new Spotlight.

Medicare Advantage sees higher quality plans, moderate premium growth

Average Medicare Advantage monthly premiums next year are expected to be $32.60, an increase of $1.64, according to projections released last week by HHS. Additionally, seniors enrolled in the private health plans will have about the same number of choices in 2014 as they did this year, HHS said. Since passage of the ACA, average Medicare premiums are down by 9.8% while the number of health plans earning four or more stars for quality increased 37% from last year. Click here for a state-by-state breakdown of premium costs.

Updated HRI health reform map

With exchange open enrollment just around the corner, HRI has a newly updated health reform map. Check out the HRI website for the latest details.

Upcoming events & deadlines

- **October 1 –** Health insurance exchange open enrollment begins
- **October 1 –** CMS final rule on state Medicaid disproportionate share hospital payment reductions
- **October 17-18** – Annual America's Health Insurance Plans (AHIP) States Issues conference on health insurance exchanges and Medicaid expansion

- **November 25 –** Comments due on the proposed rule on the Basic Health Program. The program provides states the option to establish a health benefits coverage program for low-income individuals who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace.

Quote of the week

"As soon as the law was passed, the question among employers and benefits people was: Is there still going to be a reason for COBRA?" said Steve Wojcik, vice president of public policy for the National Business Group on Health, an employer group. Offered a choice between heavily subsidized coverage in the health act's insurance exchanges or paying full price under COBRA, he said, "most people are going to choose the exchange."

In the news

A recent article in the *The New York Times* takes a look at an increasing presence of hospitals in the United States that are not only serving as a place of care for patients, but are also providing services associated with upscale hotels, such as nail salons, healing gardens, and upscale-restaurant quality dining options.

Factually correct

440,000 – the number of patient deaths in US hospitals due to medical errors that a new study in the Journal of Patient Safety says occurs each year. That is significantly higher than the 98,000 medial errors the Institute of Medicine estimated in its 1999 report, *To Err Is Human.* This finding elevates medical errors to the third-leading cause of death in the United States.

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