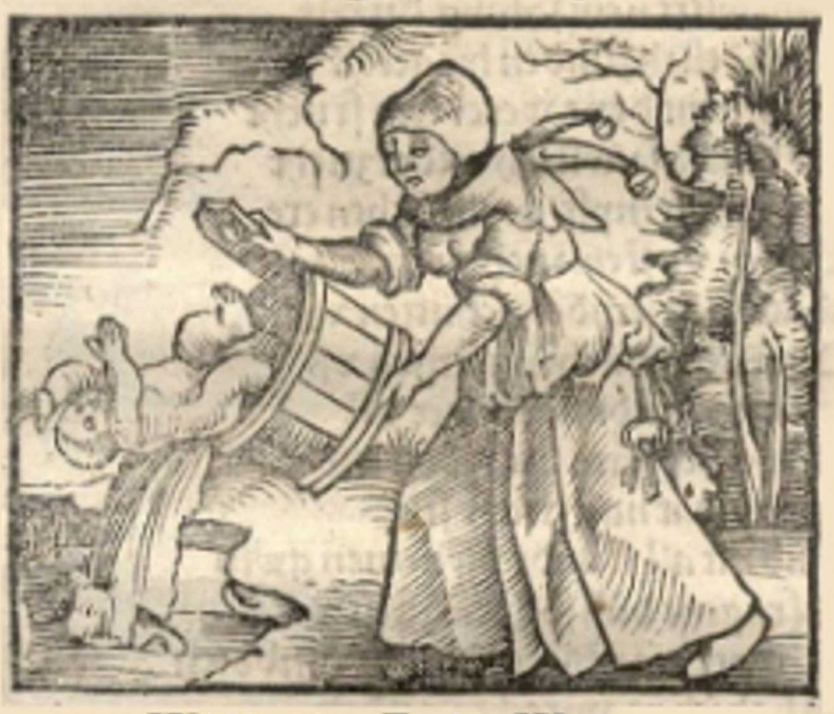
How America Can Cut Waste, Save Billions & Improve Healthcare

The Case for Medicare Investment in Durable Medical Equipment

2017 Update

Throwing the Baby Out



With the Bath Water

How America Can Cut Waste, Save Billions & Improve Healthcare

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The Case for Medicare Investment in DME – 2017 Update

"Don't focus on cost cutting. Focus on waste cutting."

Jamie Dimon – CEO J.P. Morgan at J.P. Morgan Annual Healthcare Conference January 2017

With the incoming administration targeting major healthcare change and cost saving, it is the ideal time for CMS to end its focus on DME cost cutting and take immediate steps to drive down the massive payments it now makes to treat the very problems that DME is designed to avoid. This study shows that such a shift makes clear economic and practical sense – every dollar Medicare spends providing DME to beneficiaries can save CMS from $11 to $29 in direct treatment payments.[i] Overall annual savings for the U.S. healthcare system (which takes into account the dynamic macroeconomic impact of future investing in DME) ranges from $23 to $41 for every dollar invested. Drops in access to DME that have occurred since competitive bidding was initiated support the ability of CMS to effectively spend on DME going forward.

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In 2011, we began to study Medicare spending for DME to determine if it made sense for CMS to increase its investments in DME to drive reductions in treatment costs for injuries and illnesses that resulted from Medicare recipients not having the right DME. The initial study showed that spending to provide DME to beneficiaries saves Medicare much more in reduced treatment costs than the actual payments it makes for the equipment.

That study was updated in 2014 to reflect a period that saw the launch and then expansion of the competitive bidding program and continued attacks by CMS on payments for power chairs, oxygen therapy and CPAP therapy. The 2014 update showed that three years later it made even more sense for CMS to invest in DME. Since the 2014 update, CMS has continued to expand its attacks on DME pricing, applying the pricing model to rural areas not covered by the earlier versions of the program. The recent CURES Act further extends competitive bidding pricing to the federal portion of Medicaid.[ii] This has all led to a dramatic drop in DME providers serving the Medicare population, profit margins that are often thin or non-existent and reduced access to equipment by beneficiaries.

Through it all, CMS has focused on cost cutting and has failed to recognize the positive leverage of its spending potential. In part, its misplaced focus is the result of its initial impetus for reducing spending on equipment – elimination of fraud. By the end of the 2nd year of competitive bidding, CMS had succeeded putting in place a wide range of fraud prevention efforts to eliminate the bulk of fraud in the system. Instead of refocusing on prudent and reasonable investment in DME, CMS has continued its pricing attacks. It has 'thrown the baby out with the bath water'.

Brian Leitten
Principal, Leitten Consulting

The Case for Medicare Investment in Durable Medical Equipment

When CMS Invests...	The Government Saves...	The Beneficiary and Private Insurers Save...
$1 on mobility DME...	$29.00*	$5.80*
$1 on supplementary oxygen therapy...	$14.30	$2.64
$1 on CPAP therapy..	$11.38	$0.86

*Over a 5-year equipment life period.

Total Direct & Indirect Saving to Overall U.S. Healthcare System

Mobility DME	Oxygen Therapy	CPAP Therapy
$41.76 *	$23.72	$24.48

* Over a 5-year equipment life period

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