

Pursuit of Value for Medical Devices

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Insurer's Perspective

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Hospital/Insurer Contracts

- Hospitals historically included costs of devices/implants within per diems and case rates – this is starting to change
 - Hospitals faced spiraling costs of devices/implants, which impacted profitability of cases
 - Hospitals “carve-out” implant/device costs from per-diems and case rates
 - Hospitals’ preferred reimbursement is based on a percentage of billed charges (usually substantially marked up) or 100%+ of invoice cost



- **Hospitals transfer risk and exposure**
- **Incentive to control and influence device purchasing is largely eliminated**

Hospital/Insurer Contracts

- Insurers are unable to control or influence purchasing once carve-outs are in place
 - Hospitals expect and demand compliance with the contract
 - There are no mechanisms to approve or review choice of device/implant
 - Plans cannot utilize their scale to get best prices from manufacturers
 - Frustratingly we know there are substantial differences in cost, quality and value, but we can't make informed choices



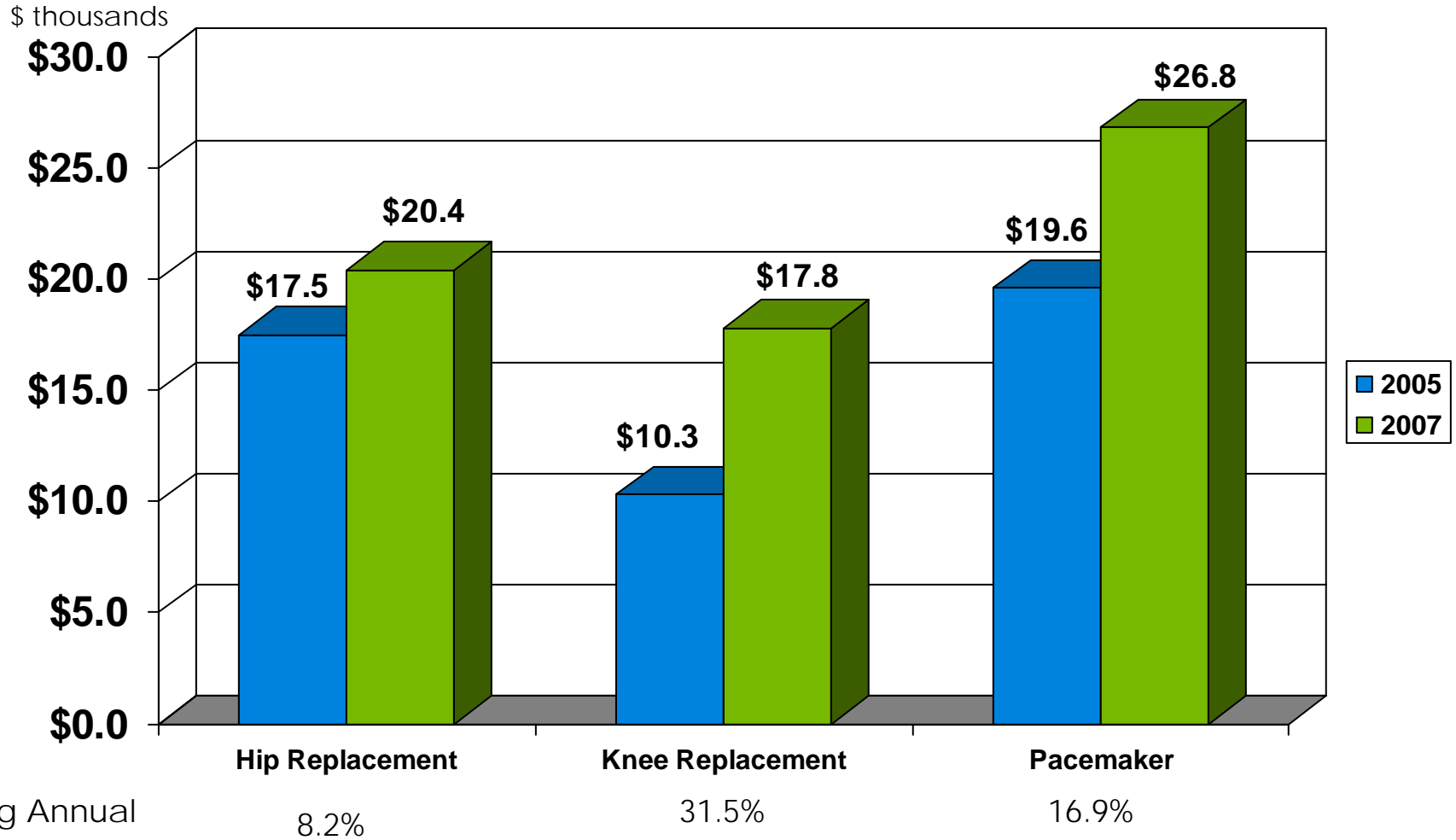
- **Incoherent choices and purchasing behavior**
- **Lack of aligned incentives**
- **Uncontrolled cost inflation**

Reality for Hospitals and Patients

- Hospitals don't want to tell physicians which implants/devices they can use – this risks turning away critical revenues on high(er) margin business
- Members/Patients are not exposed to differences in price or motivated to care about the price
- Since Members/Patients are not exposed to price differences, physicians will often not consider affordability tradeoffs in implant/device selection.

Devices/Implants

Increase in Costs per Device/Implant



Avg Annual Increase

Possible Solutions

- Create a body/entity that will consider cost/quality tradeoffs and select preferred options by type
 - Real Physician input is essential
 - This must be based on science, not advocacy
- Plans negotiate directly with manufacturers to gain best price and terms
- Plans implement benefit designs that align incentives with patients/members (think of a formulary with brand, generic and non-formulary choices)