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Advanced Medical Technology Association

Healthcare Reform Update

Medical Device Supply Chain Council

BRINGING INNOVATION TO PATIENT CARE WORLDWIDE

December 2, 2009

About AdvaMed

AdvaMed
Advanced Medical Technology Association

- World's largest medical technology association
- 1,600+ member companies and subsidiaries

- Members produce 90% of sales in domestic market, 50% of sales in global market
- 70%+ of member companies have less than $30 million in annual revenue

- 65 staff with global expertise, bi-partisan backgrounds
- 45 member Board of Directors including 5 from smaller companies

Overview

- Goals of health reform
- The coverage, cost, and quality problem
- Coverage expansions and financing
- New reimbursement paradigms
- Device tax
- Long term trends affecting device industry
- Summing up

Goals of Health Reform

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- Expanded coverage
  - Insurance reform (“exchange”)
  - Subsidies for low and moderate income
  - Employer obligation
- Reduced cost growth
  - Changed payment paradigm
  - Care coordination
  - Health information technology
  - Health promotion and disease prevention
- Improved quality

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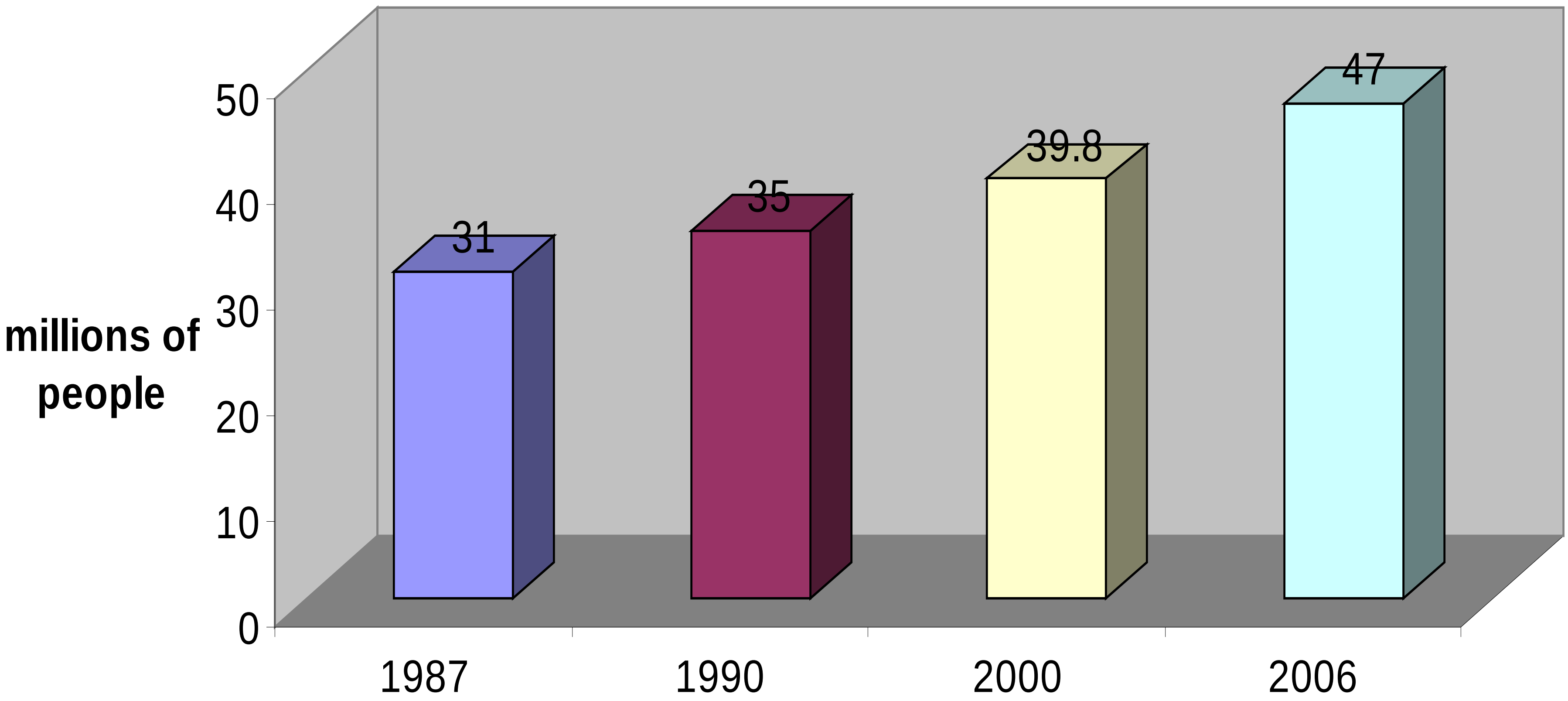
The Coverage, Cost, and Quality Problem

Growth of the Uninsured



Source: U.S. Census Bureau

National Health Expenditure Growth

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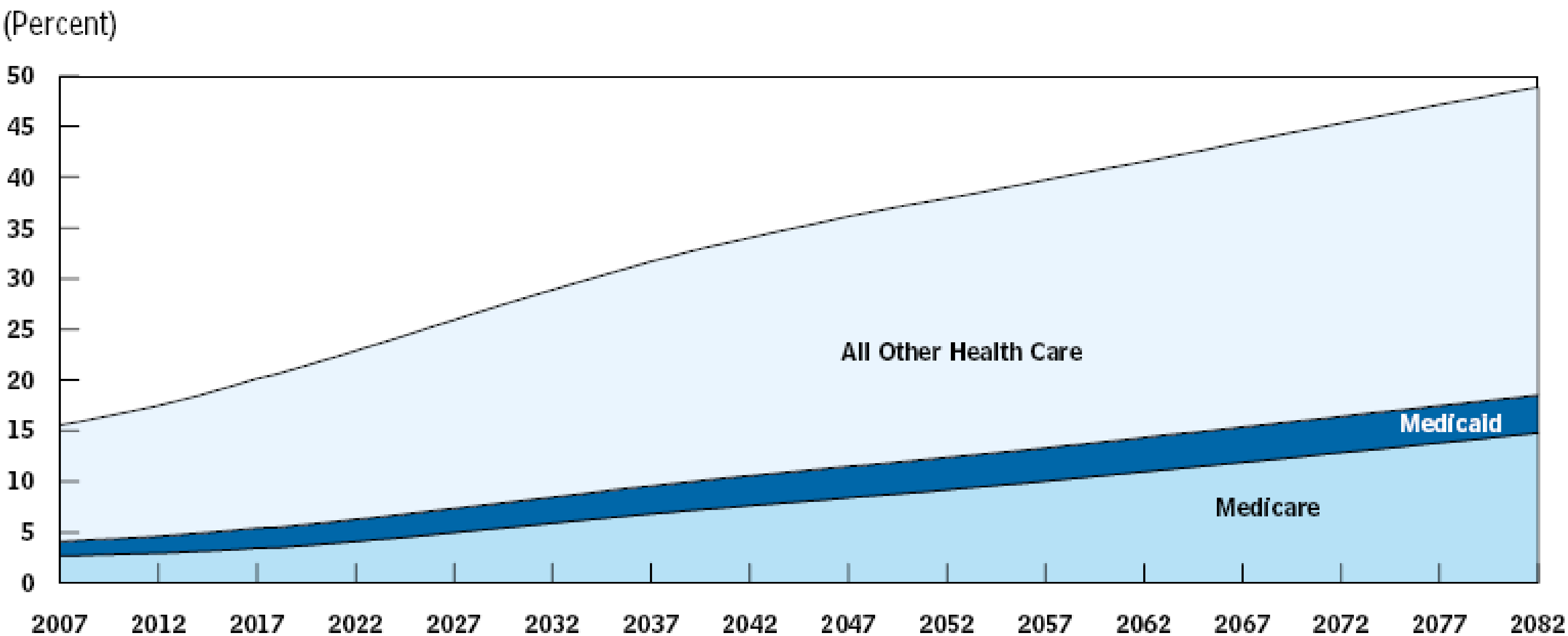
Projected Health Care Spending as Percentage of GDP



Source: Congressional Budget Office.

Note: Amounts for Medicare are net of beneficiaries' premiums. Amounts for Medicaid are federal spending only.

Medicare and Medicaid Spending and the Federal Budget

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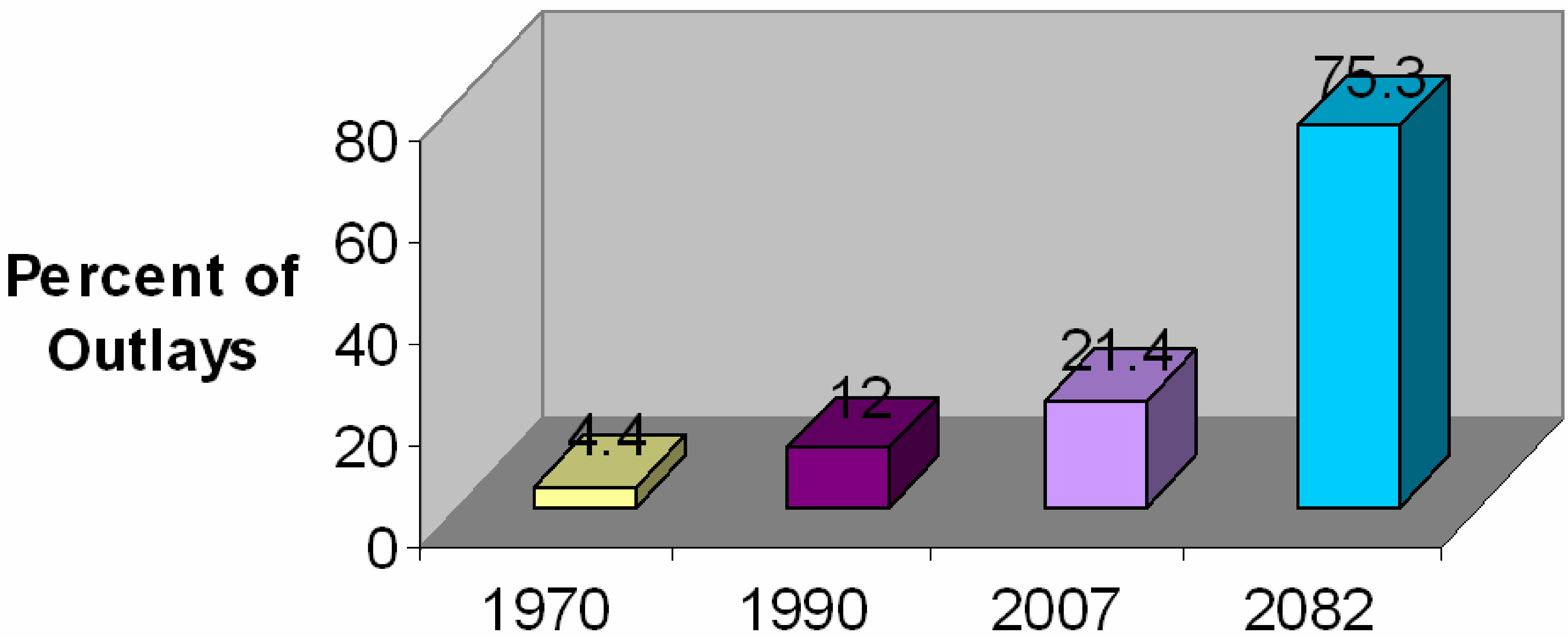

Sources: OMB, FY2007 estimates: OMB Historical Tables; Nichols, Len M. (2007, Feb. 22) "Health Spending & the Federal Budget: Facts, Context & Challenges." Presented at the National Health Policy Forum; CBO

Devices and the Cost Problem

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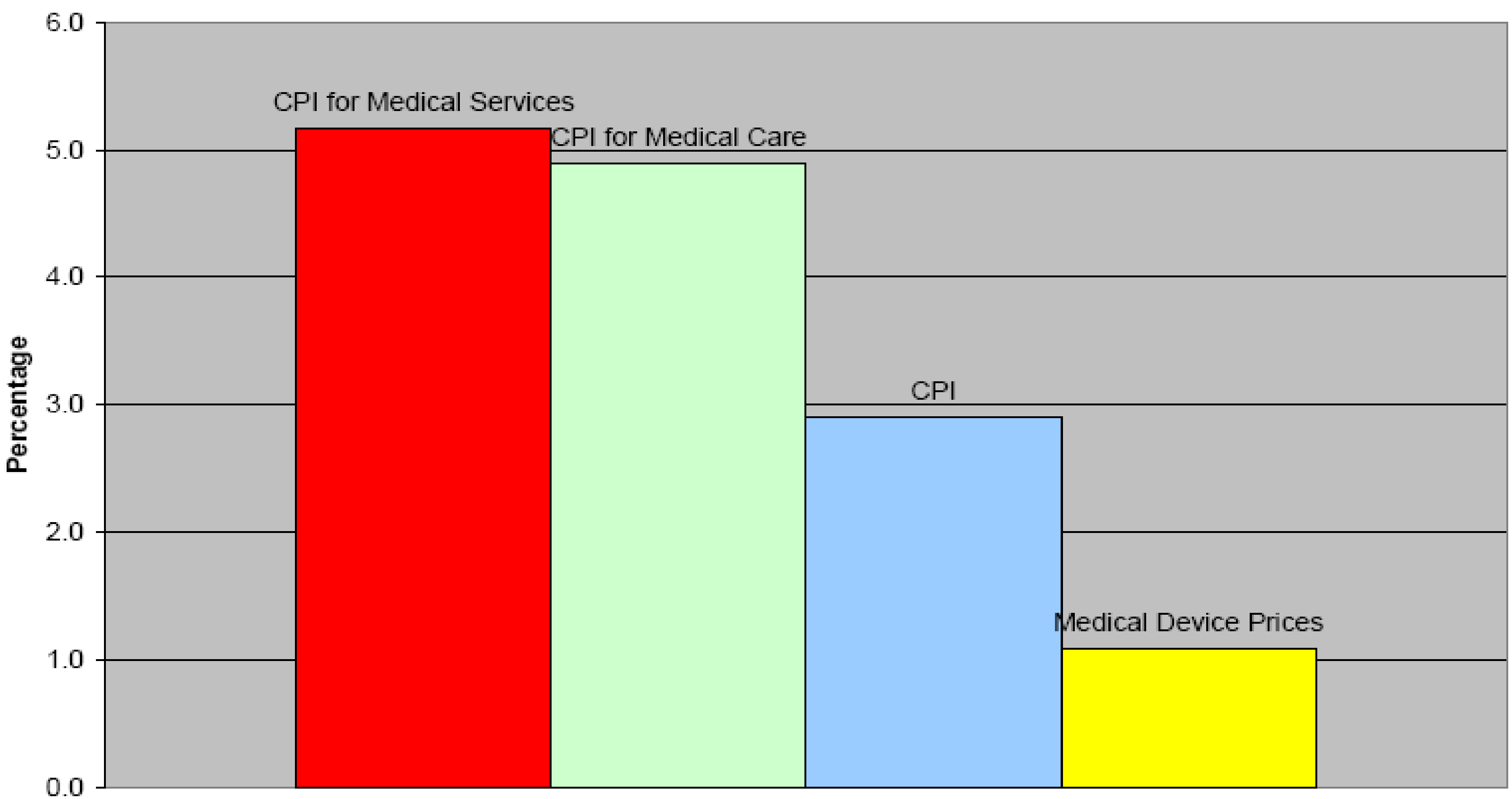
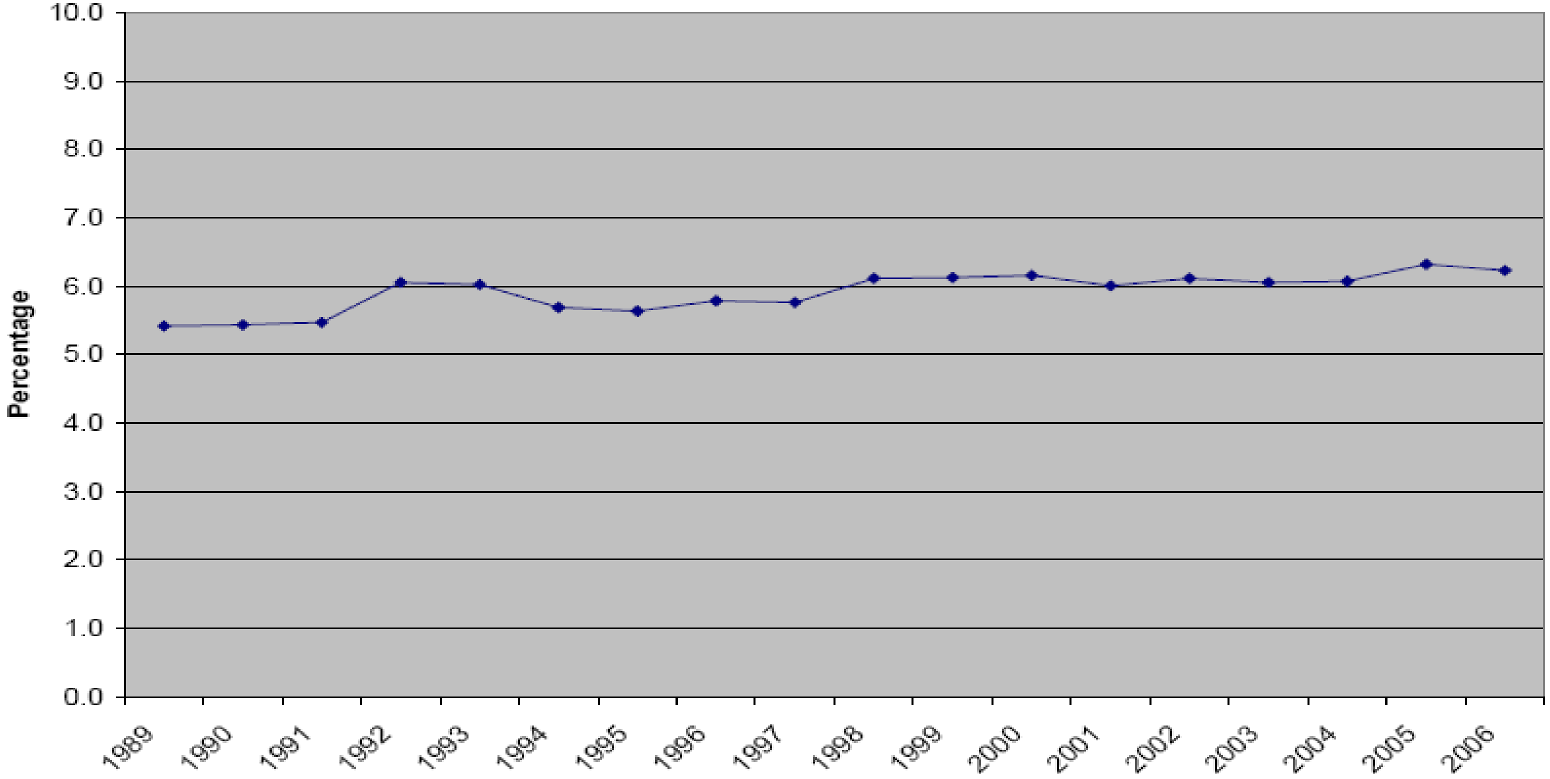
Figure 3: US Consumer Prices and Selected Medical Prices 1989 - 2006

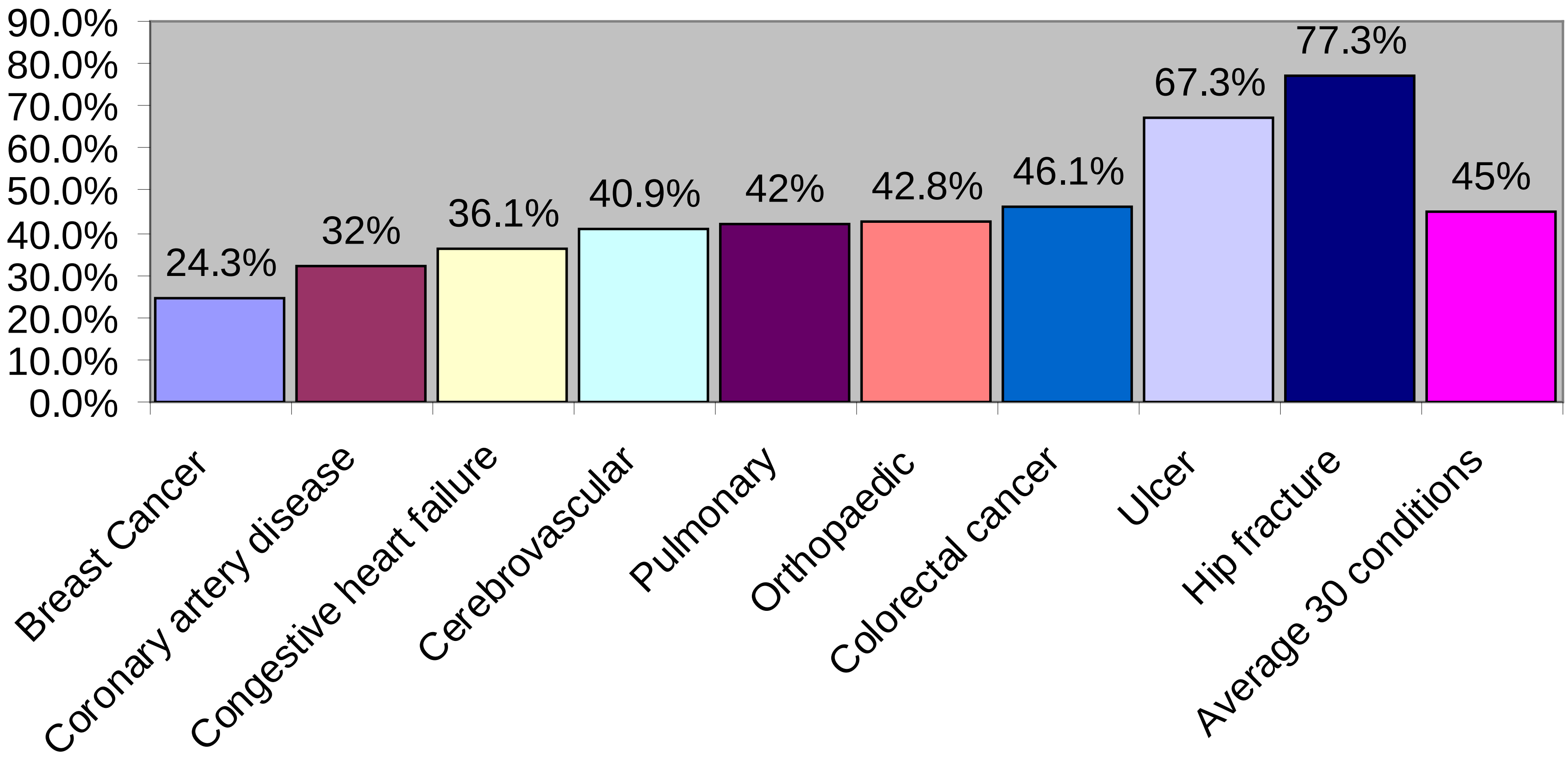


Devices and the Cost Problem

Figure 2: Device Expenditures as a Percentage of National Health Expenditures



U.S. Quality Gap
Proportion not Receiving Recommended Care



Source: McGlynn et al "The Quality of Health Care Delivered to Adults in the United States" NEJM June 26, 2003

Coverage Expansion and Financing

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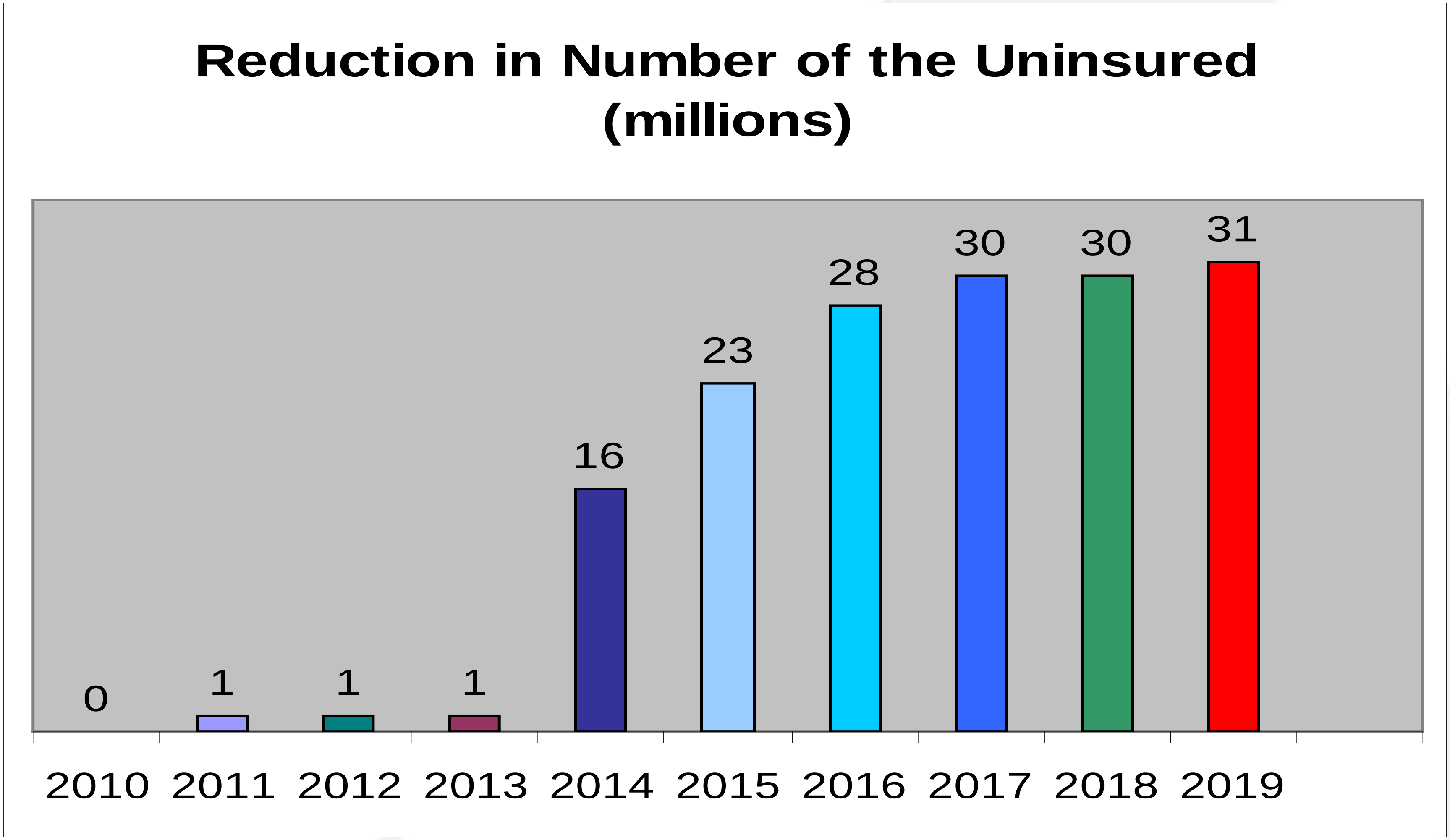

Source: Congressional Budget Office, Senate leadership bill, 11/18/2009, Table 3

Financing

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House

- Medicare Cuts
- High income tax surcharge

Senate

- Medicare cuts
- Excise taxes on insurers, drug companies, device makers
- Taxes on high cost health plans
- High income Medicare tax surcharge

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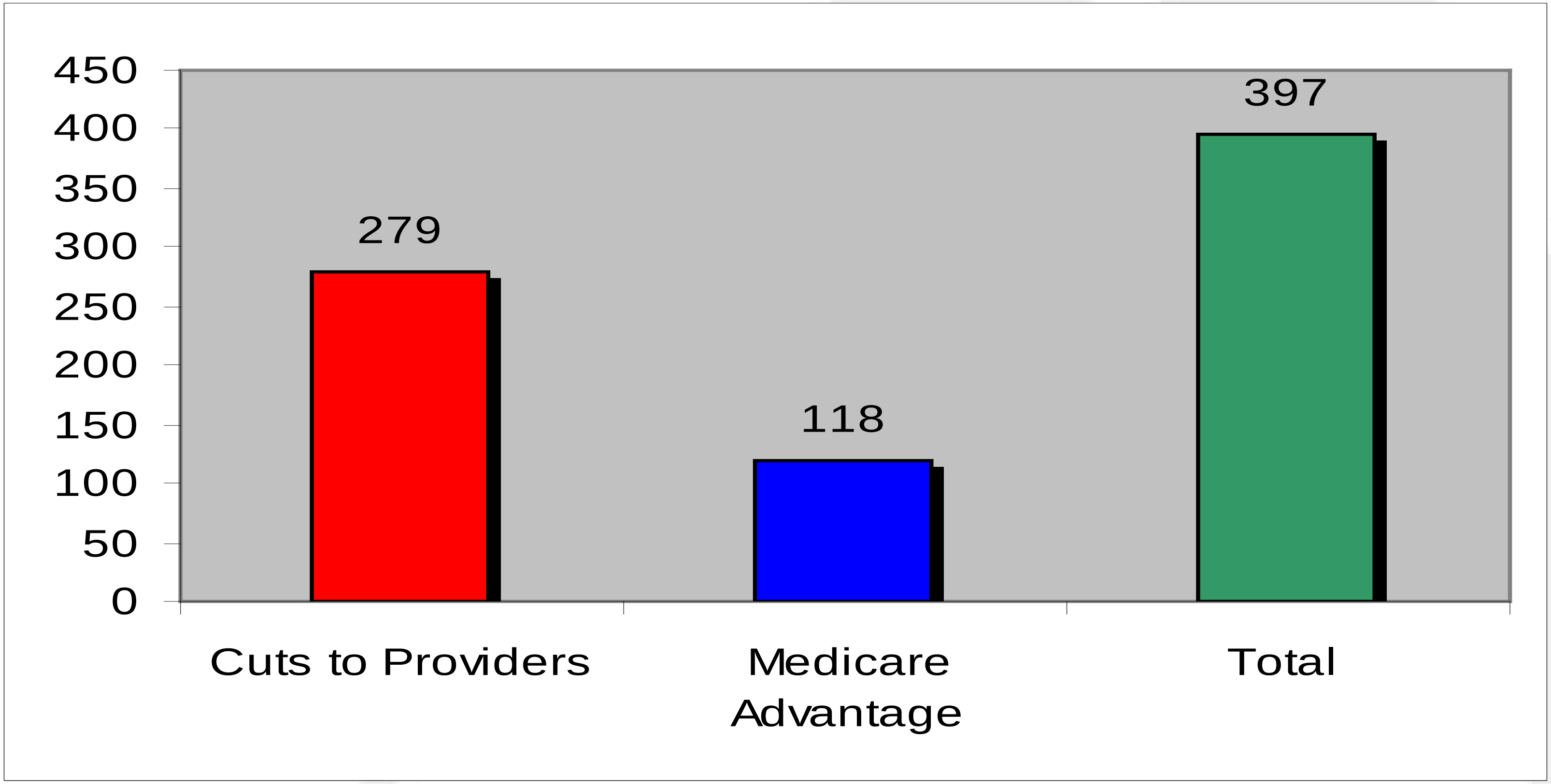
Medicare Cuts 2010-2019

($ in billions)



Source: Congressional Budget Office, Senate leadership bill, 11/18/2009, Table 2

New Reimbursement Paradigms

New Payment Paradigms: Current system

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- Physicians paid fee-for service
- Hospitals paid:
  - Per diagnosis related group admission (DRGs)-Medicare
  - Percent of charges- private insurers
- Little or no reimbursement for care coordination
- No differential reimbursement for quality
- Specialists paid more than primary care practitioners

New Payment Paradigm: Proposed Solution

- Pay for performance
  - layer rewards for quality and efficiency on existing payment structure
- Bundle hospital, physician, and post-acute payments
- Accountable Care Organizations
- Comparative Effectiveness Research

New Payment Paradigm: Key Implementation Issues

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- Ensuring early adopters will not be penalized
- Preventing "efficiency" incentives from crowding out more novel, more expensive products
- Avoiding more centralized coverage decision-making
- Preserving physician autonomy in product choice

New Payment Paradigm: Implications

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Challenge

- Increased pressure on pricing
- Customer incentives to reduce utilization
- Potential barriers to new products, especially more expensive products

Opportunity

- Increased utilization of underutilized products
- More rapid diffusion of products to help meet quality goals
- Enhanced market for products that reduce costs across episode of care or more effectively manage chronic illnesses

Strategic Implications

- Build cost and comparative effectiveness data into product development
- Engage with quality-defining organizations

Device Tax: House vs. Senate

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House	Senate
Cost: $20 billion/10 yrs	$20 billion/10 yrs
Starting date: 2013	2010
2.5% excise tax levied point of sales	Tax apportioned based on sales at prior year's sales
All device classes taxed - retail products exempt	Only Class II and III taxed -retail class II <$100 exempt
Tax deductible	Not tax deductible
No small business provisions	Sales <$5 million exempt; >$5 but <$25 million charged 50%

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Long Term Trends Affecting Device Industry

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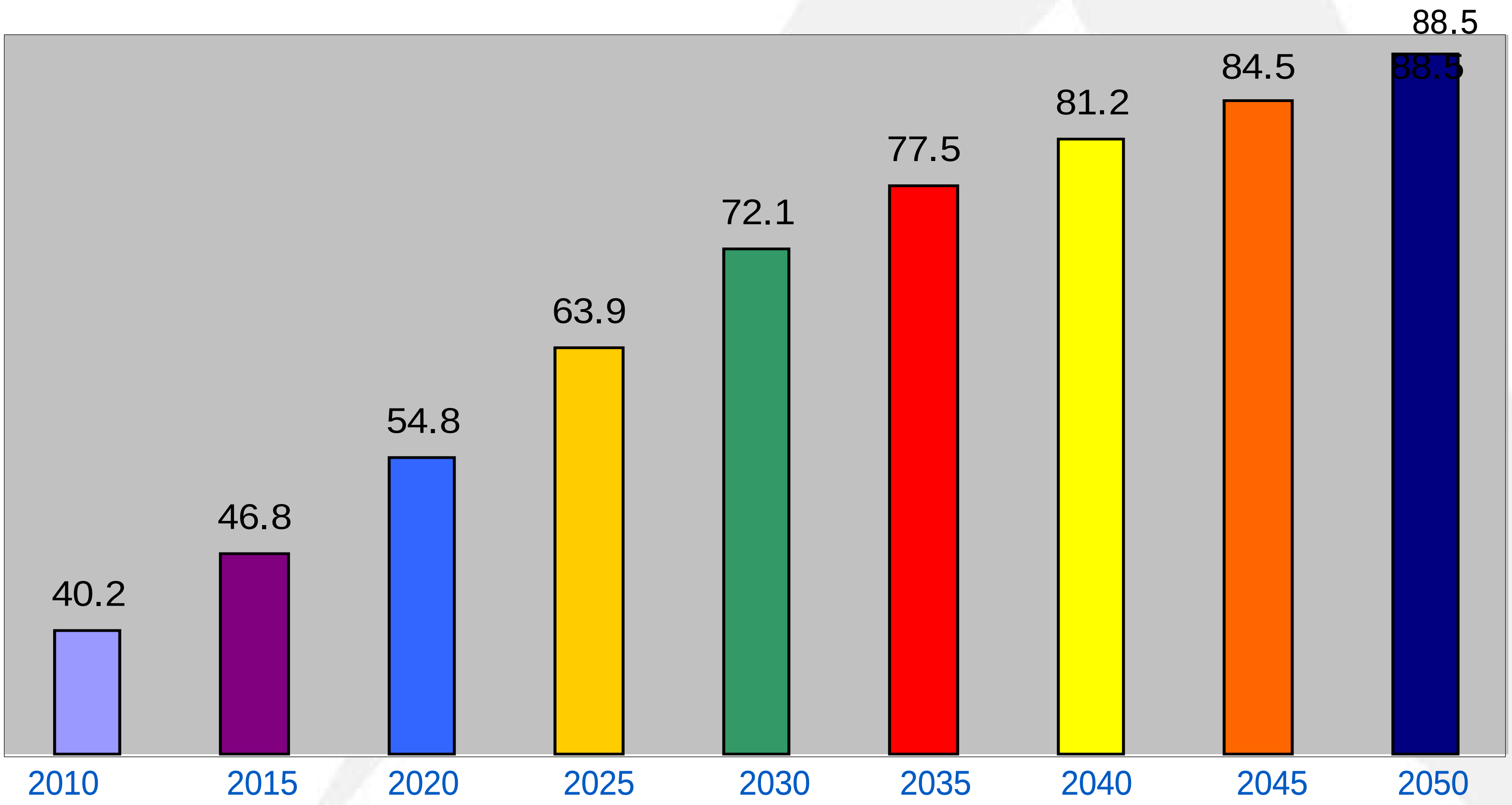
Projected U.S. Population 65 and Older: 2010 to 2050



Long Term Trends Affecting Device Industry

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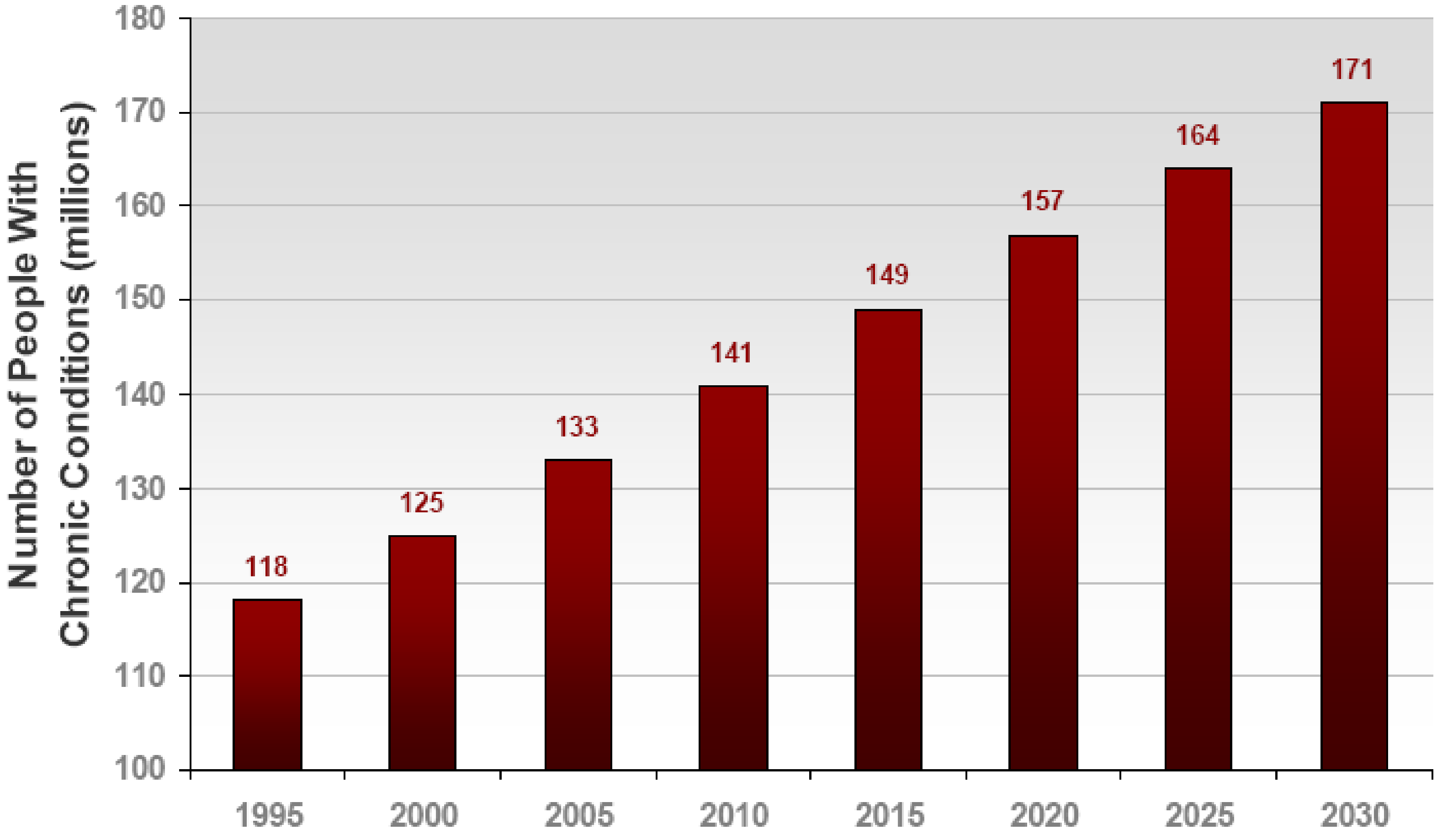
Growth in Chronic Disease



Source: Wu, Shin-Yi and Green, Anthony. Projection of Chronic Illness Prevalence and Cost Inflation. RAND Corporation, October 2000.

Long Term Trends Affecting Device Industry

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Growth in Specific Chronic Diseases

- Diabetes—71% to 30.3 million (2000 to 2030)
- Cancer—50% to 2.6 million (2000 to 2050)
- Stroke—167% to 1 million (1998 to 2050)
- Blindness/Vision Problems—32% to 50 million (2004 to 2020)
- Osteoporosis—39% to 61 million (2002 to 2020)

Source: Alliance for Aging Research

Summing Up

- New challenges and opportunities
- Short term modest negatives
- Long term positive outlook
- Implementation of reform is key
- Providers face enhanced cost pressures: supply chain management will gain new prominence

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