

# Medicare cuts increase cancer treatments, study finds

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In healthcare, less money doesn't always mean less service.

The 2005 Medicare Modernization Act, which substantially reduced Medicare payments to physicians for administering outpatient chemotherapy drugs, has had a somewhat paradoxical effect. Rather than resulting in fewer treatments, as one might expect, a new study finds that the Act has actually increased chemotherapy treatment rates among Medicare recipients.

"This sort of dynamic runs contrary to what most people would expect, but economists often encounter this sort of thing," says Joseph Newhouse, the John D. MacArthur Professor of [Health Policy](#) and Management at Harvard University and faculty member at Harvard Medical School, Harvard Kennedy School, Harvard School of Public Health, and the Faculty of Arts and Sciences, who carried out the study with colleagues Mireille Jacobson, now at RAND, Craig Earle, now at Sunnyside Medical Center, and Mary Price.

The study will be released on June 17 as a web first by [Health Affairs](#), and will also appear in its July edition.

Unlike the process for prescribing and billing for typical drugs, in which physicians simply write prescriptions that patients must then fill, oncologists purchase chemotherapy agents directly from [pharmaceutical companies](#) and then bill the patient's insurer. But they don't necessarily bill for what they paid.

Like cars, these drugs have a "sticker price," that is, a manufacturer's suggested cost that may or may not reflect what doctors actually pay. Many doctors will often purchase the drugs at a price far below the suggested cost and then bill insurance for the suggested price, making upwards of a twenty percent profit.

In 2005, the Medicare Modernization Act established that Medicare would no longer automatically pay what physicians billed. Instead, the federal government calculated the average amount that doctors typically paid for each chemotherapy drug, and then decided to reimburse no more than six percent above this average cost.

Many critics, however, claimed that this would adversely affect the patient and that less monetary incentive would encourage less patient care.

In the first-ever study to test this critique, Newhouse and his team looked at Medicare claims for 222,478 beneficiaries who between 2003 and 2005 were diagnosed with lung cancer. The researchers found that on average, within one month of diagnosis, chemotherapy treatment increased 2.4 percent after the [Medicare](#) Modernization Act, from 16.5 percent to 18.9 percent. What's more, use of more costly [chemotherapy](#) drugs increased, while use of less expensive drugs declined.

"Physicians don't always respond to incentives the way most people expect," says Mireille Jacobson of RAND, the study's first author, "but in this case they do respond in a way that makes sense to economists. It seems logical on the one hand that when you pay less you get less. However, in this case, since a high proportion of an oncologist's income depends on prescribing, paying less per drug results in more drugs."

The authors state in the paper that they cannot extrapolate from these findings either the appropriateness of increased treatment or the effects

on health outcomes. Additional studies will be necessary to examine these areas.

Provided by Harvard Medical School

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