

US medical innovation needs smarter incentives to cut health spending, study finds

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To help rein in massive health care spending, a new RAND study concludes that U.S. policy makers should urgently find ways to incentivize pharmaceutical companies and device makers to develop products that produce more value.

Instead of examining existing medical technologies and their use, a new study suggests the study identifies options to affect what drugs and medical devices get created in the first place. The aim is to help reduce health care spending with as little loss of health as possible and to ensure that costlier advances have large enough [health benefits](#) to justify their added expense. Doing so may require many complementary and some novel approaches.

"We spend more than \$2 trillion a year on health care in the U.S.—more per capita than any other nation—and the financial incentives for innovators, investors, physicians, hospitals and patients often lead to decisions that increase spending with little payback in terms of health improvement," said Steven Garber, lead author of the study and a senior economist at RAND, a nonprofit research organization.

To help reduce invention costs, the study recommends that the National Institutes for Health—the federal agency that is the major funder of basic biomedical research—encourage more creativity and risk-taking to promote major scientific breakthroughs.

The researchers also suggest that rewards for helpful inventions could be

increased by offering prizes, buying out patents and creating a public-interest investment fund. Shared savings from the Medicare program, which involves more than \$500 billion in spending each year, could provide much of the required money and induce top private investors to participate in the public-interest investment fund to help select the most promising ideas for investment.

The researchers said drugs and devices that would help decrease spending could receive expedited, but still rigorous, review from the federal Food and Drug Administration to enable safe and effective products to generate U.S. sales sooner.

Other options include encouraging wider use of drugs and devices that would help decrease spending and limit use of products that increase spending without commensurate health improvements.

With Medicare, the Centers for Medicare & Medicaid Services are not allowed by law to consider costs in its coverage policies; changing the law could open up opportunities to save money in the short run and improve innovators' incentives in the long run.

For example, processes to determine Medicare coverage and payment rates could be changed to favor technologies that would help save money. Further, the agency could expand its "coverage with evidence process," requiring as a condition for continued coverage of a product stronger evidence regarding its effectiveness. Medicare also could stop covering off-label use of costly cancer drugs in clinical circumstance where there is little or no evidence of effectiveness, the study says.

The forms of payment by Medicare and private-sector payers could be altered to put providers at greater financial risk—for example, by decreasing fee-for-service payment, which rewards physicians for doing more regardless of likely health benefits, and increasing use of bundled

and capitated payments under which providers bear additional costs.

Another promising approach is requiring patients to pay less out of pocket for services likely to help them and to pay more for services unlikely to do so. Because it can be hard to know which patients will benefit from which services, the researchers suggest that policymakers encourage development of more information in this area through more, and more timely, health technology assessments.

The researchers said there is urgency in making tough choices because failing to do so only delays establishment of stronger incentives for inventors to find ways to save money. Delay means more money will be spent on [health care](#) that isn't worth its costs and it will take even longer to rein in U.S. [health care spending](#).

More information: The study, "Redirecting Innovation to Decrease Spending and Increase Value in U.S. Health Care," can be found at www.rand.org.

Provided by RAND Corporation

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