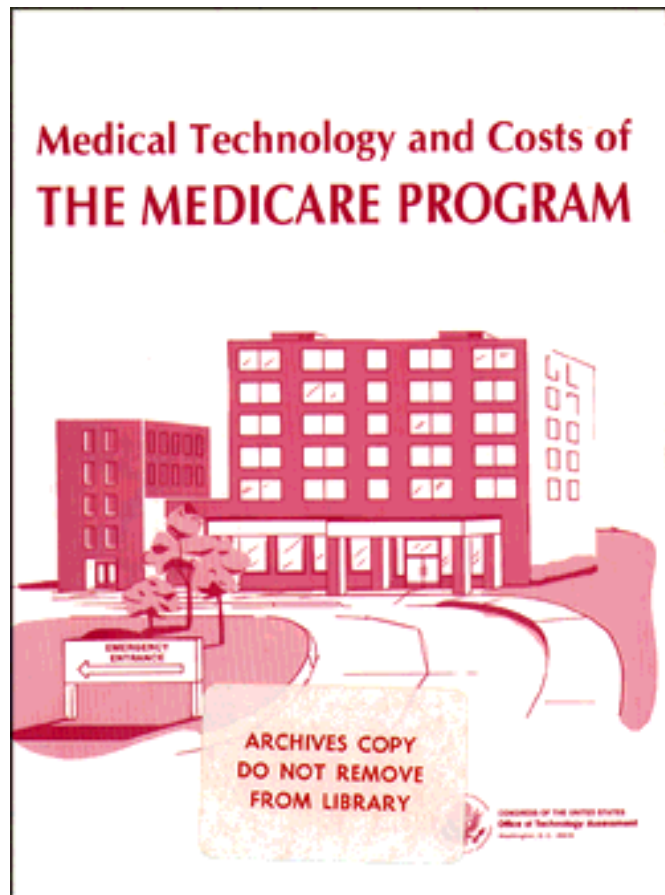


*Medical Technology and the Costs of the
Medicare Program*

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Foreword

U.S. health care costs have escalated rapidly over the past 15 years, and medical technology is a primary cause of the increase. A major focus of Federal policy makers' concerns about rising health care expenditures is the Medicare program, which pays for hospital and other acute-care health services for over 30 million elderly and disabled Americans.

To aid in congressional efforts to contain Medicare costs, the House Committee on Energy and Commerce and its Subcommittee on Health and the Environment and the Senate Committee on Finance, Subcommittee on Health asked OTA to assess a broad range of mechanisms to limit or reduce Medicare costs related to medical technology without sacrificing the quality of health care delivered.

In addition, the committees requested a study of the proposed use of Diagnosis Related Groups (DRGs) as Medicare's inpatient hospital payment mechanism and several case studies of particular interest to the Medicare program. These are published as separate volumes. This report focuses on the policy mechanisms to limit or reduce Medicare costs related to medical technology but draws from the study of DRGs and the case studies.

This assessment explores the **dual relationship between medical technology and the Medicare program: Medicare policies affect the adoption and use of medical technologies, and the patterns and levels of use of medical technologies significantly affect Medicare costs.** It reviews specific Medicare policies—eligibility, benefits, payment, and beneficiary cost-sharing—that have had an influence on the adoption and use of medical technology. It also examines the contribution of medical technologies to increases in Medicare costs.

The report identifies several possible changes in Medicare policies that could be used to influence medical technology adoption and use and to restrain Medicare program costs. These mechanisms fall into four general categories:

- Medicare's coverage policy for individual medical technologies;
- methods of Medicare payment to hospitals;
- methods of Medicare payment to physicians;
- incentives for the adoption and use of technology that do not directly involve, but may be related to, the Medicare payment mechanism (e.g., encouraging the development of alternative cost-effective health care delivery systems).

This study was ably guided by an advisory panel, chaired by Stuart H. Altman. In addition, a large number of persons in the Federal and State Governments and in the health services research field were consulted. We are grateful for their many contributions. As with all OTA reports, however, the content is the responsibility of OTA and does not constitute consensus or endorsement by the advisory panel or by the Technology Assessment Board. Key OTA staff involved in the assessment were Anne K. Burns, Cynthia P. King, Lawrence H. Miike, Gloria Ruby, and Judith L. Wagner.



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•• Since January, 1984
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