

Diagnostics Pricing and Reimbursement Strategies: Overcoming Reimbursement Issues and Navigating Regulatory Environment

Introduction

Reimbursement of the diagnostic testing is the key issue for both the providers and the payers. While only 5-7% of the hospital expenditures are attributed to laboratory testing, the test results are used in 70% of the healthcare decisions. This report identifies novel pricing strategies for maintaining a fair plane among all the stakeholders.

Scope

- Reviews regulatory structure in the U.S. and Europe.
- Evaluates existing pricing strategies and novel pricing strategies for healthcare diagnostic equipment.
- Presents strategic recommendations for existing and new diagnostic equipment.
- Proposes prices vs reimbursement levels for diagnostic equipment.

Research and analysis highlights

A procedure might have a higher chance of getting insurance coverage, if it reduces the overall healthcare cost. The recent reduction made by the CMS in the reimbursement amount for non-facility units is expected to impact the diagnostic devices market especially in the form of lack of innovation.

The reimbursement structure is restraining the growth of innovative technologies such as molecular diagnostics.

An OEM's pricing is fundamentally based on its desired Return-on-Investment and the overall cost of manufacturing its equipment. Fair Value Pricing and Risk Sharing Pricing are the new methods of pricing within healthcare diagnostics.

Key reasons to purchase this research

- Understand the existing structure for reimbursements for healthcare diagnostic equipments developed markets
- Understand the existing pricing for healthcare diagnostic equipments for developed markets
- Understand the role of various factors impacting price of the healthcare diagnostic equipments
- Understand the evolution of pricing strategies in recent times within healthcare diagnostic equipments
- Helps in determining the complete understanding of changing times within pricing with respect to reimbursements

Table of Contents

Pricing and reimbursement strategies for diagnostics

Executive Summary 10

Market overview 10

Key findings 11

Analyzing best-fit strategies for novel pricing and reimbursement 13

Strategic recommendations 14

Chapter 1 Introduction 16

Summary 16

Key take aways 16

Report description 16

Stakeholders 17

Chapter 2 Market overview 20

Summary 20

US regulations for medical devices & diagnostics 21

United States Department of Health and Human Services (HHS) 22

United States Public Health Services (PHS) 22

National Institutes of Health (NIH) 22

Agency for Healthcare Research and Quality 22

Indian Health Services 22

Substance Abuse and Mental Health Administration 23

Centre for Disease Control and Prevention 23

Food and Drug Administration 23

US reimbursement structure 28

US reimbursement payors 29

Public health insurance 29

Medicare 29

Medicaid 29

Other public systems 30

Private health insurance 30

Employer-sponsored insurance 30

Administration 31

Financing 31

Private non-group (individual market) 31

Overview 31

Administration 31

Financing 31

US reimbursement procedures 32

Benefit eligibility 32

Billing process 34

Coding systems 34

Pricing processes 35

Guidelines for coverage decision-making 36

US diagnostic imaging reimbursement structure 37

Medicare perspective 37

European healthcare reimbursement structure 38

European healthcare regulatory structure 38

German healthcare system 40

Impact of regulations on pricing and reimbursement 43

French healthcare system 44

Impact of regulations on pricing and reimbursement 48

UK healthcare system 49

Impact of regulations on pricing and reimbursement 52

Italian healthcare system 53

Impact of regulations on pricing and reimbursement 55

Spanish healthcare system 55

Impact of regulations on pricing and reimbursement 58

European diagnostic imaging reimbursement structure 58

Pricing and reimbursement: pharmaceutical vs. diagnostics 58

Level of pricing transparency for diagnostic devices 60

Chapter 3 Key findings 64

Summary 64

Introduction 65

Impact analysis: role of pricing in risk minimization 65

Payor's (health insurance companies) perspective 68

Diagnostic provider's perspective 69

Identifying critical issues in the pricing and reimbursement of diagnostics 71

Decline in the reimbursement for non-facility units in US 71

Evolving molecular diagnostics causing further complications 72

Factors affecting price of healthcare diagnostic products 73

Competition: 75

Company Profile in the local market: 78

Government: 79

Reimbursements 80

Chapter 4 Analyzing best-fit strategies for novel P&R issues 84

Summary 84

Introduction 85

Pricing strategy 85

Price management and reassessment of pricing throughout the product lifecycle 87

Existing product technologies 89

New product (first mover diagnostic) technologies 90

Payor engagement strategy 90

Introduction of separate business unit for pricing and reimbursement 92

Novel pricing for existing and first mover diagnostic technologies to overcome reimbursement issues 93

Fair value pricing 94

Risk based pricing 94

Outsourcing pricing & reimbursement strategies 96

Universal pricing 97

Free pricing 97

Strategic recommendations 98

Innovations to demand a price premium 98

Case study – Average selling price of mammography units 98

Reduced time to market to generate faster ROI 100

Technologies addressing unmet clinical needs to benefit diagnostics providers 100

Chapter 5 Appendix 104

Index 125

List of Figures

Figure 2.1: US healthcare regulatory organizational chart 21

Figure 2.2: US FDA organizational chart 24

Figure 2.3: CDRH Organization Chart 25

Figure 2.4: US healthcare reimbursement and financing structure 28

Figure 2.5: Healthcare structure in Germany 40

Figure 2.6: Healthcare structure in France 44

Figure 2.7: Healthcare structure in the UK 49

Figure 2.8: Healthcare structure in Italy 53

Figure 2.9: Healthcare structure in Spain 55

Figure 3.10: Reimbursement mechanism 67

Figure 3.11: Different cases for reimbursement approvals 69

Figure 3.12: Factors affecting pricing in a healthcare diagnostic OEM 73

Figure 3.13: Pricing work flow in a healthcare diagnostic OEM 74

Figure 3.14: Pricing equation 75

Figure 3.15: Product lifecycle for a diagnostic product 76

Figure 4.16: Value-based pricing & reimbursement 86

Figure 4.17: Product lifecycle (PLC) for a diagnostic product 88

Figure 4.18: Price recommendations at Product Lifecycle (PLC) stages 89

Figure 5.19: Mammography: Average selling price (\$)for U.S., 2005-10 99

List of Tables

Table 2.1: Payment & coverage in pharma 59

Table 3.2: Reduction in US. medical procedure reimbursement 71

Table 6.3: Indicative prices for in vitro diagnostic equipment – US 104

Table 6.4: Indicative reimbursement for in vitro diagnostic tests – US 105

Table 6.5: Indicative reimbursement for in vitro diagnostic tests – US (contd. 1) 106

Table 6.6: Indicative reimbursement for in vitro diagnostic tests – US (contd. 2) 107

Table 6.7: Indicative reimbursement for in vitro diagnostic tests – US (contd. 3) 108

Table 6.8: Indicative reimbursement for in vitro diagnostic tests – US (contd. 4) 109

Table 6.9: Indicative reimbursement for in vitro diagnostic tests – US (contd. 5) 110

Table 6.10: Indicative reimbursement for in vitro diagnostic tests – US (contd. 6) 111

Table 6. Table 6.12: Indicative reimbursement for in vitro diagnostic tests – US (contd. 8) 113

Table 6.13: Indicative reimbursement for toxicology/DAU (Drugs of Abuse) tests 114

Table 6.14: Indicative reimbursement for toxicology/DAU (Drugs of Abuse) tests 115

Table 6.15: Indicative reimbursement for toxicology/DAU (Drugs of Abuse) tests 116

Table 6.16: Indicative reimbursement for toxicology/DAU (Drugs of Abuse) tests 117

Table 6.17: Indicative reimbursement for point of care tests 118

Table 6.18: Indicative reimbursement for Microalbumin and Creatinine tests 119

Table 6.19: Indicative Reimbursement for various kind of Hemoglobin tests 120

Table 6.20: Indicative prices for in vivo diagnostic equipment (\$) – US 120

Table 6.21: Indicative reimbursement for in-vivo diagnostic tests – US 121

Table 6.22: Medicare reimbursement for mammography services 122

Table 6.23: Medicare reimbursement for mammography services 123

Table 6.24: 2005 Medicare payment for magnetic resonance imaging of the joints of the extremities 123

Table 6.25: 2007 Medicare reimbursement for SPECT/CT for selected tumor imaging and localization

12411: Indicative reimbursement for in vitro diagnostic tests – US (contd. 7) 112