

**Changes In Perfusion Practice:  
Medical Device Tax on CV Surgery Equipment and Supplies**

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In the September/October AmSECT Today, the Government Relations Committee summarized the clinical practice impact coming down the road with the Medicare two-year demonstration program for hospital and surgeon bundling of payments for CABG and Heart Valve cases, and other high cost cardiovascular procedures, with a rollout of a national reimbursement payment plan in 2013.

Also included in the Medicare reform sections of the Patient Protection and Affordable Care Act (PPACA) (PL 111-148), otherwise known as health care reform, is the imposition of a 2.3% tax on all medical/surgical devices starting in January of 2013. There is a separate surtax on drug companies, a 1.0% increase in the social security tax, coming out of the future paychecks of American workers, and a Medicare tax of 3.8 percent. The last tax applies to families or individuals earning more than \$200,000 per year. It is important to know that this is not indexed to inflation, meaning that this limit will stay constant as people's incomes increase in the future.

The medical device tax has a direct impact on the future costs of perfusion equipment and supplies. The purchaser can be a hospital CV department or a contract perfusion service provider including supplies in its package of services. CV surgical groups are not permitted, under Medicare, to sell supplies to a hospital at which the group has a contract. The biggest impact will be on hospital CV department budgets.

For example, if a hospital spends one-half a million dollars (\$500,000) for perfusion equipment and supplies in a year, before applying the annual finished product tax increase, the amount would increase by roughly \$12,000 or more dollars as it is passed on from the device companies. Based on industry data collected by the Department of Labor for yearly Producer Price Indexes (PPI), in 2008 the cost of surgical devices and supplies increased by an average of 3.9% percent. There is little suggesting that these annual inflation increases will go down in the future. So, when combined, in this example, the annual increase in the perfusion supply budget, on average, would have to be around 6.5 percent to stay even. Stated differently, the core cost of perfusion service supplies will increase by \$32,000 dollars per year. Or, the salary cost of hiring a new graduate perfusionist for the department. This does not include any additional costs related to the purchase of supplies for any new devices for the operating room.

This senerio will not consistently apply to hospitals with open-heart programs during the 2011 and 2012 fiscal years. It could well be that device manufacturers will start increasing prices to offset the future

impact of the tax on CV supplies and equipment. This would apply as well to future manufacturer "me-too" types of devices, and new devices, based on changes from new technologies.

To complete the financial impact picture, the Congressional Joint Committee on Taxation has estimated that these taxes will cost Americans an additional \$20 billion over 10 years, between December 31, 2012 and and December 31, 2022. (H.R. 4872 Sec. 1405). Ten years may seem like a long time. But basically, the yearly cost to hospitals would be somewhere in the neighborhood of \$2 billion dollars. However, not all of this will come just from CV surgical devices and supplies.

During Congressional debate on the new medical device tax, the major trade groups representing small to large companies - AdvaMed and the Medical Device Manufacturers Association (MDMA) - opposed the tax. Both represent all of the perfusion equipment and supply manufacturers in the country. One of the political/public policy arguments used by the politicians supporting the tax was that medical device companies needed to contribute to help make up for the costs of expanding health insurance coverage. What was not publically spoken about by the political elite in Congress and the President, was that the new tax was in addition to other elements in the bill, including the \$155 billion dollars in payment reductions to hospitals, by freezing the hospital DRG PPS updates. This will also contribute to the adverse impact coming down the road because hospitals will be getting paid less by Medicare, while the number of people with federal insurance plans will be increasing. The only difference is that instead of getting care through a hospital's indigent and emergency room care, persons will have government and taxpayer funded insurance coverage.

Presented and discussed in an upcoming Government Relations article, will be a third clinical practice impact change coming from the new health care reform law. This comes as a result of the newly mandated seamless interoperable patient medical record information system that will be required of hospitals to have in place by 2014. If current health care reforms and taxes stay on the federal books, higher cost pressures will be placed on hospital CV department budgets, which will likewise present challenges to perfusion equipment and supply manufacturers, as well as to perfusionists' future earning potential.

The members of the Government Relations Committee share the viewpoint that knowledge on such matters is important to know since these influences will impact the current and future of the professional work environment. The AmSECT Government Relations program has and is focused on State credentialing to protect clinical practice entry requirements for the profession and the delivery of quality perfusion care services to patients. However, knowledge about other clinical practice influences is also valuable as the dynamics of our health care system change and evolve.