

Competitive Bidding for Durable Medical Equipment

An Estimate of the Economic Impact on Iowa

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1 Introduction

Competitive bidding for durable medical equipment (DME) is currently being rolled out to 91 cities beyond the initial nine cities the program applied to beginning in 2011.

According to Medicare, competitive bidding in the first nine cities resulted in a reduction in reimbursements of 42% (Centers for Medicare & Medicaid Services, 2012) for the nine competitively bid DME categories in the program.

While none of the initial 100 competitively bid cities are in Iowa,¹ starting in 2016 bid rates will be applied nationally, and Iowa will see a significant drop in DME revenues. This report estimates the economic impact of that reduction in revenues on Iowa.² In addition, there are at least two other major employers in Iowa, VGM Group, Inc. in Waterloo and Medline Industries, Inc. in Dubuque, that will be affected by

1 There are, however, a few Iowa suppliers in the Omaha, NE MSA to which competitive bidding will apply starting in 2013.

2 It should be noted that, while competitive bidding is not scheduled to apply nationally until 2016, there is evidence that private payers are already applying bid rates identified in other locations to suppliers in Iowa. Further, some DME suppliers with Iowa locations are contracting their business footprint, and that contraction will likely result in a reduction in Iowa DME suppliers. Thus, while this report estimates an overall impact that is likely to occur beginning in 2016, the negative economic impact of competitive bidding on Iowa is already occurring.

competitive bidding for DME. These impacts are discussed in the “Other Impacts” section below.

2 Analysis

Total revenues in the DME market in Iowa in 2011 were approximately \$315.4 million.³ Overall, the nine competitively bid DME categories make up on the order of 75% of total DME revenues, implying that competitive bidding will apply to approximately \$236.6 million of DME revenues in Iowa. As mentioned above, during the first round of competitive bidding the average reduction in reimbursements for the bid categories was 42%. Altogether, this implies that, once competitive bidding applies to Iowa, Iowa will see a reduction in total DME revenues of about \$99.4 million.⁴

While DME revenues are estimated to fall in Iowa by \$99.4 million, a portion of that reduction will, in fact, be returned to Iowa consumers of DME. Since Medicare patients pay a 20% deductible, those patients paying the deductible will see their out-of-pocket expenses fall. According to a report by the Kaiser Family Foundation, 48% of Iowa Medicare beneficiaries have a Medigap policy that would cover the 20% deductible (Jacobson, Neuman, Rice, Desmond, & Huang, 2011). Therefore, of the \$99.4 million reduction in revenues, 52% of the 20% deductible will be returned to Iowa residents, reducing the overall loss in revenues to Iowa by \$10.3 million, bringing the total loss in revenues to \$89.1 million.

In economic impact analysis, this reduction in revenues is typically referred to as the “direct impact.” This is not the end of the economic impact, however. In particular, to

3 According to statehealthfacts.org, per capita spending in Iowa on durable medical equipment in 2009 was \$103, and according to U.S. Census Bureau estimates, the 2011 Iowa population was 3,062,309 (U.S. Census Bureau, 2012). Together, these imply spending of \$315,417,827.

4 Of course, inflation and increased utilization of DME due to an aging population are likely to increase this number by 2016.

estimate the total economic impact one must also calculate the “indirect impact,” which is also known as the “multiplier effect.” For example, suppose a company exports a product for \$1,000. When the company receives the \$1,000 in revenue it will pay a portion of that out to employees in the form of wages. The employees will then turn around and spend a portion of that income on goods and services at other local companies, increasing the spending in the area beyond the initial \$1,000. This process continues as a portion of the revenues of each company continue to be spent in the local economy. Estimating the multiplier effect entails calculating how much additional spending beyond the direct impact takes place in the local economy.

The standard way to calculate the multiplier effect is to use input-output analysis. This can be done in a number of ways, but the most straightforward way is to use economic impact software designed for this purpose. This analysis uses one of the most popular software packages for this purpose, IMPLAN (MIG Inc., 2009).

Using IMPLAN to compute the indirect impact results in the following estimate of the overall economic impact on Iowa resulting from the reduction in DME reimbursements due to competitive bidding:

	Direct Impact	Indirect Impact	Total Impact
Output (\$M)	89.1	66.8	155.9
Employment	1,633	652	2,285

Overall, IMPLAN estimates competitive bidding for DME will reduce total output in the state by \$155.9 million and will reduce employment in the state by 2,285 jobs.

3 Other Impacts

In addition to the impacts calculated above, which pertain to the suppliers of DME

in Iowa, at least two other Iowa companies, VGM Group, Inc. (with its headquarters in Waterloo, Iowa) and Medline Industries, Inc. (with a substantial branch in Dubuque, Iowa), will be negatively impacted by competitive bidding for DME. Both VGM and Medline provide services to DME suppliers. As competitive bidding is rolled out across the country, many of these suppliers will go out of business, reducing these companies' client base. As that base diminishes, both companies will be forced to scale back operations, with additional losses to output and jobs in the state. Losses from these two companies could result in more than \$60 million in additional output lost and more than 400 additional jobs lost.

4 Conclusion

In summary, competitive bidding for DME will result in a significant negative economic impact on Iowa. Cuts in reimbursements to DME suppliers and reductions in the client base of VGM Group, Inc. and Medline Industries, Inc. will likely result in:

- **more than \$200 million in reduced output in the state**
- **more than 2,500 jobs lost in the state**
- **a disproportionate impact on Waterloo, Iowa and Dubuque, Iowa due to the presence of VGM and Medline in those communities**

While these negative impacts are straightforward to measure, other impacts are difficult to measure quantitatively. As I explained in a previous analysis, competitive bidding will result in the closure of DME suppliers in Iowa. These closures will reduce the proximity of patients to suppliers, reducing access to healthcare in much of Iowa. For example, in locations that once had a provider and now do not, the length of time to discharge from a hospital may increase. It might increase the wait time for wheelchair repairs. Or, it could reduce the frequency of delivery of portable oxygen

tanks or impact the ability of providers to respond promptly in cases of widespread power outages. While it is difficult to place a dollar amount on these impacts, these are nonetheless additional negative consequences associated with competitive bidding for DME.

All of these consequences have thus far been ignored as Medicare touts the expected savings from competitive bidding. These savings, however, are mostly an illusion. Imagine going to an auto dealer and looking at a car and the salesperson tells you the price is \$20,000. You tell the salesperson that you don't want to spend that much – in other words, that you'd like to save some money. So, the car dealer then shows you another car with manual rather than automatic transmission, with no air conditioning, etc. The salesperson tells you the price of this car is \$12,000. When you purchase the second car, while you will spend less money, all you are really doing is buying a lower-quality product at a commensurately lower price.

With DME, buying lower quality means two things. First, the patient will receive a lower-quality product that will cost slightly less. More importantly, second, the patient will see a significantly reduced level of service. As mentioned above, this could mean longer wait times for product repairs or reduced frequency in the delivery of portable oxygen tanks to name just two possible results. As a result, it is likely that the small reductions in spending by Medicare here will only result in reduced quality and access to healthcare in Iowa.

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