

# Case Study: Cochlear Implants

**Inadequate Medicare reimbursement and delays in updating payment to an appropriate level have made it much more difficult for Medicare patients to receive cochlear implants. Problems with cochlear implants illustrate how the methods HCFA uses to update inpatient and device fee schedule payments fails to keep pace with medical technology innovation.**

Cochlear implants can restore hearing in severely deaf individuals by analyzing sounds from the environment and directly stimulating the ear's cochlea. The technology has advanced considerably since FDA approved the first cochlear implant in 1984. At the same time, the indications for the implants have broadened, enabling more people to benefit from the technology.

However the Health Care Financing Administration (HCFA) has never significantly adjusted reimbursement for cochlear implants since 1986, when it first added the device to the inpatient payment system. Even at that time, Medicare payment did not cover the costs of first-generation devices. Over the past 14 years, the costs of implanting a cochlear implant have exceeded Medicare reimbursement by several thousand dollars.

HCFA rejected a recommendation from one of its advisory groups in 1987 to improve reimbursement for cochlear implants. It also did not heed a 1989 *New England Journal of Medicine* article which found that Medicare patients were encountering difficulties in obtaining the devices. At the same time, as cochlear implant technology improved, the costs of the devices increased. Inpatient hospitals now lose approximately \$9,000 for every cochlear implant they provide to a Medicare patient.

Medicare assigned cochlear implants an outpatient reimbursement code in 1996. However, payment under this code also falls well below costs; hospitals lose at least \$5,500 per Medicare patient in the outpatient setting.

These problems have had a significant impact on Medicare patient access to cochlear implants. For example, the UCLA Audiology Clinic decided recently that it had no choice but to shut down its entire cochlear implant program.

Proportionally, of all the people who could benefit from cochlear implants, far fewer Medicare patients than non-Medicare patients have received them. Fifty four percent of all patients eligible to receive cochlear implants are Medicare age, but only 12% to 15% of cochlear implants have been performed on Medicare patients.

Medicare should make better use of internal and external data in determining reimbursement levels and should monitor more closely the impact of its policies on patient access to technology.