

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
Food and Drug Administration

Medical Devices; Orthopedic Devices; Classification  
of Spinal Spheres for Use in Intervertebral Fusion  
Procedures; Final Rule

Docket No. FDA-2021-N-0310

Final Regulatory Impact Analysis  
Final Regulatory Flexibility Analysis  
Unfunded Mandates Reform Act Analysis

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**Table of Contents**

I. Introduction and Summary ..... 3

    A. Introduction ..... 3

    B. Summary of Costs and Benefits ..... 3

II. Final Economic Analysis of Impacts ..... 4

    A. Background ..... 4

    B. Market Failure Requiring Federal Regulatory Action ..... 5

    C. Purpose of the Rule ..... 5

    D. Baseline Conditions ..... 5

    E. Costs of the Rule ..... 6

        1. Cost to read and understand the rule ..... 6

        2. Other costs ..... 8

    F. Analysis of Regulatory Alternatives to the Final Rule ..... 8

III. Final Small Entity Analysis ..... 9

    A. Description and Number of Affected Small Entities ..... 9

    B. Description of the Potential Impacts of the Rule on Small Entities ..... 10

IV. References ..... 11

## **I. Introduction and Summary**

### **A. Introduction**

We have examined the impacts of the final rule under Executive Order 12866, Executive Order 13563, the Regulatory Flexibility Act (5 U.S.C. 601-612), and the Unfunded Mandates Reform Act of 1995 (Pub. L. 104-4). Executive Orders 12866 and 13563 direct us to assess all costs and benefits of available regulatory alternatives and, when regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity). We believe that this final rule is not a significant regulatory action as defined by Executive Order 12866.

The Regulatory Flexibility Act requires us to analyze regulatory options that would minimize any significant impact of a rule on small entities. Because the estimated costs imposed on any affected firm are very low, we certify that the final rule will not have a significant economic impact on a substantial number of small entities.

The Unfunded Mandates Reform Act of 1995 (section 202(a)) requires us to prepare a written statement, which includes an assessment of anticipated costs and benefits, before issuing “any rule that includes any Federal mandate that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100,000,000 or more (adjusted annually for inflation) in any one year.” The current threshold after adjustment for inflation is \$165 million, using the most current (2021) Implicit Price Deflator for the Gross Domestic Product. This final rule would not result in an expenditure in any year that meets or exceeds this amount.

### **B. Summary of Costs and Benefits**

This final rule classifies spinal spheres for use in intervertebral fusion procedures (currently an unclassified, preamendments device) into class III for which FDA is separately proposing to require the filing of a premarket approval (PMA) application.

The costs of the final rule are summarized in Table 1; we did not quantify benefits for the final rule. The costs of the rule include one-time costs associated with reading the rule. The present value of the costs of the rule are estimated to be between \$335 and \$16,093, with a primary estimate of \$8,214. The annualized value of the primary estimate of costs over 10 years at a 3 percent discount rate is approximately \$552. The annualized value of the primary estimate of costs over 10 years at a 7 percent discount rate is approximately \$775.

**Table 1: Summary of Benefits, Costs and Distributional Effects of Final Rule**

Category		Primary Estimate	Low Estimate	High Estimate	Units			Notes
					Year Dollars	Discount Rate	Period Covered	
Benefits	Annualized Monetized \$millions/year					7%	10 Years	
						3%	10 Years	
	Annualized Quantified					7%	10 Years	
						3%	10 Years	
Qualitative								
Costs	Annualized Monetized \$millions/year	\$0.0008	\$0.00003	\$0.002	2021	7%	10 Years	
		\$0.0006	\$0.00002	\$0.001	2021	3%	10 Years	
	Annualized Quantified					7%	10 Years	
						3%	10 Years	
Qualitative						10 Years		
Transfers	Federal Annualized Monetized \$millions/year					7%	10 Years	
						3%	10 Years	
	From/ To	From:			To:			
	Other Annualized Monetized \$millions/year					7%	10 Years	
						3%	10 Years	
From/To	From:			To:				
Effects	State, Local or Tribal Government: None Small Business: Costs would not exceed 0.002 percent of average small firm annual revenues. Wages: None Growth: None							

C. Comments on the Preliminary Economic Analysis of Impacts and Our Responses

In 2021, FDA published the proposed rule, “Classification of Spinal Spheres.” We prepared a comprehensive preliminary regulatory impact analysis for the 2021 rule. None of the comments received on the proposed rule relate to the preliminary economic analysis of impacts.

D. Summary of Changes

We have updated the analysis throughout to reflect the passage of time and data source updates.

**II. Final Economic Analysis of Impacts**

A. Background

FDA is classifying spinal spheres for use in intervertebral fusion procedures (spinal spheres), which are unclassified, preamendments devices, into class III devices. A spinal sphere

is a prescription device used to provide stabilization of a spinal segment, as an adjunct to fusion. FDA currently regulates these unclassified devices as devices requiring premarket notification, with the product code NVR.

The Medical Device Amendments of 1976 amended the Food, Drug, and Cosmetic Act (FD&C Act) to define and create a risk-based classification system for medical devices. FDA refers to devices that were commercially distributed prior to May 28, 1976, the date of enactment of the Medical Device Amendments of 1976, as “preamendments devices.” Section 513(d)(1) of the FD&C Act allows FDA to classify preamendments devices once we: (1) receive a recommendation from a device classification panel (an FDA advisory committee); (2) publish the panel's recommendation for comment, along with a proposed regulation classifying the device; and (3) publish a final regulation classifying the device. FDA initiated the classification of spinal spheres by consulting the Orthopaedic and Rehabilitation Devices Panel (the Panel). FDA initiated the classification of spinal spheres by holding a panel meeting on December 12, 2013, regarding the classification of spinal spheres (Ref. (1)). The Panel recommended that spinal spheres be classified into class III because insufficient information exists to determine that general and special controls are sufficient to provide reasonable assurance of safety and effectiveness and these devices present a potential unreasonable risk of illness or injury.

#### B. Market Failure Requiring Federal Regulatory Action

After the enactment of the Medical Device Amendments of 1976, FDA began to identify and classify all preamendments devices. We have determined that the unclassified spinal sphere devices should be classified as Class III medical devices. This final rule is in-line with FDA’s efforts to classify all preamendments devices. Thus, regulatory action is necessary to classify spinal sphere devices as class III devices.

#### C. Purpose of the Rule

The purpose of this final rule is to classify spinal sphere devices into class III. FDA has determined that general controls and special controls together are insufficient to provide reasonable assurance of safety and effectiveness for this device.

#### D. Baseline Conditions

The impact of the rule is estimated relative to the baseline, which is the state of the world in absence of regulatory action. This final rule has the potential to affect the market for spinal

sphere devices for use in intervertebral fusion devices. Currently, four firms have obtained six 510(k) clearances to market spinal sphere devices. However, due to the widespread adoption of intervertebral body fusion devices (“interbody cages”), spinal sphere devices, intended for use in fusion procedures, are no longer used.<sup>1</sup> Furthermore, FDA has communicated with the four firms with existing 510(k) approvals and has confirmed that these firms are not currently marketing spinal sphere devices. Overall, we do not expect that any firm with an existing 510(k) approval would choose to market the device in the absence of the rule. Similarly, we do not expect that any other firms without an existing 510(k) approval would choose to market a spinal sphere device irrespective of the status of this rule.

### E. Costs of the Rule

#### 1. Cost to read and understand the rule

We expect that firms affected by this rule will incur costs to read and understand the rule. Table 2 presents the values used to calculate the cost of reading the rule as well as a breakdown of costs reflecting the range of estimates of the number of firms expected to read the rule. The final rule has approximately 3,000 words.

**Table 2. Values Used to Calculate Costs of Reading Rule**

	Low Estimate	Primary Estimate	High Estimate
Assumed Reading Speed (WPM)	228	228	228
Words in Final Rule	3000	3000	3000
Hours to read Rule	0.22	0.22	0.22
Employees Reading Rule	2	2	2
Wage	\$191.10	\$191.10	\$191.10
Per Firm Cost	\$84	\$84	\$84
Firms	4	98	192
Costs	\$335.26	\$8,214	\$16,093

Consistent with Guidelines from the Department of Health and Human Services (Ref. (2)), we assume that the mean reading speed of regulation reviewers is 228 words per minute

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<sup>1</sup> Unlike spinal sphere devices, interbody cages generally possess different features to engage with vertebral endplates, allowing them to resist migration and subsidence, and features that allow for the packing of graft material, facilitating bone growth into and through the device.

(Ref. (3)). The overall burden in hours (per reader) to read the rule is approximately 0.22 hours. We assume that each firm taking the time to read and understand the rule will assign the task to two lawyers. As reported in Table 2, the fully-loaded hourly wage for lawyers in this industry is \$191.10. Each firm would incur a cost of approximately \$84 to read the rule.

The total industry costs of reading and understanding the rule depend on the number of firms which choose to read the rule. As this number is not certain we construct a range to estimate these costs. At the low-end, we expect that only the four firms with existing spinal sphere 510(k) clearances will incur costs associated with reading and understanding the rule. At the high-end, we expect that firms with 510(k) clearances for other spinal fusion devices would also take the time to read and understand the rule. The high-end estimate of the number of firms reading the rule include the four firms with existing 510(k) clearances for spinal sphere devices plus firms with existing 510(k) clearances for Intervertebral Fusion Device with Bone Graft, Lumbar (product code: MAX) plus Intervertebral Fusion Device with Integrated Fixation, Lumbar (product code: OVD). If all firms with existing 510(k) clearances for these devices took the time to read and understand the rule, our high-end estimate of the number of firms is 192. As reported in Table 2, the low estimate of total industry costs associated with reading and understanding the rule is approximately \$335. The high estimate of the costs associated with reading and understanding the rule is \$16,093. The range of estimated costs associated with reading and understanding the rule is large due to the uncertainty surrounding the total number of firms. The primary estimate of the costs associated with reading and understanding the rule is approximately \$8,214.

The primary estimates of the annualized costs associated with reading and understanding the rule are presented in Table 3.

**Table 3. Primary Estimates of the Total One-Time Cost to Read and Understand the Final Rule (\$millions)**

Present Value (3%)	\$0.0082
Present Value (7%)	\$0.0082
Annualized Value (3%)	\$0.0006
Annualized Value (7%)	\$0.0008

## 2. Other costs

As mentioned in the section describing baseline conditions, FDA subject matter experts have advised us that spinal sphere devices are no longer being used. Furthermore, communications with industry have confirmed that firms with existing 510(k) clearances are no longer marketing these devices. However, we acknowledge that this rule would impose costs on industry should any firm choose to market a spinal sphere device in the future.

Spinal sphere devices have been subject to premarket review through a 510(k) submission and have been cleared for marketing if FDA considers the device to be substantially equivalent to a legally marketed predicate (see section 513(i) of the FD&C Act). After this rule and related order to require the filing of a PMA are effective, spinal spheres for use in intervertebral fusion procedures will be considered adulterated if a PMA is not filed with FDA within 30 months after the classification of the device into class III, and commercial distribution of the product must cease (see section 501(f)(1)(2)(B) of the FD&C Act). The cost to industry would be the difference in costs between the 510(k) and PMA approval pathway.

Relative to the 510(k) clearance process, the PMA pathway is costlier for both the applicant and the FDA. The costs imposed on FDA would include an increase in the number of hours required to review a PMA application relative to a 510(k) application. If spinal sphere devices are marketed in the future, industry would also incur significant costs because the cost of developing a device subject to the PMA approval pathway is generally significantly higher than devices which require premarket notification. Devices which require a PMA are subject to different labeling and site inspection requirements. Furthermore, devices which require a PMA generally require clinical trials, whereas only a fraction of 510(k) devices require clinical trials. Finally, the regulatory submissions necessary for devices which require a PMA are generally costlier than the regulatory submissions required for 510(k) devices. We also note that although user fees are considered a transfer, the user fee associated with a PMA submission would be higher than that for a 510(k) submission. While these PMA-related costs are associated with the related order, rather than this final rule, we are discussing them here because this rulemaking is required prior to issuing the final order.

### F. Analysis of Regulatory Alternatives to the Final Rule

We have analyzed several regulatory alternatives to the final rule. One alternative would be to regulate spinal spheres as either a class I or a class II device. Although industry would still



incur the costs associated with reading and understanding the rule, it could result in lower compliance costs should firms choose to market spinal sphere devices in the future. This alternative is not intended to suggest that a class I or class II classification could be appropriate under the relevant statutory standards.

Another alternative would be delaying the implementation of the rule by one year. Moving the compliance date back could shift the one-time costs of reading the rule further into the future. If we were to delay the implementation of the rule by one year, using a 3% discount rate, the net present value of the costs associated with rule is estimated to be reduced by between \$9.76 and \$468.72 with a primary estimate of \$239.24. Using a 7% discount rate, a one-year delay in the implementation of the rule would result in a reduction of costs with a net present value of between \$21.93 and \$1,052.79 with a primary estimate of \$537.36.

### **III. Final Small Entity Analysis**

The Regulatory Flexibility Act requires Agencies to analyze regulatory options that would minimize any significant impact of a rule on small entities. Because the estimated costs imposed by the rule would not exceed 0.002 percent of the annual revenues of the average small firm in this industry, we certify that this final rule will not have a significant economic impact on a substantial number of small entities. This analysis, as well as other sections in this document, serves as the Final Regulatory Flexibility Analysis, as required under the Regulatory Flexibility Act.

To assess the rule's economic impact on small entities, we compare the rule-related costs to each establishment's revenues.

#### **A. Description and Number of Affected Small Entities**

Firms producing spinal sphere devices are classified under NAICS subsector 339112: Surgical and medical instrument manufacturing. The Small Business Administration defines a small business in this sector as those having fewer than 500 employees (Ref. (4)). As seen in Table 4, 968 (or approximately 91%) of the firms classified under NAICS 339112 are defined as a small firm. Only one of the four firms with existing 510(k) clearances is considered a small business.

**Table 4. Estimated Percentage of Small Firms among Firms with Employees**

NAICS	Description of NAICS Category	Number of Firms	Number of Firms considered small by SBA Definition	Percentage of Small Firms (%)
339112	Surgical and Medical Instrument Manufacturing	1063	968	91%

**B. Description of the Potential Impacts of the Rule on Small Entities**

We use detailed data from the 2019 Statistics of U.S. Businesses on U.S. 6-digit NAICS detailed employment sizes and 2017 Statistics of U.S. Businesses receipt data by detailed employment sizes to analyze the potential impacts of this final rule on small entities (Ref. (5, 6)).<sup>2</sup> This detailed data allows us to match the SBA size standards more closely to the Census employment categories.

The per-firm cost associated with reading and understanding the rule is approximately \$84. As seen in Table 5, the average annual revenue of small firms in the surgical and medical instrument manufacturing industry is approximately \$7.3 million.

**Table 5. Compliance costs and costs as percentage of annual receipts**

	All firms	Small Firms
Average Annual Receipts	\$37,212,372	\$7,318,401
Costs associated with the rule	\$84	\$84
Costs as a percentage of Annual Receipts	0.00023%	0.00115%

As shown in Table 5, the costs associated with the rule are estimated to fall below 0.002 percent of the annual revenues of small firms in this industry. Therefore, we certify that this final rule will not have a significant economic impact on a substantial number of small entities.

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<sup>2</sup> The 2019 SUSB data is the most recent available for detailed employment sizes (collected annually). The 2017 SUSB data is the most recent available for receipt data by detailed employment sizes (collected every 5 years).

#### **IV. References**

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