

## **GAO Investigation Finds Lack of Price Transparency in Medical Device Marketplace May Drive up Costs for Hospitals and Medicare**

Washington, DC – The Healthcare Supply Chain Association (HSCA) today applauded the U.S. Government Accountability Office for its new report, *Lack of Price Transparency May Hamper Hospitals Ability to Be Prudent Purchasers of Implantable Medical Devices*, which found that pricing secrecy in the medical device marketplace may drive up healthcare costs for hospitals and Medicare. The GAO examined pricing information for expensive implantable medical devices (IMD) and determined that there was substantial variation in the prices hospitals paid, and that pricing secrecy limited the ability of hospitals to negotiate for the best price. "The GAO report confirms what GPOs, hospitals, long-term care providers, and anyone on the front lines of patient care and healthcare cost containment see every day: Medical device pricing secrecy decreases competition, limits the ability of hospitals and their GPO partners to effectively negotiate for medical products and services, and artificially drives up healthcare costs, leaving hospitals, Medicare and American taxpayers to foot the bill," said HSCA President Curtis Rooney. "We commend Senator Baucus for asking the GAO for this important report and agree that it raises serious concerns over the prices hospitals and Medicare are forced to pay for implantable medical devices."

The GAO collected pricing information on implantable medical devices (IMD) from 31 hospitals, 5 group purchasing organizations (GPOs), the Veterans Affairs health care system, and 8 Department of Defense medical centers or hospitals.

"Medical device contractual confidentiality agreements, so-called 'gag clauses,' prevent hospitals from sharing data and validating that they are receiving a fair price on the products they buy. Without GPO benchmarking, hospitals are often in the dark while negotiating with device manufacturers, and manufacturers are able to charge whatever local markets will bear," added Rooney. "The GAO report finds that the contracts between manufacturers and hospitals often forbid disclosure of prices, even to doctors. The problem is even more extreme in small and rural markets, where community hospitals often lack bargaining power in negotiations with Goliath device corporations. As a result, some hospitals unnecessarily pay thousands of dollars more than others for high-cost medical devices such as defibrillators, stents and hip replacements."

Key findings of the GAO analysis include:

- Price information showed substantial variation in the prices hospitals paid for the same type of device;
- The lack of price transparency and the substantial variation in amounts hospitals pay for some implantable medical devices raise questions about

- whether hospitals are achieving the best prices possible;
- Excess or unnecessary costs that hospitals incur through implantable medical device pricing may increase costs to the Medicare program;
  - Confidentiality clauses included in IMD contracts bar hospitals from sharing price information with physicians, making it difficult to get physicians the information they need to consider cost when making decisions about devices;
  - Some hospitals have substantially less bargaining power with the small group of companies that manufacture particular implantable medical devices, and consequently face challenges in obtaining more favorable prices;
  - One hospital surveyed paid \$8,723 more than another for an identical model of a device that regulates heart rhythm, which typically costs hospitals between \$16,445 and \$19,007;
  - One hospital reported spending about \$4,500 for a specific primary total hip construct, while another paid about \$8,000 for the same device construct, or 78 percent more;
  - One hospital paid about \$5,200 for a primary total knee construct, while another hospital paid about \$9,500 for the same procedure, or 83 percent more;
  - Some hospitals have engaged consulting firms to help gather data and share benchmarks for IMD costs, but device manufacturers have sued price consultants to keep costs secret;
  - From 2004 through 2009, expenditures for hospital IMD procedures increased from \$16.1 billion to \$19.8 billion, an increase of 4.3 percent per year, and an increase in use of orthopedic devices accounted for the majority of change in that expenditure;
  - As the Medicare population grows and beneficiaries expect to live longer, the demand for implantable medical devices is likely to increase steadily, and Medicare will continue to be a major payer for procedures involving IMDs;
  - In an environment of increasing health care costs, policymakers are concerned that the lack of price transparency inhibits competition in the device market, leading to higher costs for hospitals, and ultimately higher spending in Medicare;

The GAO found that, although physicians are not involved in price negotiations, hospitals also must frequently contend with strong physician-manufacturer relationships and strong physician preferences on different models of IMD. Physicians rely on manufacturer representatives to provide technical support during procedures involving IMDs, including setting up the operating room, consulting with the physician about the procedure, and programming devices. In addition, some physicians might be loyal to certain manufacturers with whom they have consulting or professional relationships. If manufacturers determine that a physician is unwilling to switch device models, they can be more aggressive in negotiations, which could result in higher prices for hospitals, according to the GAO.

"The \$200 billion medical device industry is able to leverage its army of salespeople to drive unnecessary utilization and further enforce contractual 'gag' clauses to

## **GAO Investigation Finds Lack of Price Transparency in Medical Device Market**

Published on Medical Design Technology (<http://www.mdtmag.com>)

---

keep prices a secret, which gives device makers a virtually unchecked ability to drive up costs for hospitals and Medicare. Because hospitals are unable to discuss price with the physicians who typically choose which products to use, hospitals have become third party payers," added Rooney. "Hospitals rely on GPOs to deliver the best products at the best value. The GAO report shows that medical device pricing secrecy is impeding the ability of hospitals and GPOs to achieve the best possible prices. At a time when all parties to the healthcare system are trying to rein in spending, Congress should take steps now to eliminate contractual gag clauses and increase price transparency in the medical device marketplace."

For the full GAO report, Lack of Price Transparency May Hamper Hospitals Ability to Be Prudent Purchasers of Implantable Medical Devices, please visit

<http://www.gao.gov/assets/590/587688.pdf> [1]

About the Healthcare Supply Chain Association (HSCA)

The Healthcare Supply Chain Association, formerly the Health Industry Group Purchasing Association, is a broad-based trade association that represents 15 group purchasing organizations, including for-profit and not-for-profit corporations, purchasing groups, associations, multi-hospital systems and healthcare provider alliances. HSCAs mission is to advocate on behalf of healthcare group purchasing associations, to provide educational opportunities designed to improve efficiencies in the purchase, sale and utilization of all goods and services within the health industry and to promote meaningful dialogue between GPOs. For more information, visit [www.supplychainassociation.org](http://www.supplychainassociation.org) [2].

**Source URL (retrieved on 01/31/2015 - 4:38pm):**

<http://www.mdtmag.com/news/2012/02/gao-investigation-finds-lack-price-transparency-medical-device-marketplace-may-drive-costs-hospitals-and-medicare>

**Links:**

[1] <http://www.gao.gov/assets/590/587688.pdf>

[2] <http://www.supplychainassociation.org/>