January 2012

GAO
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-126, a report to the Chairman, Committee on Finance, U.S. Senate

MEDICARE

Lack of Price Transparency May Hamper Hospitals' Ability to Be Prudent Purchasers of Implantable Medical Devices

Why GAO Did This Study

Implantable medical devices (IMD)—including a variety of cardiac and orthopedic devices provided to Medicare beneficiaries in inpatient or outpatient hospital settings—represent a significant share of hospitals' supply costs. Hospitals purchase IMDs directly from manufacturers or through group purchasing organizations (GPO) and their purchasing agreements often contain confidentiality clauses restricting them from revealing to third parties the prices they pay for such devices. Policymakers are concerned that the lack of price transparency inhibits competition in the device market, leading to higher costs for hospitals, and ultimately higher Medicare spending. GAO was asked to examine (1) Medicare spending and utilization trends for procedures involving IMDs provided to beneficiaries, and (2) what available information shows about the prices hospitals pay for IMDs and any factors particular to the IMD market that influence those prices. GAO analyzed the most recently available Medicare inpatient and outpatient hospital claims from fiscal years 2004 through 2009. GAO requested price information on five devices from 60 hospitals, 6 GPOs, Department of Defense (DOD) medical centers, and the Department of Veterans Affairs (VA) health system. GAO interviewed officials from GPOs, device manufacturers, large hospital systems, and small hospitals about the factors that affect the prices hospitals pay for IMDs.

What GAO Found

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—a rate equal to that of Medicare spending for other hospital procedures. While cardiac and orthopedic procedures accounted for nearly all IMD-related expenditures, orthopedic procedures accounted for most of the increase in such expenditures during this period. Utilization increased at a faster rate for orthopedic devices and accounted for the majority of changes in expenditures for IMD procedures during the period.

The information GAO obtained on the amounts hospitals paid for selected IMDs showed substantial variation. For a number of reasons, the detailed information needed to accurately compare prices across hospitals—both the specific model and sale price net of discounts and rebates—was not reported by all respondents for all IMDs in our study. However, data from 31 hospitals indicated substantial variation in reported prices for cardiac devices. For example, the difference between the lowest and highest price hospitals reported paying for a particular automated implantable cardioverter defibrillator (AICD) model was $6,844. The difference between the highest and lowest price reported for another AICD model was $8,723. The price differences for the remaining two AICD models in our study fell in between $6,844 and $8,723. The median prices across the four AICD models ranged from $16,445 to $19,007. A factor particular to the IMD market that affects prices hospitals pay is the influence of physicians on hospitals' IMD purchasing. Although physicians are not involved in price negotiations, they often express strong preferences for certain manufacturers and models of IMDs. To the extent that physicians in the same hospital have different preferences for IMDs, it may be difficult for the hospital to obtain volume discounts from particular manufacturers. Also, confidentiality clauses barring hospitals from sharing price information make it difficult to inform physicians about device costs and thereby influence their preferences. Other factors that influence IMD prices include the degree of seller competition and a hospital's market share.

These data suggest that some hospitals have substantially less bargaining power with the small group of companies that manufacture particular IMDs and consequently face challenges in obtaining more favorable prices. The lack of price transparency and the substantial variation in amounts hospitals pay for some IMDs raise questions about whether hospitals are achieving the best prices possible. Any excess or unnecessary costs that hospitals incur through IMD pricing may be passed onto the Medicare program.

The Department of Health and Human Services, VA, and DOD reviewed a draft of this report and had no general comments.

View GAO-12-126. For more information, contact James C. Cosgrove at (202) 512-7114 or cosgrovej@gao.gov.