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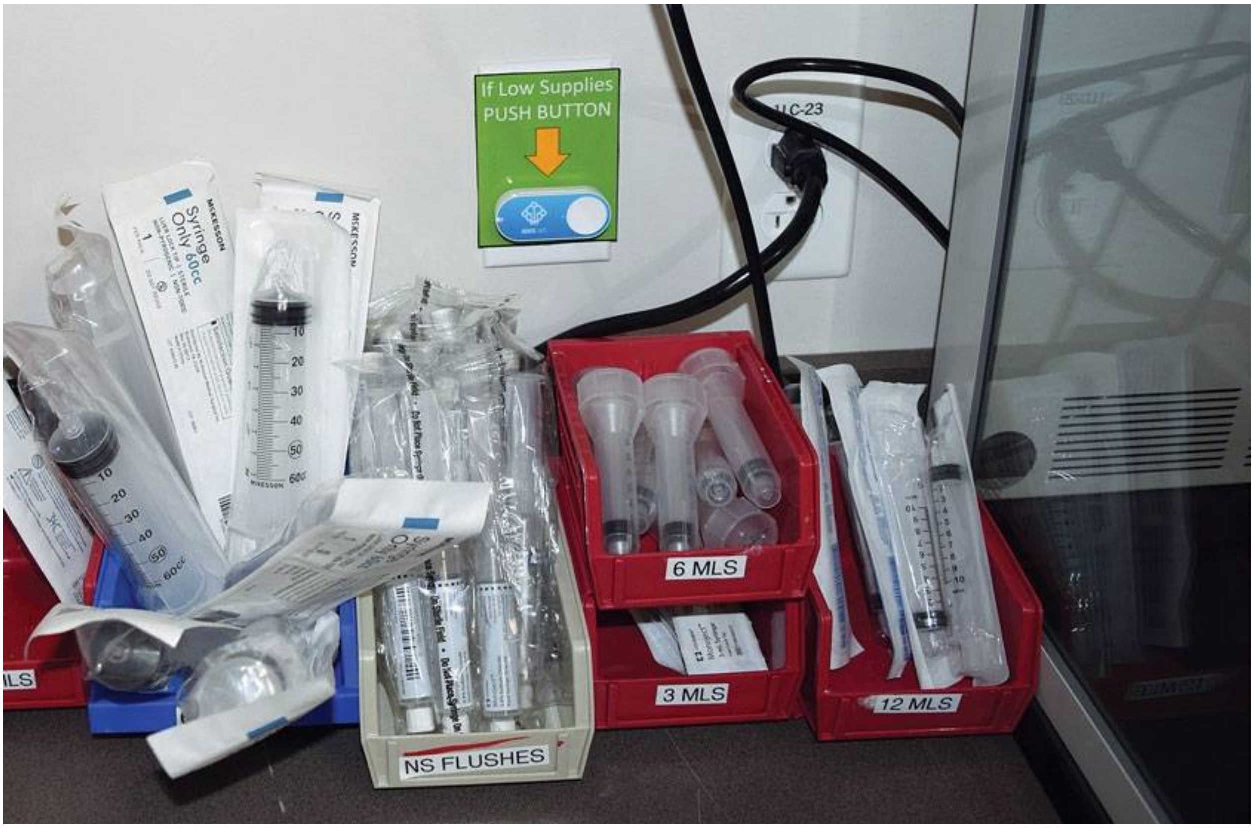
GPOs' 'pay to play' fees drive up healthcare costs



BY TARA BANNOW | OCTOBER 19, 2018

Group purchasing organizations' practice of requiring manufacturers "pay to play," or pay fees to have their products featured in supply catalogs, is among the factors driving up the cost of healthcare, a trio of Johns Hopkins University professors argue in a new paper.

GPOs have become the vehicle most health systems use to get supplies, medications and devices instead of going to different manufacturers for each item. While this week's commentary in the Journal of the American Medical Association acknowledged GPOs' benefits—they save providers

the work and expense of negotiating contracts with hundreds of manufacturers—the professors said the way they do business may be contributing to higher prices, drug shortages and could be stifling innovation in medicine.
GPOs are exempt from a federal law that bans kickbacks or rebates in return for furnishing items or services. That means GPOs ask manufacturers to pay a fee to have their products featured in their catalogs, or even a premium fee to become a sole supplier. That could drive up the cost of supplies if manufacturers pass on those fees to hospitals, the professors said.

Hospitals may pass the cost onto payers and patients in turn, said Dr. Martin Makary, a professor of surgery, health policy and management at Johns Hopkins University and an author of the paper.

"The "pay to play" administrative fees are a money game that are essentially costing the American public a lot of money," he said.

The fees also can narrow the number of manufacturers that can afford to appear in catalogs to only a few well-capitalized companies. And if one or two suppliers are responsible for an entire region, it can cause more problems if there are production issues. GPO fees likely contributed to the shortage of intravenous saline bags after Hurricane Maria in Puerto Rico, according to the JAMA report.

"When you have a supply chain that becomes fragile because of market domination, that is, when there is sole supplier contracting, which we're seeing at high rates, it makes hospitals susceptible to something going wrong in the supply chain," Makary said.

The problems have prompted some health systems to launch their own GPOs or generic drug companies. Intermountain Healthcare, Ascension Health and Trinity Health formed their own generic drug company that will focus first on 14 hospital-administered drugs. Ninety percent of more than 600 hospitals and clinics who responded to a Reaction Data survey said they would buy drugs from the new entity.

Makary said he's learned that when hospitals negotiate for supplies or drugs outside of their GPO, they often use the GPO's price as a starting point for negotiations, which indicates there's room for better pricing from GPOs.

Leslie Hirsch, CEO of the St. Peter's Healthcare System, said even with the use of a national GPO, his system has found pharmaceutical costs are very difficult to control.

"Even if we purchase inventory and do everything we can as effectively as possible, our pharmaceutical costs are going up well beyond our control," he said.

Hirsch said he appreciates Intermountain's effort to remove the middle man.

"We're not in a business where, because one aspect of the supply chain goes up in price, we have the ability to increase our price," he said. "We're controlled by the contracts we have with insurers and managed care organizations."

In some cases, the high price of entry into GPOs' catalogs could mean small, innovative players can't enter, according to the JAMA article. In one case, the technology company Masimo developed a new type of pulse oximeter but couldn't break into GPOs because Tyco International was paying GPOs to ensure its market dominance, according to the article. Masimo successfully won an antitrust lawsuit, enabling it to sell its product through GPOs.

Todd Ebert, CEO of the industry trade group Healthcare Supply Chain Association, wrote in a statement that the article is "fundamentally flawed and relies on outdated, widely debunked research funded by fringe elements within the medical device community."

With respect to drug shortages, Ebert wrote that the U.S. Food and Drug Administration has repeatedly cited quality control problems, manufacturing issues and barriers to getting new suppliers on line.

"GPOs are on the front lines of the drug shortage fight working vigorously with healthcare providers, manufacturers and distributors to help prevent and mitigate drug shortages and ensure a safe and reliable supply of products," he wrote.

The JAMA article noted that GPOs have taken steps to improve transparency. The industry created a voluntary membership association in 2005 that developed a code of conduct that defined ethical business practices. However, participation is voluntary and no formal mechanism is in place to ensure industry-wide compliance.

Ebert wrote that GPOs disclose all administrative fees in writing to their members.

"There are no undisclosed fees that result in better listings in GPO catalogs," he said.

Makary said he feels his group's message about GPO is important to spread, as there's a lack of research on how GPOs contribute to healthcare costs. A lot of attention has been focused—for good reason—on pharmacy benefit managers lately, but that's more of an outpatient medication issue, whereas GPOs mostly affect the inpatient drug market, he said.

"We've seen enormous scrutiny on the PBMs as of late, but little awareness that the same 'pay to play' perverse incentives create waste and price inflation in the GPO world," Makary said.
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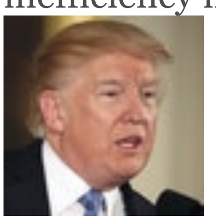
@PSJH's Venkat Bhamidipati: I'm not a proponent of everyone take a 5% cut, because when you do that, you're basically preserving all the inefficiency in the system.



Trump's Medicare Part B drug cost plan could move forward, particularly if Democrats win control of at least
the House.

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12 Readers' Comments

Newest First | Oldest First

1. **Better InformedThanYou Oct 25. 2018 4:13pm**
   There is a lot of ignorance in both this story and in the comments. Congress allowed GPO arrangements with healthcare providers and suppliers by allowing administrative fee payments as long as a written agreement established the amounts of any payments made by vendors to a GPO and proper disclosure to DHHS of amounts paid. The GPO Safe Harbor is is one of twenty three carve outs (found at 42 C.F.R. 1001.952 et seq.) of the 1987 Act. Administrative fees are published to GPO customers. They are not unknown. They do not keep suppliers from being published in GPO catalogs. GPO contracts are voluntary and the result of a competitive process involving members and subject matter experts. Healthcare providers do not use GPO catalogs as their means of procuring products and services. They use their ERP MMIS and they are in complete control of what goes into them. They are set their own pharmacy formularies.Suppliers are not required to contract with GPOs and providers are not required to use GPO contracts. GPO contract penetration within healthcare providers is usually 50% at best. Large conglomerate suppliers like Covidien/Medtronic and BD/Bard/ Carefusion are far more influential than GPOs.The shortages of generic injectables are due to market concentration which was accelerated by a provision in the Medicare Modernization Act and

the increased FDA enforcement and regulation, which has shut down a substantial amount of manufacturing capacity.
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2. **Mary Tipton Oct 23. 2018 10:38pm**
The safe harbor allowing the underhanded dealings to continue should be rescinded immediately. This is an "easy win" for America. It will curb our pharmaceutical costs that are spiraling out of control. There is no reason that GPO and PBM should be allowed to set arbitrarily high prices that provide additional kickbacks to them via their percentages. This is harmful to patients and physicians and a huge waste of healthcare dollars.
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3. **Mark Lopatin Oct 22. 2018 6:16pm**
GPO's receive 92 % of their income from administrative fees, paid by vendors. Some of these "rebates" i.e kickbacks may be passed on to buyers i.e hospitals, but there must be full disclosure to the government. As per the 2015 GAO report, this had not been assessed in the prior 10 years. This can result in Medicare over-payments and increased costs for all of us. While some may point to quality control issues and manufacturing issues as the problem, these are IMMEDIATE causes of drug shortages. The bottom line is that sole source contracting as a result of a pay to play scheme caused by legalized kickbacks, is an UNDERLYING cause. The conflict of interest is so obvious that it has even been acknowledged by an attorney who represents the GPO trade group. An analogy that I like is that if I have a patient on a medicine (safe harbor exemption) , and I have concerns that it is not helping, and I have good reason to believe it is causing harm, I discontinue that medicine. We need to discontinue i.e repeal the safe harbor exemption for GPO's and PBM's for the same reason. This is simply a matter of common sense.
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4. **Cheryl Ferguson Oct 21. 2018 8:58pm**
GPO's and PBM's are the mafia of healthcare. They force small companies to pay fees in order to get their products on the market. The fees can be so high to put small companies out of business. Fewer companies making products leads to shortages when

factories have problems. The middle men make money by holding all the companies hostage to sell their products. This should be illegal. There should be no pay to play scheme in healthcare. Repeal the Safe Harbor laws!! If this cannot be done by this congress, then now more than ever we need term limits.
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5. **John BROCKUTNE Oct 21. 2018 6:02pm**
I am a Professor of Anesthesiology (Emeritus) at Stanford University Medical Center and have been there for nearly 30 years. Before that I worked 17 years in the only Black Medical School in South Africa where we constantly had drug and IV fluid shortages. But that was caused by lack of money, lack of distribution, etc.I thought that in the USA I would never see drug shortages. But I have and continue to do so. Not only one or two drugs but many many. GPOs must take the major responsibility for this sorrow state of affairs. In the present form the GPO drug and IV fluid suppliers have a protected market with no competition as the latter producers have all seized to exist. Drug shortages in a country like the US is a disgrace and can so easily be fixed by the people in power. But maybe they dont want to since they get a kickback too!. This kickback is called campaign contributions.
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6. **Joseph Kras Oct 21. 2018 6:00pm**
Other commenters have highlighted the economic aspects of the legalized kickbacks that GPO's get.Another extremely important point is that PATIENT SAFETY suffers when drugs like epinephrine, sodium bicarbonate, atropine, and many others are not available. The GPO kickback system IS the root cause of the shortages through limiting the number of manufacturers, especially manufacturers of sterile, generic, injectable drugs.We had hurricanes and the FDA had safety standards in the 1990's, but we didn't have shortages of these basic drugs.The "safe harbor" kickback law is the problem, and we need to fix it.
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7. **marion mass Oct 21. 2018 3:03pm**
If the GPOs save money for the healthcare systems, let them do so without the right to receive their legalized kickbacks. Besides

potentially adding hundreds of billion of dollars to a system that all Americans recognize as overpriced, they add significant conflict of interest and sew the seeds of distrust in our medical system.
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8. **Rosemary Gibson Oct 21. 2018 1:39pm**
   What should have been a Costco model, has been turned upside down. Meanwhile, generic manufacturers are being hammered on price so middlemen can keep more $$. The result? More generics being made in China by Chinese companies for U.S. hospitals and pharmacies. It's the only country whose government is subsidizing the industry to the tune of billions so it can achieve its "Made in 2025" aim to become pharmacy to the world. Read more at China Rx: Exposing the Risks of America's Dependence on China for Medicine. https://www.amazon.com/China-Rx-Exposing-Americas-Dependence/dp/1633883817/ref=sr_1_1?s=books&ie=UTF8&qid=1540143511&sr=1-1&keywords=china+rxTalk about unintended consequences of bad public policy, this takes the cake. More carcinogenic-valsartan cases in the offing.
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9. **Holly Thacker Oct 21. 2018 12:39pm**
   Repeal Safe Harbor! No more sugar coating the complete rip off to American patients. These legalized kick backs can NOT stand. Drug shortages and skyrocketing medication costs are preventable. The cure? Excise the mod Middlemen stat! https://speakingofwomenshealth.com/column/no-more-middlemen-reduce-medication-costs-and-stop-medication-shortages
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10. **Matt Gordon Oct 21. 2018 10:33am**
    The fact that Ebert tries to use the fact that they disclose their fees as an excuse to give certain companies a monopoly via kickbacks is absurd. The only way that would make any sense is if they disclosed all of the companies that they left out of their catalog as a result of the not being able to pay the appropriate kickbacks. The problem isn’t that manufactures are in the catalog, it is that companies are excluded because they are out bid. If you are for transparency and competition, why would you require a special exemption in the law? Just post all of the products, and charge a flat fee to be included in

the catalog. If you charge kickbacks for exclusive listings, you are creating a monopoly with no transparency. It’s basic economics.
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11. **PHILLIP ZWEIG Oct 19. 2018 9:30pm**
    Guess FDA Commissioner Scott Gottlieb M.D. is one of the "fringe elements" cited by Mr. Ebert. In a interview with the Associated Press of July 12, 2018, he blamed GPOs and PBMs for the drug shortages: https://apnews.com/998a244e3ac849b787bcd3c893eb6806.I also have some news for Mr. Hirsch of St. Peter's Healthcare System. Intermountain IS the middleman. They own 100% of Intalere, one of the Big Four GPOs. It used to be called Amerinet. Guess who was CEO?: Todd Ebert. This nonprofit drug maker is nothing more than a ploy by GPOs and their major shareholder hospitals to take the pressure off so that they can keep their kickbacks (reasonable people might call them bribes), rebates, and "share backs." It's like the rogue fireman who starts a house fire, leaves the scene, then returns to rescue the occupants to be declared a hero! To end the drug shortage crisis, all the GPOs and their hospital CEO shareholders would have to do is repudiate their kickbacks and share backs. But of course they will never do that---voluntarily. GPOs and PBMs are joined at the hip by the unsafe Medicare anti-kickback safe harbor. It is the biggest kickback scheme in American history.
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12. **Robert Campbell Oct 19. 2018 8:52pm**
    This model incentivizes healthcare inflation. GPO/PBM Kickbacks are a percentage of revenue. The more a drug or device costs the higher the kickback fees. In any other supply chain this is a felony. Only because the GPO/PBM Kickback Safe Harbor exists is any of this possible. Repeal the safe harbor and letÃ¢Â€Â™s see just how fast costs plummet. Pay to play sole source contracts are why we have drug shortages. It is time to end this farce and make healthcare great again.
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