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Blog: Senator says GPOs may play role in high healthcare costs

Blumenthal

By **Adam Rubenfire** | March 29, 2016

Sen. Richard Blumenthal (D-Conn.), a constant critic of **group purchasing organizations**, wants to examine whether federal provisions that allow GPOs to collect administrative fees drive up patients' healthcare costs.

Although federal law prohibits hospitals from taking kickbacks from suppliers in exchange for their business, the “safe harbor” provision allows GPOs to collect an administrative fee from suppliers for their role in the negotiation process. Critics argue that the fees—which are often a percentage of the purchase price—give GPOs an incentive to negotiate higher prices instead of cutting the best possible deal for their members.

Blumenthal **recently told** (<http://www.nhregister.com/health/20160328/blumenthal-seeks-answers-on-whether-health-purchasing-groups-are-costing-consumers>) the New Haven (Conn.) Register that he will encourage the **Federal Trade Commission** and the Senate to formally examine whether administrative fees are increasing patient costs. The fees are a core source of revenue for the companies. GPOs also provide consulting, software and other services.

“There must be extremely exacting and close, ongoing oversight and scrutiny to ensure that their special treatment under the law is in no way abused,” Blumenthal said.

Blumenthal, the ranking Democratic member on the Senate Veterans' Affairs Committee, has quarreled with the GPO industry before. When he was Connecticut attorney general, he **submitted critical testimony** regarding GPOs to the Senate Judiciary Committee's Antitrust, Competition Policy and Consumer Rights Subcommittee. His **investigation** (http://www.nytimes.com/2006/07/17/business/17group.html?pagewanted=print&_r=0) into a membership-based consulting group called the **Healthcare Research and Development Institute** (<http://www.modernhealthcare.com/article/20070125/NEWS/70124028>) similarly raised questions about the hospital purchasing process.

“There may well be a need to repeal the safe harbor provisions,” Blumenthal told the Register. “But that's a judgment that I will make after building a factual record and amassing the evidence that will be necessary for any legislative solution to be successful.”

Physicians Against Drug Shortages, a small group consisting mostly of anesthesiologists and critical-care specialists, **has called for repealing the safe harbor** (<http://www.modernhealthcare.com/article/20130904/blog/309049998>), because they say the current GPO model limits competition and incentivizes higher prices. However, GPOs say they've **found creative ways to avert drug shortages** (<http://www.modernhealthcare.com/article/20151024/MAGAZINE/310249987>), by guaranteeing provider demand, helping manufacturers secure active ingredients or establishing their own private labels of popular drugs.

Though GPO leaders are often vocal about issues affecting their industry, their trade group doesn't spend much on lobbying. The Healthcare Supply Chain Association, led by former Amerinet CEO Todd Ebert, spent \$310,000 on lobbying in 2015, **according to OpenSecrets.org**. HSCA listed safe harbor as one of its key issues on federal disclosure forms.

Ebert said in a statement that the GPO business model has been "thoroughly reviewed" by federal agencies, courts and Congress, and the firms operate in line with strict industry-established rules that guard against conflicts of interest. “Congress

included the Safe Harbor Provision in its 1987 Medicare and Medicaid Patient Protection Act for a reason: to protect the cost savings realized through lawful GPO practices," he said.

Nonetheless, Ebert said GPOs "believe oversight is important, and welcome Congressional interest as an additional measure" on top of existing rules.

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