

Transparency in Medical Equipment Pricing

By Ismael Cordero, CBET



THERE IS A MOVEMENT IN THE UNITED STATES toward consumer-driven health care—health plans in which individuals have a personal health account from which they pay medical expenses directly. An anticipated important by-product of consumer-driven health care is that the quality of health care will improve and its cost will decrease as patients begin to control the checkbook and seek explanations of the costs. However, to date, pricing information necessary to make sound health care decisions has not been available without difficulty to the consumer.

would require medical device manufacturers, as a condition of receiving direct or indirect payments under Medicare, Medicaid, and SCHIP, to submit to the Secretary of Health and Human Services data on average and median sales prices for all implantable medical devices used in inpatient and outpatient procedures. Manufacturers would be subject to civil monetary penalties for failing to report or for misrepresenting the price data, which would be available to the public on the Web.

When introducing the bill, Grassley said, “Without any available information on fair prices for medical devices, hospitals are involved in one-sided negotiations with device manufacturers. Some hospitals are now paying a lot more than others for the same medical device.”

We should be entitled to information that can help us make better decisions and gain control over what we spend.

For the most part, consumers in many markets in the United States understand how much they will have to spend for a particular item or service they wish to receive. The exception to this is health care. Sometimes, there appears to be a deliberate effort to keep the prices of medical products and services hidden or vague. Hospitals have the role of negotiating fair pricing on behalf of the patients and other payors, and in many cases, this role is a difficult one, especially when hospitals are being told by manufacturers that they cannot share pricing information with third parties.

Fortunately, where medical devices are concerned, there are for-fee services available, such as ECRI Institute and MD Buyline, among others, to help hospitals navigate through the convoluted medical device pricing schemes. However, even with the help of these services, these efforts cannot be fully effective if the manufacturers work hard to deliberately keep their prices a secret.

In 2006, ECRI Institute sued the Guidant Corp, a manufacturer of cardiac rhythm devices, in Federal District Court in Pennsylvania. ECRI Institute asserted its First Amendment right to publish comparisons of prices paid by hospitals for medical devices. ECRI Institute asked the court to rule on whether it is within its rights to reject Guidant’s claim that its publication of prices paid by hospitals is forbidden.

In its press release announcing the lawsuit, ECRI Institute stated that it believes that there is a pressing national interest in allowing the health care community to engage in comparative shopping based on the safety, performance, and cost of medical products.

There is some hope in sight. In October 2007, Senators Arlen Specter (R-Pa) and Chuck Grassley (R-Iowa) introduced the Transparency in Medical Device Pricing Act of 2007 bill. This act

ECRI Institute President and CEO Jeffrey C. Lerner, PhD, believes that the bill enables a market-based approach that “should appeal to manufacturers who wish to avoid approaches they would find less attractive, such as having the government set prices.”

While this act is a big step forward, it needs to broaden its scope beyond implantable devices and include all medical supplies and equipment. After all, only about 3% of the total items bought by hospitals are implantable devices.

This issue should be of importance for all clinical engineering professionals, both as stewards of health care technology and as individuals who consume health care. Not knowing the true cost of health care technologies makes it a nearly impossible task for the profession to make significant contributions to cost containment and cost effectiveness. And as consumers of health care, we should be entitled to information that can help us make better decisions and gain control over what we spend. Contact your state senator and let him or her know how you feel about this issue. **24x7**

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Through the Looking Glass



Julie Kirst, Editor

SOMETHING IS AFOOT IN THE medical device-pricing arena that has prompted this month's "Soapbox" (page 46) by Ismael Cordero, CBET, and a study by economists Robert W. Hahn, executive director, Reg-Markets Center, senior fellow, American Enterprise Institute; and Hal J. Singer, president, Criterion Economics.

The topic in question is a bill introduced late last year—the Transparency in Medical Device Pricing Act of 2007, S.2221—by Senators Chuck Grassley and Arlen Specter. At the crux of the bill is an effort to introduce transparency into the prices that medical device suppliers charge hospitals participating in federal health care programs, with an end goal of ensuring that hospitals can provide efficient and economical care and preclude the taxpayers from being overcharged for implantable medical devices paid for through these government-funded programs.

In economics, transparency refers to a market where many people have extensive knowledge about which products and services are available and at which price. For us as humans, openness and accountability reside on the same plane as transparency.

It all comes down to communicating openly, which is a good business practice.

At a press conference on February 19 in Washington, DC, the above economists released their study (http://www.criterioneconomics.com/docs/Hahn_Singer_Disclosure_final_12-7.pdf). "We found that mandatory price disclosure, as proposed in S.2221, is unlikely to benefit patients or hospitals and worse, will likely increase costs," Hahn said.

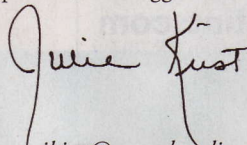
According to the authors, in order for price disclosure to have a favorable effect, large search costs must see a considerable reduction, and the pricing information disclosed needs to be current.

Specifically, the report found that: the medical device industry is concentrated among a few firms; there are few, if any, economical substitutes for many medical devices; competitors repeatedly interact in the marketplace; some medical devices are standardized whereas other devices are differentiated; and firms do not already know their rivals' prices.

As a result, the report concluded that: significant search costs would remain for hospitals and patients, since the data would be at least 3 months old disclosure would not provide current price information, and the structure of the health care industry would not ensure that hospitals pass cost savings on to consumers.

At various times, *24x7's* readers have written about their frustration in trying to obtain prices on medical devices they are interested in purchasing ("Soapbox," March 2007, for example), and this may well be the first step to alleviating that obstacle.

There will always be two sides to every story—where do you stand? Do you agree with Cordero that this first step should be carried through to include all medical devices, or will this transparency bill drive prices higher? E-mail me and let me know your views, opinions, and suggestions.


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