



June 12, 2009

The Honorable Barack Obama
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

As the White House and Congress work with stakeholders to find achievable healthcare system savings over the next decade, the Premier healthcare alliance, GNYHA Ventures, Inc.— Greater New York Hospital Association’s supply chain enterprise that includes group purchasing organizations (GPOs)—and the hospitals and providers we serve are committed to continuing efforts to promote high-quality, affordable healthcare. Our joint research has identified tangible, achievable cost-saving opportunities to help our nation pay for comprehensive healthcare reforms that improve quality and access to care.

We believe we can do our part to reduce national health expenditures by helping hospitals control their supply costs. According to our analysis, hospitals could improve healthcare quality and *achieve cumulative savings of \$317 billion over the next 10 years* if certain policies are enacted to create a more competitive and transparent purchasing environment. These savings, which are based on a conservative analysis, are expected to be fully realized by 2019.

As GPOs, Premier and GNYHA Ventures achieve healthcare cost savings by aggregating their healthcare buying volume for thousands of products and then using that leverage to negotiate contracts that include discounts from manufacturers, distributors and other vendors. GPOs also provide a variety of other services and tools that help providers improve efficiencies, reduce costs and improve quality of care. In addition to contract savings, GPOs save their member hospitals the substantial labor cost of carrying out those functions independently. Further, GPOs pool the collective experience and knowledge of their members in choosing the best and most effective products for their patients. Through our work with physicians and other clinicians to standardize clinical practice patterns—expensive pharmaceutical therapies and orthopedic implant devices are two examples—hospitals have made great strides in reducing waste.

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A recent study by Dr. Eugene Schneller, using data collected by Mathematica Research, Inc., projected that GPOs directly contribute \$36 billion to annual price savings. The money hospitals save through GPOs gives them critically important resources to maintain appropriate clinical staffing levels and enhance patient services.

In short, GPOs are at the heart of, and essential to, healthcare value-based purchasing, and we have already made enormous contributions to “bending the healthcare cost curve.” But the healthcare supply chain is vast and complex, and there are far more savings to be achieved.

Premier and GNYHA Ventures developed the savings recommendations in this letter by analyzing information from the Premier Perspective™ database, the nation’s largest and most detailed clinical, financial and outcomes database, containing information for one out of every five—or 210 million—patient discharges in the United States. Opportunities for further savings are based on analysis of real-world lessons learned from Premier and GNYHA Ventures hospitals, including those participating in Premier’s quality and cost improvement collaboratives such as the Hospital Quality Incentive Demonstration (HQID) and the QUEST: High Performing Hospitals initiative.

Total U.S. hospital and nursing home non-labor expenditures are estimated at approximately \$367 billion annually, with roughly \$263 billion contracted through GPOs. Through a combination of improved alignment between physicians and hospitals, transparency around manufacturers’ payments to physicians, comparative effectiveness research, follow-on biologics, removal of price confidentiality contracts and the implementation of unique device identification for all medical devices by 2012 using GS1 standards, we are confident that *GPOs can help hospitals avoid price inflation over the next 10 years to achieve cumulative savings of \$317 billion.*

Improved Alignment Between Physicians and Hospitals

Fostering coordination among providers has the potential to improve the quality and efficiency of patient care. However, financial incentives currently in place differ and sometimes conflict with each other, creating a major barrier to this result. Most physician services are paid separately and are not affected by hospital reimbursement. In fact, physicians generally are paid more as their volume of services increases. In addition, Federal laws and regulations often create barriers to integration. These include the Federal anti-kickback statute, the physician self-referral law, the civil monetary penalties under the Social Security Act and the 1999 HHS/OIG special advisory bulletin on gain-sharing.

While these laws were enacted for unquestionably good purposes, their interpretation has contributed to a misalignment of financial incentives between hospitals and physicians. This can be especially problematic when expensive medical technologies such as devices and drugs are used to treat inpatients, with the choice of prescription technologies being made by physicians while hospitals bear the costs.

Allowing shared savings programs would align hospital and physician financial incentives to achieve greater consistency and standardization around medical products, which would improve the quality of care and provide more value to purchasers of healthcare services. If properly structured, a shared savings program that rewards physicians with a portion of the savings realized by hospitals from the selection of less costly, though equally or more effective devices, drugs, or other medical supplies could have immense ramifications. Hospitals participating in a current CMS demonstration project on shared savings have reported significant savings. We found in the analysis we conducted that 2-4% a year of the approximately \$57 billion that is spent annually on physician preference items, such as cardiovascular, orthopedics, spine, intraocular, ophthalmic, ear and other devices, could be saved through improved physician and hospital alignment, yielding 10-year cumulative savings of \$68-\$128 billion.¹ In addition to shared savings programs, this alignment is facilitated by other dynamics such as transparent disclosures of manufacturer payments of value to physicians and removal of confidentiality contracts.

Transparency Around Payments to Physicians by Manufacturers

Increased transparency of financial relationships between the industry and physicians could also be accomplished through enactment of legislation to require manufacturers of drugs, devices or medical supplies to publicly report payments or other “transfers of value” to physicians or certain related entities. This would help expose payments that can create conflicts of interest, which contribute to a lack of collaboration between hospitals and physicians. Conflicts created by financial relationships between physicians and device and drug manufacturers can affect prescribing practices in patient care and have the potential to raise the cost of healthcare by encouraging inappropriate and more costly care, such as the greater use of more expensive branded drugs rather than equally effective generic equivalents.

¹ Analysis based on the Premier, Inc., Perspective database, the nation’s largest and most detailed clinical and financial database, holding information on more than 210 million patient discharges.

Removal of Price Confidentiality Contracts

An important part of the cost-saving equation is increasing the transparency of drug and device costs, which would give hospitals the necessary information to engage with physicians in making informed, evidence-based decisions while tracking outcomes to ensure quality of care. Contractual provisions enforced by manufacturers often restrict hospitals from sharing with one another the prices they pay for devices. This impedes hospitals' ability to compare market prices and negotiate with manufacturers. Prohibiting these "gag clauses" would not only enable hospitals to collaborate with physicians to increase product standardization, it would also help reduce healthcare costs.

When hospitals and GPOs are allowed to share data on both quality and costs with physicians, they become partners in helping to reduce costs and improve quality. The power of such collaboration is evident in the savings achieved through hospitals and clinicians working with GPOs to aggregate supply purchasing and improve systems and processes that maximize efficiency, labor and expenses. The Schneller study referenced above estimates that GPOs save \$6.8 billion for hospital pharmaceuticals, \$8.5 billion for medical/surgical purchases, \$1.9 billion for cardiology implants and \$840 million for orthopedic implants.

FDA Evidence-based Oversight of Reprocessing

Another change that would help to make healthcare more affordable would be to improve the evidence base for labeling a device "single use." FDA currently provides oversight and regulates the reprocessing of single-use devices (SUDs). The Government Accountability Office in their January 2008 report concluded that there was no evidence that reprocessed SUDs create a risk. Despite FDA regulation of reuse of SUDs many hospitals do not reprocess SUDs because of the single-use label. FDA could require manufacturers to show evidence that a medical device is unable to be reused, including studies that indicate reuse would render the device unsafe.

Allowing Manufacturers of Follow-on Biologics to Compete in the Market

Another regulatory change that would promote a more efficient market and provide more value to consumers would be to create a pathway for the Food and Drug Administration (FDA) to approve generic versions of biotech drugs. Granting manufacturers of biologic products a set number of years of market exclusivity, similar to one that makers of traditional drugs already have, would allow follow-on biologics drug manufacturers to enter the market and compete,

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driving down prices for patients and the healthcare system overall. The Congressional Budget Office estimates that follow-on biologics will create a savings of at least \$5.9 billion (\$6.6 billion if increased tax revenues are included) over 10 years. GPOs are highly effective in helping hospitals identify maximum savings from using safe and effective generic drugs.

Implementation of Unique Device Identification

In a 1996 Efficient Consumer Response study entitled “Improving the Efficiency of the Healthcare Supply Chain,” \$11 billion in annual savings was projected from the adoption of universal product numbers and the identification of standards for electronic data interchange and bar coding. This study was recently updated and now estimates that supply chain savings would total \$16 billion annually for a potential 10-year savings of over \$150 billion. Numerous case studies and pilots around such standards—including one being conducted by the Department of Defense—have realized savings. These standards have also been utilized in other industries for many years and have proven to be effective.

The creation of a national unique device identification (UDI) system is a large, critical piece to fully recognizing savings and improving patient safety. In 2007, Congress included a UDI-related provision in the Food and Drug Administration Amendments Act of 2007 (Public Law 110-85). More specifically, section 226 of the legislation requires the Secretary of Health and Human Services to promulgate regulations establishing a UDI system for medical devices requiring the label of devices to bear a unique identifier. This is long overdue, and we urge your Administration to ensure that the FDA issues the regulation as soon as possible.

Comparative Effectiveness Research

As part of a broader effort to make sound, science-based evidence the basis for medical practice, comparative effectiveness research offers a promising course to improving health outcomes while safely reducing costs. The current work underway by your Administration will lay the foundation to produce information that will help healthcare providers and patients evaluate medical innovations and determine which represent added value, which fail to offer enhancements to current choices and which treatments work for some patients and not for others. This will enable the provider community to take the findings and drive greater market competition around the evidence. GPOs strongly support comparative effectiveness research and are working with suppliers to validate their claims that their products improve clinical outcomes.

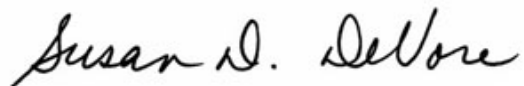
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We believe GPOs, working in conjunction with our members, have a real opportunity to significantly reduce healthcare costs. We believe that, with the aforementioned reforms, we can stop increases in the cost of medical devices, drugs and supplies in hospitals. This *conservatively* will amount to \$317 billion in savings over the next decade.

Sincerely,



Susan DeVore
Incoming President and CEO
Premier Healthcare Alliance



Lee Perlman
President
GNYHA Ventures, Inc.

cc: U.S. Department of Health and Human Services Secretary Kathleen Sebelius
Nancy-Ann DeParle, Director, White House Office of Health Reform
Peter Orszag, Director, Office of Management and Budget

Generating Healthcare Savings Projected Impact of Healthcare Reforms on Supply Chain Spending

Based on past experience and data extrapolation, the Premier healthcare alliance and GNYHA Ventures believe that significant healthcare expenditure reductions can be achieved within the hospital supply chain. The table below shows savings projections that could be realized by holding purchasing expense steady over the next 10 years.

<i>In Billions</i>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2010-2019
Price Inflation Forecast*		1.5	3.2	2.6	2.3	1.9	1.5	1.4	1.4	1.4	1.4	
Total GPO Spend	263	267	275	283	289	295	299	303	307	312	316	2,947
Revised	263	263	263	263	263	263	263	263	263	263	263	2,630
Savings	-	(4)	(12)	(20)	(26)	(32)	(36)	(40)	(44)	(49)	(53)	(317)

* Based on CMS Prospective Payment System (IPPS) Hospital 2002 Input Price Index using Global Insight Inc. Forecast Assumptions, by Expense Category: 1990-2018

Derivation of Baseline Data

According to an analysis by Locus Systems of CMS National Health Expenditures Accounts of non-labor expenditures by hospitals and nursing homes for calendar year (CY) 2007, the total potential group purchasing organization (GPO) marketplace in CY 2007 would have been \$367.3 billion. Of that, GPO purchasing volume accounted for \$263 billion; this reflects hospital GPO contract penetration at an average of 72%, which is based on analysis conducted by Eugene Schneller.² The remaining 28% of supply expense includes off-GPO-contract purchasing and physician preference items that are typically advanced, high-price, lower-volume technology, such as cardiac devices and orthopedic implants. GPOs do not mandate on-contract purchasing, so hospitals are free to purchase directly from manufacturers without a GPO contract when desired.

Savings Methodology

By aggregating purchasing and negotiating volume discounts from manufacturers, GPOs save the healthcare industry billions each year. In addition to these ongoing savings, the spreadsheet above indicates the opportunity to hold expenses of GPO purchasing volume steady, without incurring the annual inflationary increases projected by CMS. *This static expense projection yields a cumulative savings of \$317 billion over 10 years.*

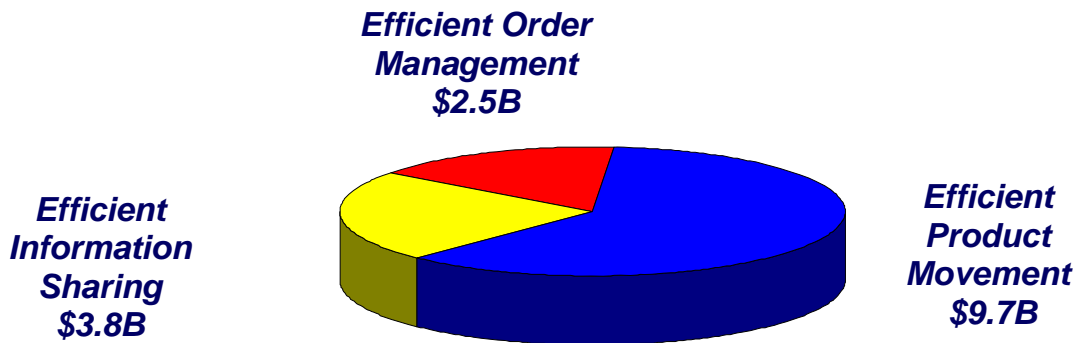
We arrived at these conservative figures by adding savings we realistically believe can be achieved through a variety of reforms that will lead to a more transparent and streamlined healthcare supply chain. These savings include the following:

1. \$68-128 billion savings through reduction of expense in physician preference items. This amount reflects a 2-4% savings on the estimated \$57 billion spent per year as a result of improved hospital-physician alignment, transparent disclosure of manufacturer payments of value to physicians and removal of confidentiality agreements. We arrived at the 2-4% savings by using the Premier PerspectiveTM database, the nation's largest clinical and

² Schneller, Eugene, The Value of Group Purchasing – 2009: Meeting the Needs for Strategic Savings, Health Care Sector Advances, Inc., April 2009

financial database with over 130 million patient records from more than 700 hospitals. Hospitals performing in the top quartile were identified based on cost metrics in physician preference areas such as cardiovascular, orthopedics, spine, intraocular, ophthalmic, ear and others. These hospitals are superior at aligning physicians with high quality and cost-effective use of physician preference devices. By moving all organizations to this top quartile performance, a range of 2-4% savings can be achieved each year. By aligning physicians and hospitals in this area, we have been able to achieve this level of cost reduction annually.

2. An additional \$16 billion per year in savings is projected from the adoption of Unique Device Identification (UDI), according to the 2006 update of the 1996 Efficient Consumer Response study "Improving the Efficiency of the Healthcare Supply Chain." The majority of the savings are gained through more efficient information sharing, efficient order management, and efficient product movement (see chart below). However, there are additional opportunities for savings through physical distribution, transportation, order management, and inventory management. Additionally, all the players in the supply chain stand to share in the savings if the identification standards listed above are realized. Healthcare providers will realize 41% of the savings, while manufacturers will see 33% and distributors 26% of the savings.



*Efficient Healthcare Consumer Response (EHCR)

3. Evidence-based data derived from comparative effectiveness research can also be used to illustrate to physicians the clinical outcomes associated with product choices and practice patterns. With physicians making decisions on a foundation of evidence and best practices, there will be improved valuing of new drugs and devices, impacting the prices of these products.
4. Savings can be also driven by allowing competition in the area of biotech drugs. In the pharmaceutical industry, a brand will lose approximately 90% of its value if there are two or more competitors in the marketplace. By allowing biotech products to go generic through a biosimilar process, savings are estimated at a 20% reduction initially, with possible price reduction in the marketplace over time. GPOs speed the use of generics to generate savings for members and the same acceleration would be expected in follow-on biologics.