



FOR IMMEDIATE RELEASE
May 2, 2011

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BAUCUS INVESTIGATES MEDTRONIC TO ENSURE PATIENTS, HOSPITALS DON'T BEAR INCREASED MEDICAL DEVICE COSTS

Finance Chairman Questions Whether Medical Device Company's Cancelling Group Purchasing Contracts Will Harm Transparency, Increase Health Care Costs

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) initiated an investigation today into recent actions by medical device manufacturer Medtronic, Inc. that could potentially increase costs for patients and reduce price transparency in the health care system. In a letter to Medtronic's Chief Executive Officer, Baucus inquired about Medtronic's cancelling of contracts with Novation, LLC, one of the largest group-purchasing organizations (GPOs) and the consequences for other GPOs, hospitals, Medicare and Medicaid. GPOs allow hospitals and other health care entities to save money by aggregating purchasing volume and using that leverage to negotiate discounts with medical device manufacturers.

"Reports that this move was fueled by an attempt to discourage transparency and increase costs are troubling," said Baucus. **"Medtronic cancelling these contracts could considerably undermine our efforts to reduce health care costs and increase transparency for consumers and taxpayers. Medicare spends billions each year on medical devices for patients and we need to make sure these patients, and the taxpayers, are getting the highest-quality products at the best price."**

Baucus requested information about the effect the termination of the group purchasing contracts will have on the pricing of medical devices at the hospitals that were represented by Novation and the cost to Medicare and Medicaid. The inquiry also seeks information on how Medtronic intends to negotiate prices with providers in the future for the products affected by contract cancellations.

A Finance Committee staff report released in December found that Medicare Part A alone paid an estimated \$108.9 billion for 6.9 million medical device procedures from fiscal year 2004 to fiscal year 2009.

The Finance Committee has jurisdiction over the Medicare and Medicaid programs. Baucus was a chief architect of the Affordable Care Act, the new health care law, which significantly reduces health care costs, reducing the deficit by more than \$210 billion in the first ten years of enactment and by more than a trillion dollars in the decade that follows.

The full text of Baucus's letter follows.

May 2, 2011

William A. Hawkins, III
Chairman of the Board
President and Chief Executive Officer
Medtronic, Inc.
710 Medtronic Parkway
Minneapolis, MN 55432

Via Electronic Transmission

Dear Mr. Hawkins:

The United States Senate Committee on Finance (Committee) has jurisdiction over the Medicare and Medicaid programs. As Chairman of the Committee, I have a special responsibility to the more than 100 million Americans who receive health care coverage under those programs to ensure that beneficiaries receive medical devices that are safe and that taxpayer dollars are spent efficiently.

A Finance Committee staff report released in December found that Medicare Part A alone paid an estimated \$108.9 billion for 6.9 million procedures related to medical devices from FY2004 to FY2009.

A February, 2011 Wall Street Journal article described Medtronic's "cancelling of five contracts with Novation LLC, the largest group-purchasing organization, or GPO. Medtronic's move could escalate a battle between device makers trying to protect product prices and their leverage in negotiations, and GPO's trying to cut cost-saving deals for hospitals." And a February New York Times article quoted a health care analyst saying "Medtronic's bold move could represent a positive shift in bargaining power away from the hospitals and back to the device manufacturers." Reports that these moves are fueled by an attempt to discourage pricing transparency for these cardiac and orthopedic products, and increase cost to hospitals, are troubling. Subsequent reports discuss Medtronic abandoning similar contracts with the second largest GPO, Premier, covering spine products.

As you know, there is a strong focus on entitlement reform in the 112th Congress, and questions are properly raised about this recent action taken by Medtronic and its impact on the cost of hospital care, and payments from Medicare and Medicaid.

Please help the Committee understand your company's actions by answering the following questions:

1. How long did Medtronic have a business relationship with Novation?
2. For each year of the business relationship, please detail the products covered by the contracts, the annual value of the products, and the total compensation provided by Medtronic to Novation.
3. What were the reasons for terminating Medtronic's relationship with Novation in these five contracts? What is the amount and source for the "expected cost savings" statement in the Wall Street Journal article?
4. How will the termination of the group purchasing contracts affect the pricing of medical devices at the hospitals that were represented by Novation, and any fees given to those hospitals? Please provide any internal studies, assessments, or memoranda regarding the effect the decision to terminate

the Novation contracts will have on the price of medical devices sold to the affected hospitals and any administrative fees provided to those hospitals.

5. Did Medtronic make any oral or written communications or promises to affected hospitals on fees, pricing, or transparency in direct negotiations?

6. Did Novation's reported refusal to allow confidentiality clauses play any role in the decision to terminate the group purchasing contracts? Please provide any internal studies, assessments, or memoranda regarding Novation's ban on confidentiality clauses in contracts and on Novation's sharing of pricing information among its members.

7. How long did Medtronic have a business relationship with Premier?

8. For each year of the business relationship, please detail the products covered by the contracts, the annual value of the products, and the total compensation provided by Medtronic to Premier for those products.

9. What were the reasons for terminating Medtronic's relationship with Premier covering spine products?

10. Please detail all contract cancellations with GPOs since 2000. For each cancellation, note the year, products covered by the contract, annual value of the products, and total compensation provided by Medtronic to the GPO for those products.

11. Does Medtronic have plans to cancel any additional contracts with GPOs during 2011 or 2012?

12. At the Citi Global Healthcare Conference on March 2nd, you said that you would be "shocked" if your competitors did not follow Medtronic's lead by dissolving contracts with GPOs, like Novation. Did you or any agents of Medtronic engage in any direct or indirect communication with any competitors with regard to business practices concerning GPOs? If so, please provide copies of emails, phone logs, transcripts, or any other documentation of communication with these companies.

13. How does Medtronic intend to negotiate prices with providers in the future for the products affected by contract cancellations?

In cooperating with the Committee's review, no documents, records, data, or other information related to these matters, either directly or indirectly, shall be destroyed, modified, removed, or otherwise made inaccessible to the Committee.

I look forward to hearing from you by no later than June 6, 2011. All documents responsive to this request should be sent electronically, on a disc, in searchable PDF format. If you have any questions, please do not hesitate to contact [staff redacted] at (202) 224-4515.

Sincerely,

Max Baucus
Chairman

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