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How are Health Care Organizations Saving on Their Prescription Costs?



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By Stephen Barlas

Bob Melendy, human capital services executive at Scripps Health in San Diego, could not believe what he had just learned. One of the hospital system's 13,000 employees, a member of Scripps' self-insured health benefits plan, had been filling prescriptions for Factor 8 (an expensive hemophilia drug) at the outpatient pharmacy of another local hospital. That hospital was qualified under the federal government's 340B drug discount program and therefore able to buy Factor 8 at roughly half the average wholesale price. This in turn gave the hospital's outpatient pharmacy a competitive advantage and significant revenue when it dispensed expensive drugs. Based on usual and customary reimbursement rates, the nearby hospital's pharmacy was earning about \$400,000 each year from this single patient, all paid by Scripps' health plan. But the real "ah-ha moment" for Melendy came with the realization that two hospitals of Scripps' five hospital campuses were also 340B eligible and could buy and dispense discounted 340B prescriptions as well.

"We should be keeping those savings," thought Melendy. But while two Scripps hospitals were 340B-eligible, neither had taken advantage of purchasing drugs at the 340B discount rate. Discounts can be 25 to 50 percent off the average wholesale price (AWP) of many drugs including those for treating cancer, arthritis, HIV/AIDS, and other serious conditions.

Back in 2006, when he first ran into the Factor 8 employee's prescription situation, Melendy was only vaguely aware of the 340B program and its possibilities. But after some initial research he quickly realized that if he could start capturing 340B savings for some of the 24,000 employee and family member participants in the Scripps health plan -- especially those with expensive prescriptions for chronic diseases -- he could significantly reduce the corporate health plan's outlays on drugs.

Today, five years later, after fits and starts, Scripps is saving about \$400,000 a year with the 340B program; the money it saves remains in the plan in order to cushion premium increases for employees. "And we are just scratching the surface," adds Dayna Pearson, the company's health plan administrator.

About 14,000 hospitals and Federally Qualified Health Clinics (FQHCs) qualify for the 340B program, which Congress established in 1992. Recently, the Affordable Care Act extended eligibility to another 1,500 hospitals, most in low income areas. The savings and revenue they generate as a result of the 340B program is used to help offset the cost of services provided to the underinsured or uninsured population they serve.

However, the 340B program has been on the back-burner for most hospitals. Very few have taken advantage of 340B's monumental cost savings potential since the program was established two decades ago, as was the case with Scripps in 2006. The underutilization is due in part to the program's complexities, guidelines and limitations. For example, at the time Scripps began its program, qualified entities could only designate a single pharmacy to fill 340B prescriptions, either an in-house pharmacy or a

contracted retail or mail order pharmacy. All inventory dispensed through the program had to be distinguished from other prescriptions filled by the pharmacy.

Once he learned the Scripps plan could save \$400,000 on just one employee's annual prescriptions, Melendy was determined to figure out how he could start a 340B program for the plan's 24,000 covered lives. But when he presented the business proposal, it became clear that the organization did not have even a basic understanding of 340B regulations. "Our legal team had never heard of this," remembers Melendy. "They thought it was too good to be true."

At that time, the pharmacy benefit manager (PBM) that administered the Scripps prescription program was also just coming up to speed on the implications of a 340B program for employees. Melendy was undeterred. He decided to go the mail order route because Scripps did not have an onsite pharmacy at either of its two 340B-eligible hospitals. He also began trying to align Scripps' mail order pharmacy partner behind the program (unsuccessfully it turned out). At the same time he fulfilled another 340B requirement: setting up a 340B-eligible clinic at Scripps Mercy Hospital where employees would go for care.

Thus began the Scripps Health Plan Care Partner Program, which targets employees and dependents with high cost prescriptions. Employees enter the program with an initial visit and the creation of a medical record. In the early days, they would often arrive at the clinic with the Care Partner brochure in hand. It explained the benefits of the program, including things like co-pay waivers for office visits and prescriptions. Over the course of a year, the co-pay on one prescription can total as much as \$1,200, and some employees use more than one maintenance medication. Not only did employees save money, they had continuity of care from a specialist who was, in most cases, a Scripps affiliated physician. A

After getting started in 2007, the Care Partner Program moved forward slowly, weighed down by the lack of enthusiasm of its mail order partner and the need to research and comply with a complicated set of federal regulations. So in 2009, Scripps brought in Wellpartner, a Portland, Oregon, contract pharmacy administrator, to manage its 340B program. "At that time, there wasn't any other pharmacy administrator other than Wellpartner who knew how to structure a 340B program, whether for a hospital's employee plan or for patients of the hospital," explains Corey Belken, a managing consultant at The Burchfield Group, Inc., which was helping Scripps navigate pharmaceutical industry contracts. "Wellpartner was dominant because they were innovative enough to define and start serving this market."

Wellpartner is responsible for administering the Scripps 340B program and for filling qualified prescriptions through its mail order pharmacy. Wellpartner handles all the inventory and payment administration necessary to meet Health Resources and Services Administration (HRSA) and drug manufacturer audit requirements. According to Melendy, Scripps could have undertaken this work itself. But given staffing limitations and lack of internal expertise, this would have been extremely difficult, so it was much better to work with a recognized leader in this highly specialized field.

Today, the Scripps corporate health plan enjoys significant savings from the Care Partner Program. Between June 2010 and May 2011, Scripps employees filled 1,507 prescriptions at 340B prices, the total cost of which would have been approximately \$840,000 without the 340B discounts. But Scripps paid only \$418,000, saving \$423,000 (and that number would have been considerably higher had not the employee with the Factor 8 prescription left the company).

Scripps Care Partner has gained popularity among employees because of the waived co-pays and other benefits of using the program -- so much so that Scripps hired a pharmacist at the Scripps Mercy clinic whose fulltime job is to consult with employees who want to enroll. One indication of the program's increasing attraction is that the number of 340B prescriptions filled in March 2011 was 80 percent more than the previous year.

The 1,507 eligible 340B prescriptions are a tiny percentage of the 230,000 total filled by all 24,000 Scripps Health Plan members over a 12-month period. Those prescriptions cost the plan about \$12 million last year. Not all employees are participating in the Care

Partner Program, nor does Melendy expect the number to ever approach 100 percent. But if only 10 percent of the total prescriptions covered by the plan were filled through the Care Partner, the savings to Scripps would increase geometrically as the downward pressure on employee health premium increases.

Pearson says that at an open enrollment benefit fair in 2010 at Torrey Pines, one employee told her that "the amount of money we have saved, thanks to my family member being enrolled in the Care Partner Program, has made a big difference in our lives."

Mr. Barlas, a freelance writer based in Washington, D.C., covers issues inside the Beltway.

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