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Generic drugs complicating hospital pharmaceutical spending

Finance staff needs to understand options to save major costs with unbranded medications.

Chuck Green
(/news/author/2621)
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Finance staff needs to understand options to save major costs with unbranded medications.

Spending on healthcare providers' drug supply is becoming more complicated as generics flood the market, a trend that makes it more important for finance and purchasing execs to understand the changes.

In 2014, 78 percent of the prescription drugs dispensed in the U.S. were generic – up from 69 percent in 2009, according to the National Community Pharmacists Association. The NCPA attributed the spike to blockbuster generic drugs "falling off the patent cliff," allowing generic alternatives to be marketed.

At the same time, stigmas formerly attached to generics have dissipated over the last five to 10 years, due mainly to their cost and effectiveness, said Lee Vermeulen, director of the Center for Clinical Knowledge Management at the University of Wisconsin Health System.

[Also: *Finance staff plays bigger role in purchasing* (http://www.healthcarefinancenews.com/news/how-healthcare-finance-leaders-can-play-bigger-roles-medical-device-purchases)**]**

"It's not a controversial issue anymore. The economics (of generics) are massive," added Vermeulen. "Given how much we already spend on meds, there's no way not to use generics when they're available. It's just not feasible."

Helping matters, many of the generics in the United States are manufactured by the same companies in the same plants as brand-name products, further enhancing their appeal. "There's a very high quality standard for generic drugs in the United States and no reason not to substitute," said Vermeulen, who is also clinical professor at the School of Pharmacy (/directory/pharma) at the University of Wisconsin in Madison.

[Also: *Tracking 2015 mergers and acquisitions* (http://www.healthcarefinancenews.com/slideshow/healthcare-mergers-and-acquisitions-2015-running-list)**]**

Various hospitals, including disproportionate share facilities, free standing cancer centers, children's critical access hospitals (/directory/critical-access-hospital) and sole community systems, are eligible to receive both brand name and generic outpatient drugs at a manufacturer discount under the 340B Drug Pricing Program, according to the Health Resources and Services Administration (/directory/health-resources-and-services-administration).

The 340B ceiling price, set in the 340B statute, is available for both brand and generic drugs that meet the definition of covered outpatient drugs in the Social Security Act. It includes a discount generally 25 to 50 percent below what the entity otherwise would have paid, according to the HRSA.

In fiscal 2013, 340B program participants, including hospitals and all others eligible to participate, saved approximately $3.8 billion. At the beginning of this year, 2,170 main hospital locations participated, in addition to 13,010 of their outpatient clinic and service areas, HRSA reported.

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To Philip Almeter, director of Pharmacy Acute Care (/directory/acute-care) Services and 340B Programs at UK HealthCare in Lexington, Kentucky, 340B has been a lifesaver. "The value of the program is just helping us stay operational and pales in comparison to the free care we give; 340B is helping offset the large cost of serving our population."

Kantar Health consultant Meadow Green said hospitals are reimbursed differently for drug administration by payers based on whether a patient is treated in an inpatient or outpatient setting. For inpatient, facilities receive reimbursement (/directory/reimbursement) based on the DRG system, or one lump sum. Hospitals have "a strong incentive to use the cheapest product" available, she added, which is usually a generic.

To select the most cost effective treatment, hospitals often have highly restrictive formularies for drugs used in the inpatient setting, ensuring the use of a specific product, said Green. This dynamic is usually less pronounced in the outpatient setting, where drugs and services are reimbursed separately on a fee-for-service (/directory/fee-service-ffs) system, she said.

Hospitals should only use drugs procured under 340B in the outpatient setting; their procurement through the program in the inpatient setting is considered "diversion" and illegal, said Green. Generally, access to discounted drugs on 340B may assist hospitals with their revenues and solvency and minimize their concern, at least to a degree, "over every penny spent" in the inpatient setting, she said.

Still, some hospitals may use generics even in the outpatient setting based on their payment arrangement with payers, said Green. That's especially true for institutions looking to reduce system costs for both inpatient and outpatient care, she said.

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(/slideshow/truven-names-top-15-health-systems-america)

According to Truven, the firm analyzed nine quality metrics to come up with the rankings, which break down by size of the health system.

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(/slideshow/biggest-healthcare-frauds-2015-running-list)

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In healthcare, every interaction with the patient matters. Especially in today's environment of continuous improvement, efforts have been concentrated on coordination among providers, the patient care experience and quality outcomes – all laudable goals.

Although quality-reporting programs such as meaningful use provide incentives to help providers implement and use electronic health records (EHRs) to collect and report on clinical data, practices often need help deciding what data to collect, which measures to report ...

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