Nine Ways to Deal with Escalating Drug Costs


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By Keith Loria

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As drug costs continue to increase at an unsustainable rate, many industry insiders believe the current trajectory of pharmaceutical expenses will eventually bankrupt the U.S. healthcare system.

Girish Dighe, PharmD, MS, director of pharmacy, business services, at OhioHealth, a not-for-profit system of hospitals and healthcare providers in Columbus, notes that there are fundamental flaws within the healthcare system causing vastly complex challenges to drug pricing.

“The multitude of stakeholders involved in the drug channels for bringing patients access to medications (manufacturers, insurers, pharmacy benefit managers (PBMs), providers, retail pharmacies, wholesalers) revolves around financial incentives driving each stakeholder," Dighe says. "The growing spread between pharmaceutical list price and net price negotiated by drug channel stakeholders has negatively impacted patients' out-of-pocket costs."

According to a recent survey from NORC at the University of Chicago and the West Health Institute, 77% of Americans believe prescription drug prices are unreasonably high.

President Donald Trump took a big stance against rising drug prices early in his tenure and since then some drug companies—Pfizer, Novartis, Sanofi, Roche, and Merck among them—have announced that they're freezing or even lowering drug costs.

Alex Azar, HHS secretary, recently announced that the administration is also working to stop drug rebates to PBMs.

The Pharmaceutical Care Management Association (PCMA), which represents pharmacy benefit managers, issued a report recently blaming high drug prices on drug makers, not PBMs.

In the report, Mark Merritt, PCMA's president and CEO, said the findings supported the belief that drug makers set and raise prices unrelated to the rebates they negotiate with PBMs.

"Drug companies keep raising prices even when rebates go down," he says. "Simply eliminating plans' ability to negotiate price concessions would enrich drug makers at the expense of patients, who would not only face higher prices, but also higher premiums and out-of-pocket costs."

Amy Beatty, PharmD, BCPS, OhioHealth's clinical director of pharmacy services, says medication shortages are to blame for some drug price escalations.

"When lower-cost generic medications enter shortage status, providers are faced with selecting more expensive alternatives," she says. "This pattern of drug shortages has continued to the point where many organizations are now funding positions and teams to manage the fragile supply chain."

As drug costs continue to escalate, many hospitals feel a challenge will be access to important medications, since they cannot always get what they need when they need it. That's why many hospitals, such as OhioHealth, have begun rationing drugs in certain situations and some larger healthcare systems have even started producing their own medications to address both cost and supply concerns (see sidebar, "Hospitals Form Own Drug Company").

Earnest Alexander, PharmD, assistant director, clinical pharmacy services, Tampa General Hospital, a teaching hospital for the USF Health Morsani College of Medicine, and co-editor of the peer-reviewed *AACN Advanced Critical Care*, notes that hospitals and pharmacy departments work closely with group purchasing organizations, which negotiate lower drug prices for member organizations, to monitor and attempt to predict inflation trends. This isn't an exact science and can vary based on several factors, such as changes in formulary and clinical practice, drug shortages, and alterations in competition in the marketplace for drugs.

For example, a decade ago, yearly inflation would range 3% to 5%, he says. In the last five years, this has more than doubled to 8% to 12% increases in cost yearly.

"Interestingly, the number of drug shortages has skyrocketed in the past five to 10 years, resulting in decreased supply and sharply climbing costs for the remaining drugs available for patient care," Earnest says. "Challenges exist because there is a constantly shrinking margin, which poses operational issues for facilities."

John M. Allen, PharmD, clinical assistant professor, College of Pharmacy, University of Florida, and co-editor of *AACN Advanced Critical Care*, says rising drug costs are certainly not a new phenomenon; however, the price of several medications that have few alternatives and that are commonly used in the care of critically ill patients, including epinephrine, vasopressin, and calcitonin, has risen recently. Historically, these agents had relatively low prices and had minimal cost increases year after year.

"Hospital pharmacies routinely monitor for changes in drug pricing and evaluate different ways to mitigate the impact of increasing drug prices without sacrificing patient care," he says. "Some strategies may include establishing criteria for using more expensive drugs, development of order sets to drive appropriate use, and prospective drug audits."

Here are some other avenues that hospitals are exploring to alleviate high costs.

1. Proper use of drugs

When price simply cannot be negotiated, appropriate use of drugs is the only pathway to manage escalating drug costs, says Linda Huang, PharmD, OhioHealth's medication utilization coordinator, pharmacy services.

"First, the [pharmacy and therapeutics] committee must agree upon what appropriate use is," she says. "The classic use strategies for formulary management are either to deny the drug, deny the drug and use an alternative that provides similar outcomes at a lower cost, or to add the drug but apply restrictions for use around the type of ordering provider, indication, dosing, site of care, and/or other qualifiers in order to guide appropriate use."

Still, guaranteeing the success of use restrictions can be difficult and labor intensive. It requires a willingness from the providers to agree with these restrictions as well as vigilance from front-line pharmacy staff to uphold restrictions and/or be comfortable with making judgments around use if a scenario occurs outside of the restrictions.

“We have been most successful with use strategies when we can build logic into our EHR to naturally guide physicians toward appropriate use; when we have partnered with our ordering providers to develop accepted restrictions; and when there is transparency and accountability around appropriate use,” Huang says. “Traditionally, monitoring use to ensure a strategy is successful has been a very manual process, but data management tools can help make this process more automated.”

2. Create a specialty pharmacy

Sentara Healthcare, based in Virginia, saw a significant potential opportunity to increase revenue and streamline services and costs to make high-cost drugs more accessible to patients. It decided to retain specialty pharmacy revenue and margins within the Sentara Healthcare system by creating Proprium Pharmacy, its own specialty in-house pharmacy.

“The program was successfully implemented with an impact of $10.7 million annualized,” says Chris Tagliente, PharmD, system director of pharmacy clinical programs at Sentara Healthcare. “During this implementation, they met all operational timelines, and kept clinical patient support and customer satisfaction levels high. They were also able to successfully integrate and train an entirely new set of staff, overcome space availability obstacles, and navigate through several internal transitions and changes in pharmacy state licensure.”

As a result of internally distributing these specialty medications, Proprium Pharmacy has successfully and drastically increased revenue, managed costs, and made these drugs more accessible to patients, he says.

“The Proprium Pharmacy has optimized the patient experience through the integration of clinical activities to help create a better patient experience and reduce overall costs for both the hospital and patient,” Tagliente says. Proprium Pharmacy has also helped to sustain customer satisfaction of greater than 97% with virtually no customer complaints, and improved medication adherence to an overall rate of 93.7%.

3. Use pharmacogenomics

Houda Hachad, PharmD, chief science officer at Translational Software Inc., which provides recommendations based on genetic data to more than 20,000 clinicians, says DNA-guided prescribing/pharmacogenomics (PGx) is a great way to improve treatment efficacy and costs.

“We now have data that shows if you implement pharmacogenetics approaches in different specialties, they result in optimizing different metrics that can be used to assess medication optimization,” Hachad says. “These include fewer emergency room visits and fewer hospitalizations, and some of them have shown reduction in total costs compared to standard approaches.”

She explains that using genetic tests can help healthcare workers ascertain the best medication and appropriate dosage based on a patient’s DNA before prescribing, which not only improves the effectiveness of treatment, but lowers drug costs by identifying the medication that works best for each patient.

Hachad co-developed a PGx knowledgebase and a drug interaction database that are used by pharmaceutical companies, regulatory agencies, commercial laboratories, and academic healthcare organizations.

4. Consider analytics

Analytics can help healthcare systems monitor their drug costs and find opportunities to reduce their spending without reducing the quality of care. Western Maryland Health Systems (WMHS), which offers healthcare services to those in Allegany and Garrett counties in Maryland and surrounding counties in West Virginia and Pennsylvania, presents an excellent example.

It began using Dimensional Insight’s Diver platform after the cost of the IV form of acetaminophen jumped 250%, to $35 per vial, says George Dealy, vice president of healthcare applications at the analytics company. It used the platform to examine whether the IV drug actually produced better outcomes than the oral version, justifying the increased cost.

After examining various surgical procedures, patient lengths of stay, and number of opiates given, WMHS found no significant difference in patient outcomes with IV acetaminophen, says Dealy. As a result, the health system sharply decreased the amount of the drug it purchased, reducing its spending by 78% over two years, from nearly $250,000 in FY15 to just over $55,000 in FY17.

5. Analyze cost data

Alexander says the most critical step to dealing with escalating drug costs is a proactive review of the spend/cost data that can aid in spotting issues and altering purchasing on an ongoing basis.

“For example, identifying the best price available for agents along with benchmarking prices is a critical ongoing step in the assessment,” he says. “Because there is constant fluctuation and changes within the market, this requires increased resources within the pharmacy department devoted to purchasing and business analysis.”

These resources can be leveraged to create competition through comparable analysis of agents and also through contract maintenance, he says.

Allen adds that knowing a facility’s drug spend, particularly those medications that account for most spending, and being aware of recent trends can help facilities develop plans to curb inappropriate or unnecessary drug use.

“Having data for the prescriber level can also help to identify opportunities to engage with individual clinicians,” he says. “Peer institution benchmarking is helpful to gain insight on potential opportunities for reducing drug spend.”

Allen says another proven method shown to improve care, and reduce both drug and overall hospital cost, is a robust antimicrobial stewardship program.

“Many institutions now use electronic surveillance programs to promote streamlined antimicrobial use and reduce the development of antimicrobial-related adverse events such as *Clostridium difficile*infection, or multi-drug resistant infections,” he says. “Investment in these types of surveillance programs to strengthen your antimicrobial stewardship program can generate a significant return on investment for some facilities.”

6. Diversify manufacturers

For many hospital and healthcare systems, managing the supply chain of pharmaceutical sourcing and contracting is a key focus area for drug cost savings.

OhioHealth, for example, has found that multiple vendor contracting has demonstrated effective cost management and flexible options for sourcing.

“In today’s environment, drug shortages continue to burden drug channels and access,” Dighe says. “Ensuring a robust supply chain will keep health systems in a strong position to identify the most cost-effective drug sourcing opportunities, while continuing to drive high-quality healthcare delivery.”

7. Use market intelligence

Huang also recommends staying current on what is coming down the pipeline in terms of new products, biosimilars, and generics.

“The traditional method of finding this information is by enrolling in multiple listservs and newsletters from the FDA, national group purchasing organizations, wholesale drug distributors, and/or national medical or pharmacy organizations,” she says, warning that a lot of this information is incomplete and requires a lot of labor to piecemeal from multiple sources to understand the changing landscape.

“Our health system chose to subscribe to a third-party market intelligence company that provides a database of pipeline information (i.e., new products or alternatives, projected launch dates and probability, competitive strategies, etc.), as well as medical experts to help digest this into actionable information,” Huang says.

8. Explore automation technology

A recent strategy employed at Tampa General is intravenous compounding automation/robotic technology, which allows facilities to move away from more expensive ready-made products and shift toward an internally compounded product that is purchased in bulk.

“There is a learning curve associated with this technology, and it’s a capital expense that requires budgetary approval,” Alexander says. “Also, it is important to note that the return on investment can occur quickly, in a matter of months, due to flexible financing options, such as hardware leases instead of upfront, out-of-pocket hardware purchases.”

Allen adds that increasingly, hospitals are scrutinizing the use of high-cost biological agents in their outpatient infusion centers. Many of these agents can be administered in a physician’s office, and do not require administration via an outpatient infusion center.

“Completing a profit/loss evaluation on specific high-cost biological agents, with potential re-evaluation of formulary status, may be another way for hospitals to reduce the impact of rising drug costs,” he says.

9. Encourage medication use initiatives

OhioHealth’s Beatty notes that the healthcare system recognized several years ago that managing medication costs solely through contracting, inventory strategies, and substitutions would not provide the cost-effective care that would be needed in the future.

“Health systems need to be willing to look at and capture cost-avoidance through medication use initiatives,” she says. “These initiatives should look at the right medication for the right patient for the right reasons; executing on this tactically can take many forms.”

For instance, the electronic medical record can help drive decision making, or focused project groups might dig deep into a specialty area.

“We have found clinical pharmacists and coordinators to be a key component of our use strategy,” Beatty says. “These pharmacists work alongside prescribers and help manage the medication plan, including evaluating less-costly alternatives that will retain or improve quality. This is especially necessary in complex fields like oncology, critical care, or infectious disease.”