

DEEP DIVE

# How hospitals can fight the cost of budget-busting drugs

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Drug price increases have been making headlines for the last two years and have reached a fever pitch as Congress tries to penalize companies that are participating in predatory pricing practices. Yet, the implications of high drug prices are far-reaching and are sending ripples across the hospital landscape.

A recent study conducted by the Federation of American Hospitals and the American Hospital Association suggests drug price increases are putting a greater strain than ever before on hospital budgets. High increases had either a moderate or severe impact on more than 90% of the budgets of hospitals surveyed.

“We had been hearing from hospital leaders about the fix they were in regarding generic drugs or pre-FDA drugs,” FAH President and CEO Chip Kahn told Healthcare Dive. “Because of what was happening with the ownership and licensure of those drugs companies like Valeant basically had a monopoly on some of these drugs.”

Kahn noted that it isn't just the high-priced hepatitis C drugs that have been making headlines, but generic drugs and more commonly used treatments. Hospital groups are hoping to build visibility for the issue in order to inform policymakers.

An analysis conducted by Modern Healthcare of CMS data released in December 2016 revealed that prices for many drugs have increased by more than 1,000%. “In hundreds of cases, there have been thousands of percent increases in drugs — antibiotics and others,” Kahn said.

Hospitals are sometimes stuck with particular drugs that are needed to treat patients and their unexpected costs can present real problems. Adding to these pressures is the potential repeal of the Affordable Care Act. ObamaCare has taken center-stage in recent Congressional hearings and could be repealed as early as this month, leaving millions of American uninsured and further exacerbating costs for hospitals.

### **What can hospitals do to lessen the impact on their budgets**

Molly Smith, senior associate director of policy at the AHA, told Healthcare Dive there are several techniques hospitals can use to prevent high price increases from having substantial impacts on their ability to manage costs:

- Look for a generic or branded generic alternative for drugs that have undergone unexpected price increases.
- Substitute combination drugs, when possible, with their respective components.
- Some providers are starting to negotiate value-based contracts by requesting a guarantee that the drug is going to perform with their patient population the way that it performed in the clinical trial and agreeing to pay a certain price. They can then negotiate a discount off of the price of the drug.

Some places are already putting cost-saving plans into action. Intermountain Healthcare, for example, purchases medications in bulk in partnership with its supply chain organization. It provides medications in a lower unit of measure to sites within its system to minimize waste, and centralizes functions to capture efficiency and economies of scale (e.g. medication repackaging, sterile compounding), the company told Healthcare Dive via email. It also participates in the 340B Drug Pricing Program.

### **How did the issue emerge**

With the goal of having more market competition, federal regulations had tried to incentivize the development of generics once drugs finish their patent term, Kahn said. But the commoditization of some drugs has made it harder for the market to remain competitive.

Prices of generic drugs have dropped so low that it is no longer commercially worthwhile for some drug manufacturers to keep producing them so they sell their licenses, according to Kahn. “That’s why Valeant ended up getting piles and piles of some drugs that might go back 60 or 70 years that are accepted use drugs but they’ve become the only outlet,” he said.

Kahn argues some large pharmaceutical companies have been arbitraging drugs because they can buy them, which in turn results in the monopolization of these drugs. Also, the AHA-FAH survey showed many group purchasing organizations were unable to get any price discounts.

“Drug manufacturers have been savvy in finding out ways to either pay a generic manufacturer not enter the market, help pay the delay, or for tweaking their products and getting new patents in the

market exclusivity period for drugs that are essentially the same as older drugs,” Smith said.

### **How is the drug industry responding**

The pharmaceutical industry has been pushing back at the drug pricing controversy, going on the defensive and aiming to play up the cost of innovation. Biotechnology Innovation Organization (BIO) President Jim Greenwood has been outspoken about the cost-benefit profile of drugs and, most recently, praised a report from QuintilesIMS that showed net drug prices for branded drugs are expected to grow more slowly.

Previously, industry organizations like BIO and Pharmaceutical Research and Manufacturers of America (PhRMA) have launched campaigns to further highlight the costs associated with research and development of drugs. BIO’s Innovation Saves campaign includes commercials with this aim. BIO claims that innovation has contributed to \$173 billion in savings in cancer costs and societal benefit as a result of a 22% reduction in cancer death rates since 1991, as well as other health benefits that prevent and treat chronic disease.

Meanwhile, CEOs across the industry have started speaking out about the pricing debate. Allergan’s Brent Saunders pointed to the legitimate outcry about dramatic price increases taken on older drugs, but said these were the actions of “outliers.”

“Recently, the actions of these outliers have shifted attention away from the increasingly vibrant medical innovation ecosystem focused on finding new medicines, improving outcomes for patients and, by doing so, lowering the overall cost of disease,” he said.

Meanwhile, Novo Nordisk has recently vowed to limit price increases and to make pricing more predictable for payers and patients.

### **How can hospitals and the federal government help resolve the problem**

Hospitals would be very reticent about the government trying to set or propose prices, according to Kahn.

But getting more information out there to try to change the dynamic might help bring down some of the costs. More comprehensive financial analyses on drugs purchased by providers and what factors into price increases are needed to have a broad effect on the drug market.

The FAH's interest is in finding ways to have the market work better and that may mean reform in the FDA so that firms could get through the approval process easier and in a less expensive way. "For getting firms' generic drugs approved there's a long waiting list and they got all the fees," Kahn said.

The AHA issued a set of policy proposals last year that could help improve the market in five different areas: competition and innovation; transparency; payment for value; improved access; and alignment of incentives.