
Specialty Pharmacy Challenges and Opportunities for Hospitals and Health Systems

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THE FIRST IN A THREE-PART SERIES ON HOSPITAL AND HEALTH SYSTEM SPECIALTY PHARMACY

Pain Points

- *Hospitals and health systems continue to operate on thin margins with increasing pressure and accountability for improved patient outcomes.*
- *The demand for specialty pharmacy is growing as new therapies are released to treat chronic, complex diseases.*
- *A small percentage of patients with complex, chronic diseases comprise the majority of medical expenses and resources.*
- *Specialty pharmacy is moving into mainstream healthcare. With hospitals and health systems operating on thin margins, specialty medications offer a new revenue source for the future as well as opportunities to see improved patient care and satisfaction in a value-based payment world.*

INTRODUCTION

Specialty medications designed to treat complex chronic conditions have dominated new drug development for the past decade, and the pressure on health systems and hospitals to provide specialty medications is growing rapidly as drug manufacturers release more medications to treat patients with complex chronic diseases. By 2020, specialty pharmacy revenues are projected to hit \$400 billion and represent 50% of pharmacy plan spend.¹ Without a strong specialty pharmacy presence, healthcare organizations are at risk of losing millions in revenues from those medications and associated ambulatory care services.

Though providing specialty drug services presents multiple challenges, including the high cost and gaining access to specialty medications, facility-based specialty pharmacy services can provide hospitals and health systems with a source of new revenue and savings along with opportunities to optimize patient care.

¹Shay, Blake; Loudon, Les; Kirschenbaum, Bonnie. "Specialty Pharmacy Services: Preparing for a New Era in Health-System Pharmacy." PMC, October 14, 2015. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4750833/>. Accessed November 16, 2017.

The Cost of
SPECIALTY DRUG
Therapies Averages
\$2,000 per fill

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Less than 2%
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specialty drugs.

CHALLENGES

Though hospitals are aligned to deliver care and better outcomes to patients with complex chronic diseases, establishing specialty pharmacy services in-house poses critical challenges to hospitals and health systems, including:

HIGH COST OF SPECIALTY MEDICATIONS

The cost of specialty drug therapies averages \$2,000 per fill, with many rare disease drugs in excess of \$100,000 annually per patient. Managing the inventory of costly drugs ineffectively can have a significant negative impact on the facility's budget.

SMALL PERCENTAGE OF SPECIALTY PATIENTS

Less than 2% of the patient population require specialty drugs, yet they account for the lion's share of overall healthcare costs. Though a small segment of the patient population, these patients often need complex treatment regimens requiring ongoing clinical monitoring and patient education.

LEGAL, ADMINISTRATIVE AND COMPLIANCE ISSUES

The complex administrative, legal and regulatory requirements complicate operating a specialty pharmacy and can tax resources. Regulations continue to evolve and it is critical to keep abreast of current legislation and compliance requirements.

Though these macro dynamics pose risks, significant opportunities and benefits exist for facilities choosing to integrate specialty drugs into the care continuum.

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BENEFITS

With declining healthcare reimbursements, the pressure to shift costs from the inpatient setting to outpatient and ambulatory care services continues to rise. As a result, Directors of Pharmacy are seeking ways to: (1) ensure excellence in patient care; (2) generate new revenue; and (3) contain costs. Establishing a specialty pharmacy creates opportunities to meet all three of those goals.

GREATER IMPACT ON CLINICAL QUALITY

Because they provide integrated, comprehensive care, hospitals and health systems are ideally suited for treating patients with complex, chronic conditions. Pharmacists embedded in the specialty process in collaborative clinical roles free up valuable physician time and are directly involved in helping patients succeed.² The pharmacy team is involved with transitions of care between settings, patient training and education, and ongoing patient monitoring, ensuring that patients are getting their medications and taking them as prescribed. This is especially important when it comes to oncology drugs, which encompass nearly half of new specialty medications, and may be self-administered at home. With stepped up pharmacist and pharmacy team involvement in patient care, outcomes and patient satisfaction improve.

² "Hospitals Reaping Benefits from SP Market Growth." Specialty Pharmacy Continuum, July 25, 2016. <http://www.specialtypharmacycontinuum.com/Policy/Article/08-16/Hospitals-Reaping-Benefits-From-SP-Market-Growth/37156/ses=ogst>. Accessed November 16, 2017.

IMPROVE ACCESS TO SPECIALTY DRUGS

Manufacturers may choose to limit specialty drug distribution. Nearly 50% of specialty medications released in 2015 were managed under limited distribution agreements, which can lock hospital and health system pharmacies out of manufacturer contracts.³ Pharmaceutical manufacturers tend to make limited distribution drugs more available to facilities with high standards for patient safety, medication adherence and quality outcomes. Hospitals and health systems with a specialty pharmacy presence are well positioned to meet high standards for care and achieve leverage with specialty drug manufacturers.

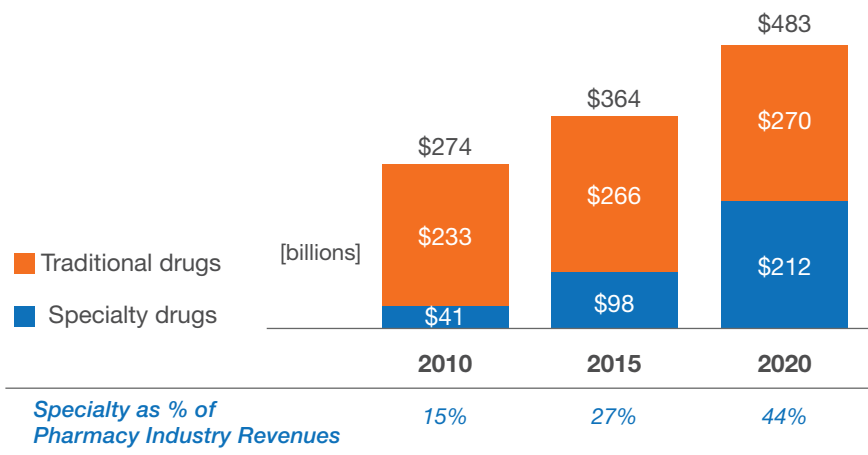
STRONGER COST CONTROLS AND 340B

Hospitals and health systems with their own specialty pharmacies may benefit from 340B pricing for patients covered under the drug discount program. By carefully working through 340B when appropriate, covered entities can better serve its populations.

NEW SOURCES OF REVENUE

Almost all of the growth in the pharmacy industry sector will come from specialty drugs, with projected revenues from traditional drugs expected to be almost flat despite higher demand.

Pharmacy Industry Revenues Traditional vs. Specialty Drugs: 2010-2020



Figures in billions

Source: Pembroke Consulting estimates

SOURCE: <http://www.drugchannels.net/2016/04/our-2020-outlook-for-specialty-pharmacy.html>

³ "Hospitals Reaping Benefits from SP Market Growth." Specialty Pharmacy Continuum, July 26, 2016. <http://www.specialtypharmacycontinuum.com/Policy/Article/08-16/Hospitals-Reaping-Benefits-From-SP-Market-Growth/37156/ses=ogst>. Accessed November 16, 2017.

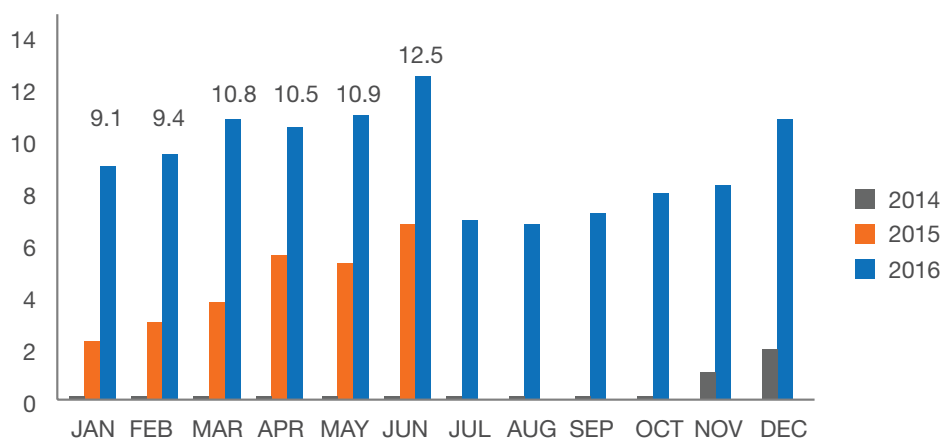
Four key factors⁴ are driving the growth of the specialty sector:

- The end of the wave of generics
- New specialty drugs on the market
- Growth in prescription utilization
- An aging population that requires more specialty medications to manage their complex conditions

Because significant revenue can be generated from specialty pharmacy services, hospitals and health systems should look to specialty pharmacy as a revenue generator rather than a cost center. For example, in 2013, the Cleveland Clinic approved funding to design and build its own specialty pharmacy. Since its opening in September 2014, the Cleveland Clinic has seen growing revenue month over month from specialty pharmacy services, as documented in the chart below.

Though the Cleveland Clinic example represents a large health system with nine regional hospitals, 6.62 million patient visits per year and a 1,400 bed main campus, some estimates indicate that by incorporating specialty pharmacy services, hospitals and health systems can see as much as 20 percent annual growth in new revenues generated from specialty medications.⁵ Whether operating in a fee-for-service environment or value-based reimbursement model, it is estimated that a moderately sized health system with \$2 billion to \$3 billion in annual revenue could gain \$20 million to \$30 million annually by adding specialty pharmacy services.⁶

Specialty Revenue Monthly Trending (millions \$)



SOURCE: https://www.beckershospitalreview.com/pdfs/conferences/3_Wednesday_November_9th/wed_405pm_F_Knoer_Rough_Specialty%20Pharmacy.pdf

⁴ "Our 2020 Outlook for Specialty Pharmacy Revenues." Drug Channels, April 21, 2016. <http://www.drugchannels.net/2016/04/our-2020-outlook-for-specialty-pharmacy.html>. Accessed November 16, 2017.

⁵ Knoer, Scott; Rough, Steve. "Specialty Pharmacy: A Key to Organizational Success in Population Health Management." Becker's Hospital Review. https://www.beckershospitalreview.com/pdfs/conferences/3_Wednesday_November_9th/wed_405pm_F_Knoer_Rough_Specialty%20Pharmacy.pdf. Accessed December 5, 2017.

⁶ "The Benefits of Specialty Pharmacy: For Hospitals and Health Systems." BHM Healthcare Solutions. <https://bhmpc.com/2015/12/specialty-pharmacy-for-hospitals-health-systems/>. Accessed December 5, 2017.

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MODELS

A survey conducted by The American Society of Hospital Pharmacists (ASHP) in 2016 revealed that one out of eleven hospitals and health systems have developed their own specialty pharmacies.⁷ ASHP has defined four approaches to developing a specialty pharmacy presence: (1) build; (2) partner; (3) outsource; or (4) manage individual patient risk with no formal specialty pharmacy program.⁸

BUILD

The hospital/system designs and builds a stand-alone specialty pharmacy which it fully owns and operates. Because this model requires a substantial financial and ongoing managerial commitment, for all but a few large institutions, this model may not be feasible.

PARTNER

The hospital/system partners or contracts with another entity to offer a full range of specialty pharmacy services. The facility owns the specialty pharmacy and controls the revenue stream.

OPERATE

Third party private specialty pharmacies manage the specialty pharmacy, but because the healthcare organization does not own the specialty pharmacy, the facility may receive less revenue.

CONCLUSION

As the availability of and demand for specialty drugs continues to change the landscape for hospital and health system pharmacies nationwide, the benefits of implementing specialty pharmacy services can be substantial and generate significant revenue that grows by as much as 20 percent annually. Health systems are uniquely aligned to manage the whole patient, improving continuity of care, medication adherence and ultimately reduce readmissions. Providing specialty pharmacy services in a manner appropriate for the facility is a winning formula for both health systems and patients who require specialty therapies.

ABOUT COMPREHENSIVE PHARMACY SERVICES

Comprehensive Pharmacy Services is the nation’s oldest and largest provider of pharmacy support services. CPS helps hospital pharmacists tackle complex problems such as hyperinflated drug costs, medication reconciliation, specialty pharmacy, operational effectiveness and staffing efficiencies, centralized distribution, ambulatory/retail pharmacies, compliance, 340B programs, and much more, leading to increased quality, reduced admissions and lower costs.

⁷ “Why Manufacturers and PBMs Should Worry About the Growth of Hospital-Owned Specialty Pharmacies.” Drug Channels, September 12, 2017. <http://www.drugchannels.net/2017/09/why-manufacturers-and-pbms-should-worry.html>. Accessed November 16, 2017.

⁸ “ASHP Specialty Pharmacy Resource Guide.” <https://www.ashp.org/-/media/assets/pharmacy-practice/resource-centers/specialty-pharmacy/specialty-pharmacy-resource-guide.ashx?la=en>. Accessed November 16, 2017.