Trends in Specialty Pharmacy Among Leading Health Systems

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Introduction

Specialty pharmaceuticals represent the fastest growing segment of the pharmaceutical industry in the United States, expected to account for half of all US drug expenditures by the year 2020.1 Specialty drugs are used to treat complex, chronic and/or rare conditions and are used by only a small percentage (approximately 2–4%) of the general patient population.2 Such drugs may also require special storage, handling, or administration, or be subject to limited availability and distribution. For these reasons, the cost of specialty drugs is significantly higher than standard pharmaceuticals, and costs have continued to increase over time.

Traditional retail pharmacies are not well equipped to handle the unique challenges posed by specialty drugs and the patients that rely on them. Specialty pharmacies have emerged to address these challenges, particularly focusing on gaining access to specialty drugs, complex reimbursement issues, and more robust patient support. Historically, Pharmacy Benefit Managers (PBMs) and large drugstore chains have dominated the specialty pharmacy market.

Increasingly, health systems are entering this space, with 78% operating their own in-house specialty pharmacy. Health systems offering specialty pharmacy services have reported improvements in a number of clinical care metrics and seen significant financial returns. Specialty pharmacy undoubtedly represents a strong value proposition for Leading Health Systems (LHS) as they increasingly engage in value-based delivery models. While health systems are taking diverse approaches to how they operationalize specialty pharmacy services, there is a common desire to improve care and capture additional revenue by offering a greater number of drugs and services in the future.

Objectives & Methodology

Objectives

- Evaluate the characteristics and underlying goals of LHS in offering specialty pharmacy services;
- Understand the operational requirements and organizational structure of specialty pharmacy programs among LHS; and
- Identify the top challenges and opportunities for specialty pharmacy as LHS look to the future.

Methodology

In October 2018, the Health Management Academy (The Academy) conducted a quantitative survey of pharmacy executives at LHS regarding their specialty pharmacy programs. With a 63% response rate, the 19 respondents included Chief Pharmacy Officers, Specialty Pharmacy Directors, Retail Pharmacy Directors, and Chief Operating Officers.

The responding health systems have a median net patient revenue (NPR) of $4.6 billion and own or operate a total of 380 hospitals.
Key Findings

1. Almost all health systems (95%) currently offer or plan to offer specialty pharmacy services, regardless of size, patient utilization, proportion of revenue tied to risk, or proportion of 340B eligible hospitals.
   - The top drivers for health system investment in specialty pharmacy include a desire to decrease their drug spend and improve care for employees, increase patient access to specialty drugs, capture additional revenue, and improve clinical monitoring of patient adherence.

2. There is wide variation in how specialty pharmacy services are operationalized among LHS, although the staffing requirement is relatively low compared to the overall pharmacy function.
   - Most health systems indicate that pharmacy reports into the C-suite; however, there is variation in the specific executive taking ownership of this function.
   - On average, 4% of a health system’s pharmacy employees support the specialty pharmacy function.

3. Despite challenges with payer contracting and access to limited distribution drugs, health systems plan to further expand their specialty pharmacy drug and service offerings in the future.
   - To meet their strategic goals for specialty pharmacy, almost all health systems plan to offer a greater variety of specialty pharmaceuticals, inclusive of rheumatic, neurologic, respiratory, and dermatologic drugs, and increase the number of patient-centric services they provide.
Key Takeaway I: Almost All LHS Currently or Plan To Offer Specialty Pharmacy Services
Nearly All LHS Offer Specialty Pharmacy Services or Plan To Do So

On average, 90% of health systems offer specialty pharmacy services. An additional 5% plan to offer such services in the future.

Notably, all participating large and medium health systems, defined as having a NPR >$2 billion, presently offer specialty pharmacy services. Whereas, among smaller systems (NPR <$2 billion), only two-thirds currently offer these services.

While health systems that assume more financial risk may have a greater incentive to operate their own specialty pharmacy, there was no apparent relationship between a health system’s percent of NPR tied to risk and their decision to offer specialty pharmacy services. This may be indicative of the fact that any amount of revenue tied to risk is an incentive to improve clinical outcomes and manage the total cost of patient care.
Smaller Health Systems Have A Larger Proportion Of 340B Hospitals

Among responding health systems, large systems tend to have a smaller proportion of 340B eligible facilities, while smaller systems tend to have a larger proportion of these facilities.

The data do not suggest a relationship between a health system’s proportion of 340B eligible hospitals and the decision to offer specialty pharmacy services. Anecdotally, however, pharmacy executives indicate this is a significant driver in their ability to operate specialty pharmacy programs and maintain a healthy profit margin.

Under Section 340B of the Public Health Service Act, pharmaceutical companies are required to sell outpatient drugs at discounted rates to participating health care organizations that provide care for uninsured and low-income patients. Hospitals that obtain significant discounts on these drugs can potentially increase their margins on specialty drugs dispensed in ambulatory care settings by their own specialty pharmacies.
The Proportion of the Patient Population Using Specialty Pharmacy is Highly Variable

There is wide variation in the proportion of a health system’s total patient population using specialty pharmacy services, irrespective of health system size.

For a majority of responding health systems (60%), less than 5% of their patient population uses specialty pharmacy services. However, for more than a quarter of health systems, between 30-50% of their patients utilize such services.

This variation is likely due to diversity across systems in terms of patient demographics, payer mix, centralization of services, physician engagement, accessibility, and conditions treated, among other factors. This may also indicate differences in approach to measurement and data analytics across systems.

Note: Data represent responses from 15 health systems.
Employee Benefits, Patient Access, and Drug Revenue are Top Strategic Goals For LHS

The top reasons health systems invest in specialty pharmacy include:

1. Reducing their drug spend and improving care for health system employees and dependents covered by their employee health plan,
2. Facilitating patient access to drugs by streamlining prior authorization and providing financial counseling,
3. Capturing additional drug revenue, and
4. Improving patient adherence monitoring.

Notably, utilizing their 340B Program eligibility did not seem to be a priority for many systems in deciding to operate a specialty pharmacy.

<table>
<thead>
<tr>
<th>Goals</th>
<th>Weighted Score</th>
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<tbody>
<tr>
<td>Reduce drug spend and improve care for self-insured health system employees and their dependents</td>
<td>77</td>
</tr>
<tr>
<td>Facilitate patient access to drugs (streamline prior authorization and provide financial counseling)</td>
<td>74</td>
</tr>
<tr>
<td>Capture of drug revenues</td>
<td>73</td>
</tr>
<tr>
<td>Improve monitoring of patient adherence</td>
<td>71</td>
</tr>
<tr>
<td>Reduce drug spend and improve care for covered lives at risk</td>
<td>64</td>
</tr>
<tr>
<td>Improve net income</td>
<td>63</td>
</tr>
<tr>
<td>Utilize 340B eligibility</td>
<td>54</td>
</tr>
</tbody>
</table>

Note: Health system executives were asked to rank strategic goals on a scale from 1-7, with 1 representing the highest priority. A weighted score was calculated from these rankings.
Key Takeaway II: Specialty Pharmacy Operations are Highly Variable Among LHS
Nearly 63% of health systems offering specialty pharmacy services have operated a program for five years or less. Large health systems are more likely than medium and small systems to have a specialty pharmacy in effect for more than three years.

There is no correlation between the years of experience operating a specialty pharmacy and a health system’s risk profile or proportion of 340B eligible hospitals.
Most Health Systems Have Pharmacy Reporting Into The C-Suite

There is substantial diversity in the reporting structure for the pharmacy department among responding health systems. More than half (63%) of health systems have pharmacy reporting into the C-suite, although the specific executive they report to varies. Executive roles with oversight include the Chief Operations Officer (COO), Chief Medical Officer (CMO), Chief Executive Officer (CEO), and Chief Informatics Officer (CIO).

For the remaining health systems, pharmacy departments report to VP-level roles, including roles such as VP of Supply Chain, SVP of Facility Operations, and VP of Cancer. There is no relation between reporting structure and the size of the health system.
There is notable variation in pharmacy operating models among participating health systems.

Nearly half of health systems (47.5%) have a centralized pharmacy operating model, with a system-level head of all pharmacy services. The same percentage have a mixed model, where some services are centralized and others are decentralized.

Only one system has a decentralized model, with service-line leaders at each pharmacy location.

**WHAT IS YOUR HEALTH SYSTEM’S CURRENT PHARMACY OPERATING MODEL?**

- A mix of services of which some are centralized and others are decentralized
- Centralized with a system-level head of all pharmacy services
- Decentralized with individual pharmacy heads at each appropriate location
Pharmacy Staffing Is Proportional To Health System Size

More than half of LHS (61%) have greater than 500 full-time employees (FTEs) across their pharmacy organization.

There seems to be a direct correlation between the number of pharmacy FTEs in a health system and its NPR, indicating that pharmacy operations scale in response to the patient needs.

Note: Data represent responses from 18 health systems.
Only 4% Of Pharmacy Staff Directly Support Specialty Pharmacy Operations

On average, only 4% of a health system’s pharmacy FTEs directly support specialty pharmacy operations. Small health systems tend to have relatively greater employee allocation (6%) to specialty pharmacy functions, while large health systems have a smaller allocation, around 2%.

Note: Data represent responses from 12 health systems.
Most Health System Specialty Pharmacies are Accredited Through URAC

Among the 16 health systems that reported their specialty pharmacy accreditation status, 75% are accredited through the Utilization Review Accreditation Commission (URAC). Less frequently, health systems seek accreditation from the Accreditation Commission for Healthcare (ACHC) and the Joint Commission.

Notably, 38% of health systems have more than one accreditation for their specialty pharmacy. One quarter of respondents do not have any accreditation currently.
Key Takeaway III: Despite Challenges, LHS Plan To Further Expand Their Specialty Pharmacy Offerings
Payer Contracting, Access to LDDs, and Data Analysis are Top Challenges for LHS

The top challenges health systems have within the specialty pharmacy function are:

1. Access to managed care contracts/payer networks,
2. Access to limited distribution drugs, and
3. Data collection, analysis and reporting.

LHS will continue to tackle these challenges in 2019 to improve their specialty pharmacy operations.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to managed care contracts/payer networks</td>
<td>149</td>
</tr>
<tr>
<td>Access to limited distribution drugs</td>
<td>118</td>
</tr>
<tr>
<td>Data collection</td>
<td>100</td>
</tr>
<tr>
<td>Provider/specialist support</td>
<td>82</td>
</tr>
<tr>
<td>Patient acquisition and retention</td>
<td>81</td>
</tr>
<tr>
<td>Recruiting staff/talent</td>
<td>76</td>
</tr>
<tr>
<td>Gaining executive leadership support for initiatives</td>
<td>62</td>
</tr>
<tr>
<td>Managing patient care and follow-up</td>
<td>55</td>
</tr>
<tr>
<td>Obtaining Specialty Pharmacy accreditation</td>
<td>42</td>
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</tbody>
</table>

Note: Health system executives were asked to rank challenges on a scale from 1-9, with 1 representing the largest obstacle. A weighted score was calculated from these rankings.

Limited distribution drugs (LDDs) are drugs that are only available through a select assortment of specialty pharmacies, often chosen for meeting exacting clinical standards by the drug manufacturers themselves. Because of this narrow supply, securing access to these drugs can be a significant challenge for health systems.
All responding health systems operating specialty pharmacies currently offer cancer drugs. Drugs used to treat Hepatitis C, HIV, Multiple Sclerosis, rheumatic diseases, and neurologic diseases are currently offered by more than 75% of health systems. All responding systems not currently offering drugs for these conditions anticipate doing so in the future.

Notably, while respiratory drugs are currently offered by only 65% of responding health systems, the remaining 35% of systems all plan to offer these drugs in the future.

Note: Data represent responses from 17 health systems.
All responding health systems operating specialty pharmacies offer three key services:

- Benefits investigation and prior authorization
- Billing and claims processing
- Drug dispensing/mail order fulfillment

Health systems of all sizes plan to increase their specialty pharmacy service offerings in the future. Expansion of the following services was notable:

- Securing access to LDDs
- Embedded pharmacists within specialty practices
- Securing managed care contracts

Note: Data represent responses from 17 health systems.
Among the 17 health systems operating specialty pharmacies, 15 have annual revenue in excess of $15 million tied to this service. Most health systems (81%) have a profit margin greater than 5% for specialty pharmacy. Notably, all small health systems have a profit margin greater than 15%.

These data did not indicate a relationship between a health system’s specialty pharmacy profit margin and their percentage of 340B participating hospitals. However, our data is limited in tracking 340B dollars.

Looking to the future, a majority of responding health systems (62%) expect their specialty pharmacy profit margin to remain constant. A smaller group of systems (19%) expect this profit margin to increase. The same number of systems expect this margin to decrease.
Conclusions

- In an environment where an increasing proportion of revenue is tied to risk, health systems are more likely to offer specialty pharmacy services. This offering allows health systems to improve both clinical outcomes and patient access to specialty drugs, while also capturing additional revenue and minimizing the cost of benefits for their own employees.

- Offering specialty pharmacy services is relatively new to many health systems, a trend reflected in the diversity of different operating models and reporting structures seen among health systems. As these programs continue gaining maturity and experience in this space, it will become desirable to identify best practices and metrics of success.

- Health systems will increasingly prioritize finding solutions to overcome challenges with payer contracting and securing access to LDDs. Meanwhile, health systems will continue expanding the scope of their specialty pharmacy programs, signaling their intent to satisfy growing demand and utilization of specialty pharmacy services moving forward.
About The Academy

The Health Management Academy (The Academy) is a membership organization exclusively for executives from the country’s Top-100 Health Systems and most innovative healthcare companies. The Academy’s learning model identifies top priorities of health system leaders; develops rich content based on those priorities; and addresses them by convening members to exchange ideas, best practices, and information. The Academy is the definitive trusted source for peer-to-peer learning in healthcare delivery with a material record of research and policy analysis. Offerings include C-suite executive peer forums, issues-based collaboratives, leadership development programs, research, advisory, and media services. The Academy is an accredited CE provider. More information is available at www.academynet.com.
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