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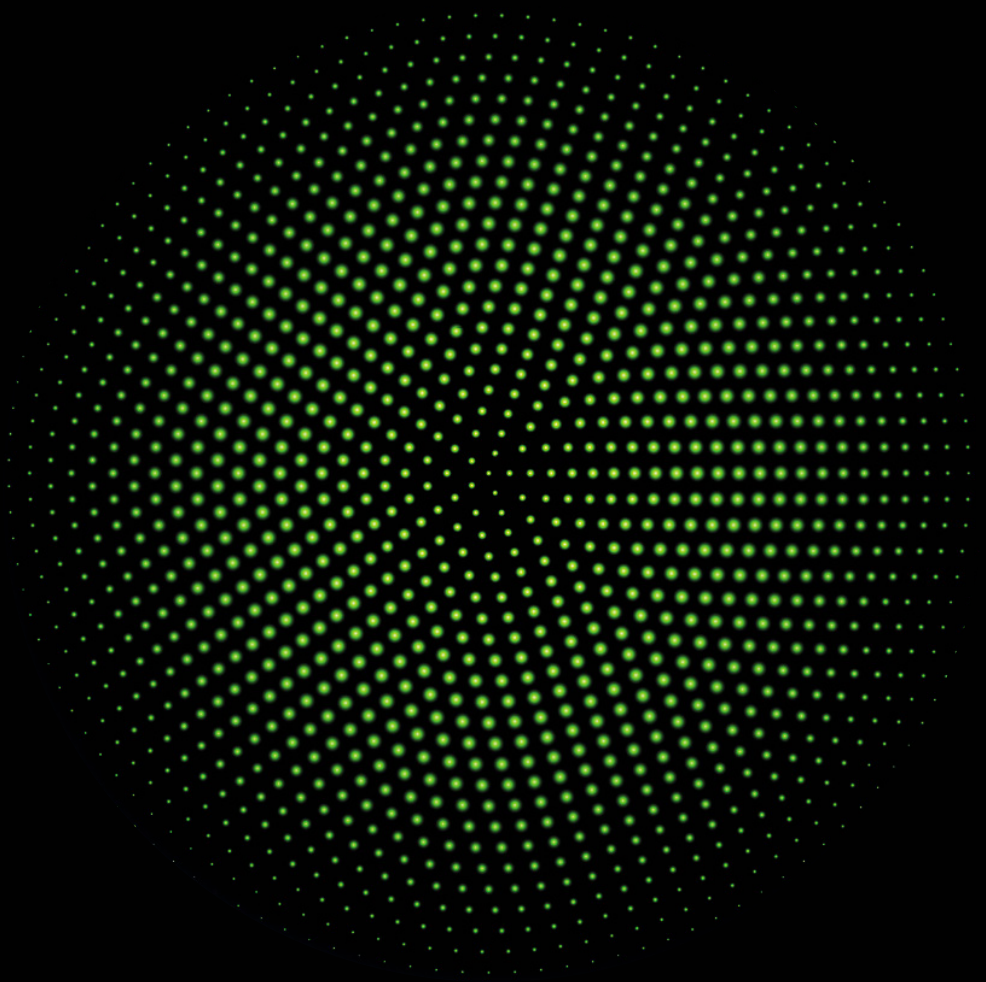


In-sourcing retail pharmacy

An untapped opportunity for provider-sponsored plans

Part of the ***Sustaining Success*** series on health care performance improvement topics

Provider-sponsored health plans (PSPs) are gaining market presence due to an increased focus on cost reduction and shifting incentives toward a value-based care model. By operating a PSP, providers stand to benefit through better integration with their communities, more effective management of population health, and higher alignment of care delivery goals through shared savings payment arrangements. While there are several risks that providers must consider when moving into non-traditional care delivery—namely, that a provider must assume the majority (or all) of the financial risk for insuring a patient population which can range from a few hundred to a few[1] people—there are also considerable opportunities, including bundled payment incentive programs, home health care services, and increased transitions to ambulatory care settings[2]. While these opportunities are appropriate depending on provider and patient type, one typically untapped opportunity for financial benefit in operating a PSP is to in-source retail pharmacy.

When designing a retail pharmacy program at an organization with a PSP, a key consideration is the level of participation in the retail pharmacy program. For example, providers may choose to develop outpatient pharmacy services including retail operations, home infusion services, and specialty pharmacy programs, among others. These pharmacy services may be patient-centric or employee-centric, and can involve a full or partial partnership with an existing third party commercial pharmacy chain. An independent closed-door retail pharmacy can be on-site, mail order, or a combination of the two. While prescription capture volumes may vary depending on whether the provider opts for retail or specialty pharmacy, there are financial incentives related to all approaches.

Insights and analytics

Throughout the health care value chain there are three key transaction points that drive the total cost of drug delivery:

- **Acquisition cost**—the cost for the pharmacy to purchase the drug from a distributor or manufacturer
- **Insurance/Health Plan Payment**—Health plan (PSP or otherwise) pre-defined payment to the pharmacy to cover a portion of the drug cost
- **Patient co-pay**—the patient's remaining financial responsibility

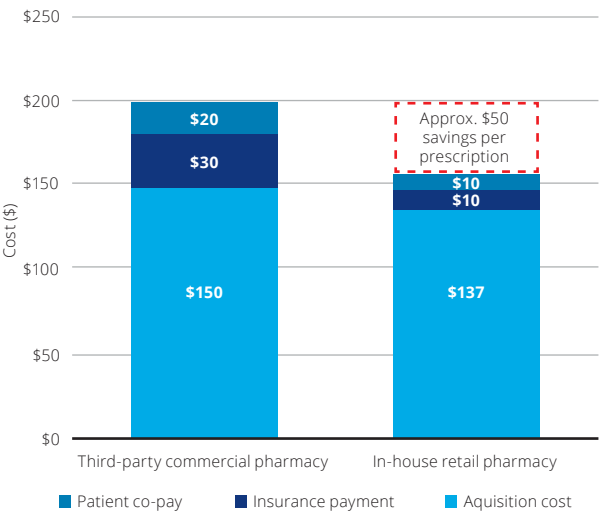
By utilizing an in-house (either on-site or mail order) retail pharmacy, a health system can achieve cost savings on each driver:

- **Decrease acquisition cost** by leveraging existing distribution and manufacturer contracts and reducing/eliminating any third-party commercial pharmacy mark-ups
- **Retain income** when patients fill prescriptions, since the PSP insurance payment to the pharmacy for the cost of the prescription is kept within the same health system and parent company
- **Provide financial benefit** to patients and the community through improved access and reduced co-pays for each drug

In summary, the overall cost of a prescription can be lowered by leveraging an in-house retail pharmacy in more ways than one. Figure 1 outlines the specific price levers that can be reduced through this mechanism by displaying two different scenarios: the first when a drug is procured from a third-party commercial pharmacy, and the second when a drug is procured from an in-house retail pharmacy. In the scenario involving the in-house retail pharmacy, the total prescription cost is approximately 25% lower than the cost in a third-party commercial pharmacy transaction.

As illustrated in Figure 1, the total cost of a prescription drops from $200 to $250 (for $50 in savings) when utilizing an in-house retail pharmacy. In this scenario, if the health system is able to reduce the co-pay ($10 vs. $20) when utilizing the in-house pharmacy, lower the insurance payment from the PSP to the pharmacy (all within the same system) and negotiate for better acquisition costs ($137 vs. $150), the health system can drive a significant discount on overall prescription procurement costs.

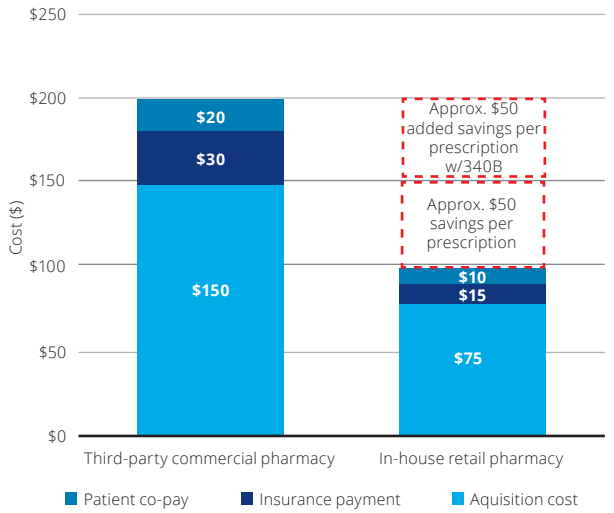
Figure 1. Total cost of prescription



Through the Health Resources and Services Administration (HRSA) 340B Drug Pricing Program, drug manufacturers are required to provide outpatient drugs to eligible health care organizations or covered entities at significantly reduced prices. If health systems qualify for 340B (with carefully controlled processes and appropriate systems to meet HRSA's patient eligibility criteria), providers can acquire drugs at a discount as compared to third-party commercial pharmacies and can capture additional savings by shifting plan members to in-house pharmacies.

As illustrated in Figure 2, a 340B eligible provider's cost of procuring a drug is displayed in two different scenarios: the first when a drug is procured from a third-party commercial pharmacy, and the second when a drug is procured from an in-house retail pharmacy. By leveraging an in-house pharmacy, providers can leverage 340B regulations to drive down the drug's acquisition cost and the overall prescription cost. In a 340B eligible scenario, the in-house retail pharmacy prescription cost is approximately 50% lower than the same cost in a third-party commercial pharmacy transaction.

Figure 2. Total cost of a prescription—340B eligible provider

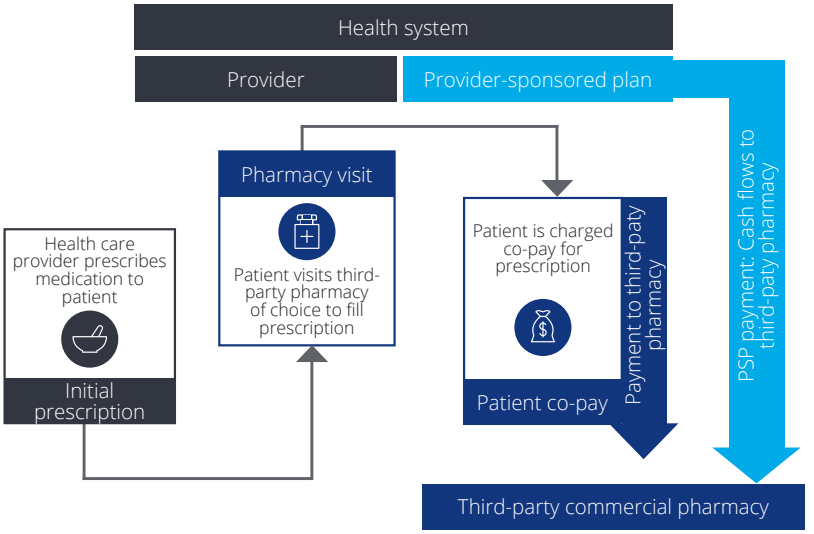


On-site retail pharmacies can also enable robust transformation of the patient (customer) health care journey, increase patient satisfaction, and drive better qualitative outcomes:

- Filling prescriptions on-site can be more convenient for patients who seek a more efficient discharge process rather than filling prescriptions at an off-site location, thereby streamlining a patient's health care pathway and improving overall experience.
- By re-structuring patient co-pays, health systems can reduce cost barriers and improve access to drugs.
- By having transparency for when prescriptions are filled, physicians and care managers have the potential to improve medication adherence by implementing medication therapy management programs, which in turn can positively impact outcomes and reduce readmissions[3].
- As a result of direct access to a patients' electronic health record, an in-sourced pharmacy enhances health care data integration. As evidenced by successful Pharmacy Benefit Managers at health systems such as Lifespan in Rhode Island[4] and the Cleveland Clinic[5], a patient's entire medical team operates based off the same set of medical information and streamlines communication across the care continuum.

In practice, a key method of driving optimal value lies in enhancing the provider's infrastructure for retail pharmacy. The typical pharmacy ordering processes between the provider, patient, plan, and pharmacy operates as shown in Figure 3.

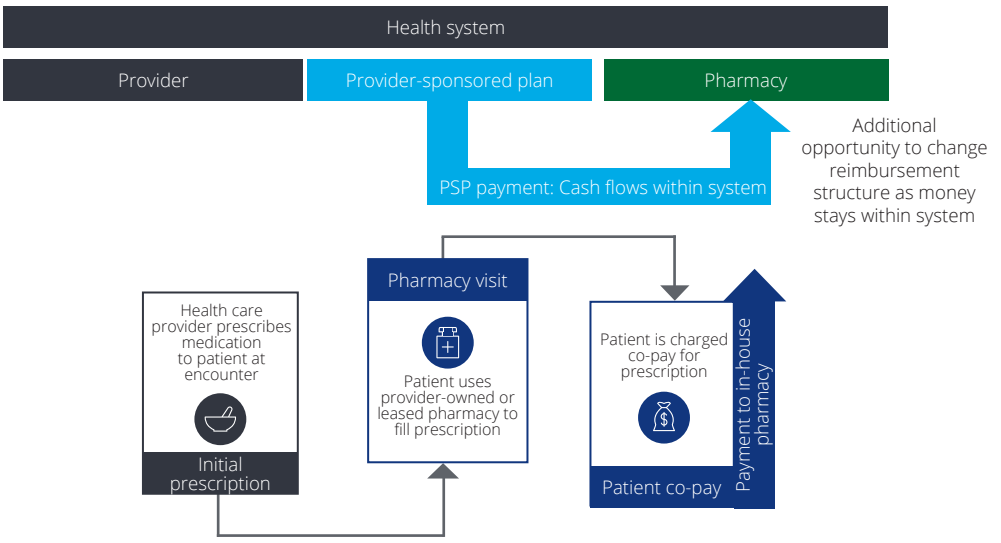
Figure 3. Pharmacy ordering process involving a third-party commercial pharmacy



As a result of the above method, cash from patient co-pays and PSP payments flow to the third-party commercial pharmacy. This traditional method leaves a range of opportunity for health systems to capture some of this revenue by leasing or owning an in-house retail pharmacy.

By in-sourcing retail pharmacy, providers can incentivize PSP members to fill prescriptions in-house and retain pharmacy dollars within the system—thus leading to decreased expenses, as exhibited in Figure 4.

Figure 4. Pharmacy ordering process involving an in-house retail pharmacy



Key considerations

Provider executives looking to in-source retail pharmacy should consider:

- Are space and resources available?
- How do we currently track prescriptions paid to third party commercial pharmacies?
- Can we quantify the opportunity by drug and plan member?
- Can existing technology be optimized to support new volume?
- How should we establish and implement a targeted co-pay structure?
- Are there contracting opportunities for better pricing to further reduce acquisition cost?
- How can data and analytics be assimilated to continue identifying areas of opportunity?
- How can data and analytics drive predictive modeling in areas outside of pharmacy?

The bottom line

With increases in drug prices and shifts from volume to value-based care, providers stand to earn substantial revenue gains by in-sourcing retail pharmacy. Providers can then leverage a revamped co-pay structure to financially incentivize plan members to utilize the in-house pharmacy and capture more pharmacy dollars for the system. By retaining pharmacy dollars, the PSP is positioned to help decrease expenses while improving patient and employee experience through on-site retail pharmacies, providers are in a position for clinical, financial and quality-based success.

Authors

Swati Patel, PharmD, MBA
Specialist Leader
Deloitte Consulting LLP
swapatel@deloitte.com

Susan Yang, MHA
Senior Consultant
Deloitte Consulting LLP
suyang@deloitte.com

Kurt Banas, MBA, FACHE
Senior Manager
Deloitte Consulting LLP
kubanas@deloitte.com

Anisha Chikarmane, MPA
Consultant
Deloitte Consulting LLP
achikarmane@deloitte.com

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