Practical strategies for financial strength

Reprinted from
February 2019

HEALTHCARE COST CONTAINMENT

hfma.org/hcc

+ drug prices +

The Hospital's New Agenda: Pharmacy Cost Savings

By Karen Kobelski

Without changes, hospitals' average profit margins could fall to 0.2 percent by 2025, according to CBO.

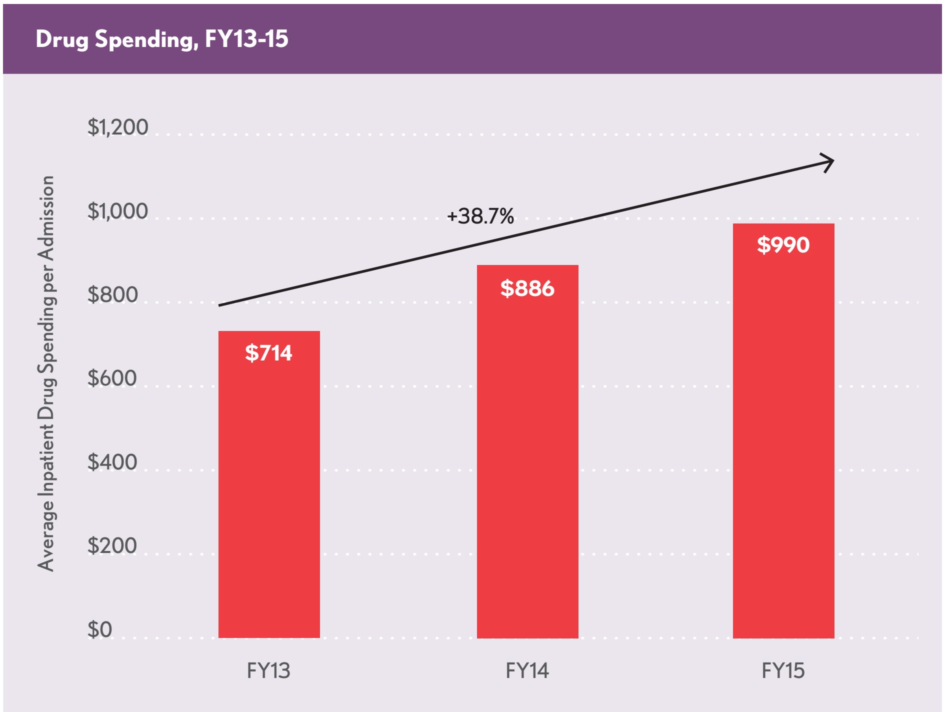
It wasn't long ago that hospital pharmacy departments were viewed as a cost drain on the bottom line. The argument was compelling. Pharmacy costs have been rising higher and faster than hospital revenue streams.

Between 2013 and 2015, more than 90 percent of hospitals had drug price increases resulting in a moderate or significant impact on their budgets. During that same period, the average annual drug spending for patients who stayed in community hospitals increased by 23.4 percent, from $5.2 million to $6.5 million. On a per-admission basis, hospital spending on drugs jumped nearly 39 percent, to $990 million (see the exhibit on page 2).

These increases were due to higher volumes of drugs prescribed and the growth in drug unit prices.

This burden is significant on its own—but it is exacerbated by the current squeeze on margins. According to a 2016 Congressional Budget Office working paper, *Projecting Hospitals' Profit Margins Under Several Illustrative Scenarios: Working Paper 2016-04*, the number of hospitals with negative profit margins will increase to 60 percent by

hfma™
healthcare financial management association



Source: Trends in Hospital Inpatient Drug Costs, American Hospital Association

2025, with average profit margins falling to 0.2 percent if hospitals cannot increase productivity or reduce the growth of costs in some other way.

With this landscape in mind, hospital and health system leaders have unique opportunities to view pharmacies as sources of improvement for hospital margins and contributors to margin relief. According to The Advisory Board's "*The New Cost Mandate*," of focus for hospital margin improvement should be driving a reduction in pharmacy drug spending. By tackling inpatient drug utilization, and by influencing prescribing habits and overall medication use in inpatient settings, hospitals can drive meaningful margin improvement.

Medication Management

Historically, hospitals have successfully tackled drug expenditures through drug cost-containment strategies that included preferred pricing and contracts, inventory management, and waste reduction, as well as formulary management to improve buying power. However, the introduction of more advanced medication management practices has the power to drastically improve hospital cost savings, in part because the pharmacy is one of the more clinically advanced departments in the hospital.

Pharmacist-led teams have intimate knowledge of their hospital or health system and patient populations as well understanding complex medication therapies. The role of the clinical pharmacist has expanded beyond the dispensing of drugs as they are now accountable for medication selection, ongoing medication management, ensuring optimal drug dosing, pharmacogenomic evaluations, managing high-risk drugs (e.g., anticoagulants), and antimicrobial stewardship. The pharmacy also is tackling increasingly critical issues like drug shortages, opioid stewardship, and pain management and playing key roles in care transitions.

With a leadership role focused on the most effective and efficient use of drugs in the hospital, the pharmacy is the best-equipped department to control rising and unsustainable drug costs.

3 Elements for Cost Containment

There are three core elements hospitals and health systems can deploy to optimize drug utilization and cost management.

Foster strong pharmacy leadership. As more pharmacists influence clinical decisions and cost-effective use of drugs within the hospital, hospitals should seek to empower pharmacy leaders to execute a medication management strategy and ensure that resources and expertise are appropriately leveraged.

For example, promoting directors of pharmacy to serve as chief pharmacy officers (CPO) with a seat at the executive table is becoming quite common. The leadership team gains a highly educated clinical/business person, and the new CPO is able to advise the hospital on the many critical issues around medication management. Also, improving links between pharmacy clinical leaders and physicians leading hospital services can ensure support for proposed improvements in medication use and deliver more robust and timely results.

RWJBarnabas Health switched to lower-cost therapeutic options, adjusted medications, and discontinued unnecessary high-cost agents at the earliest point possible.

Empower analytics-driven decision making. Through review of analytics and the insights derived from prescribing patterns and outcomes, the pharmacy can engage physicians and staff around system- and patient-level improvements in medication use. The insights can help the pharmacy identify opportunities to change prescribing habits, spread adoption of medication-use policies and protocols, as well as increase compliance with formularies and optimize medication therapies to ultimately drive down costs.

Improve clinical efficiency. One way to improve efficiency is through clinical surveillance solutions, which ensure pharmacy teams have a common, evidence-based approach to identify and act on patient care improvement opportunities across a wide set of medication-management initiatives. Hospital leaders can guide and monitor clinical interventions across the entire patient population to ensure the organization optimizes medication use and reduces medication spending. By leveraging accurate and detailed insights available through a surveillance platform, the pharmacy has the tools it needs to manage quality, safety and compliance to measure the impact of the medication-management initiatives on the bottom line.

Advanced Inpatient Drug Utilization

RWJBarnabas Health, an integrated healthcare delivery system in New Jersey, drove a $6 million reduction in medication costs over a five-year period through a comprehensive medication-management program. The hospital had historically struggled to improve medication management for a variety of reasons, including the system's large size and range of hospitals, the lack of meaningful analytics, and disparate electronic health record systems.

To address the problem, the health system used clinical surveillance technology to help pharmacists monitor and engage with physicians across a broad patient base to optimize medication use and reduce expenditures while also tracking the outcomes of that activity. The technology helped RWJBarnabas Health identify opportunities to switch to lower-cost therapeutic options, adjust medications as a result of changes in patient status, react to drug-drug interactions, optimize use of antimicrobials, discontinue unnecessary high-cost agents at the earliest point in time, and/or ensure proper dosing.

The combination of surveillance technology and an empowered, motivated pharmacy leadership resulted in the $6 million in cost savings and delivered a meaningful impact to the health system's bottom line.

As hospitals and health systems enter a challenging era—one in which operating margins will likely come under enormous pressure—they can look to their in-house pharmacies to provide an important cost lever. Expertise resides there and it is typically underused. But with the right strategy and technology support, such expertise can benefit both patient health and the health of hospital profits. +

Karen Kobelski
is the general manager, safety & surveillance, Wolters Kluwer, Health (Karen.kobelski@wolterskluwer.com).

This article originally appeared in the February 2019 issue of *Healthcare Cost Containment.*