

Hospital Price Markups and Profits for Physician-Administered Drugs

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Round 5 Study Timeline

Now

Sign DUAs

- Cigna
- UHC
- Anthem
- Aetna
- Etc.

**Spring
2023**

Transfer Data

- 1/1/2020 through 12/31/2022 claims
- If employer opts in, insurance company handles data transfer
- If data warehouse or other data contributor, RAND can facilitate

**May
2024**



Create a *public* hospital price report

- Free to participate, free to access
- Results specific to hospitals, states, national trend

**June/July
2024**

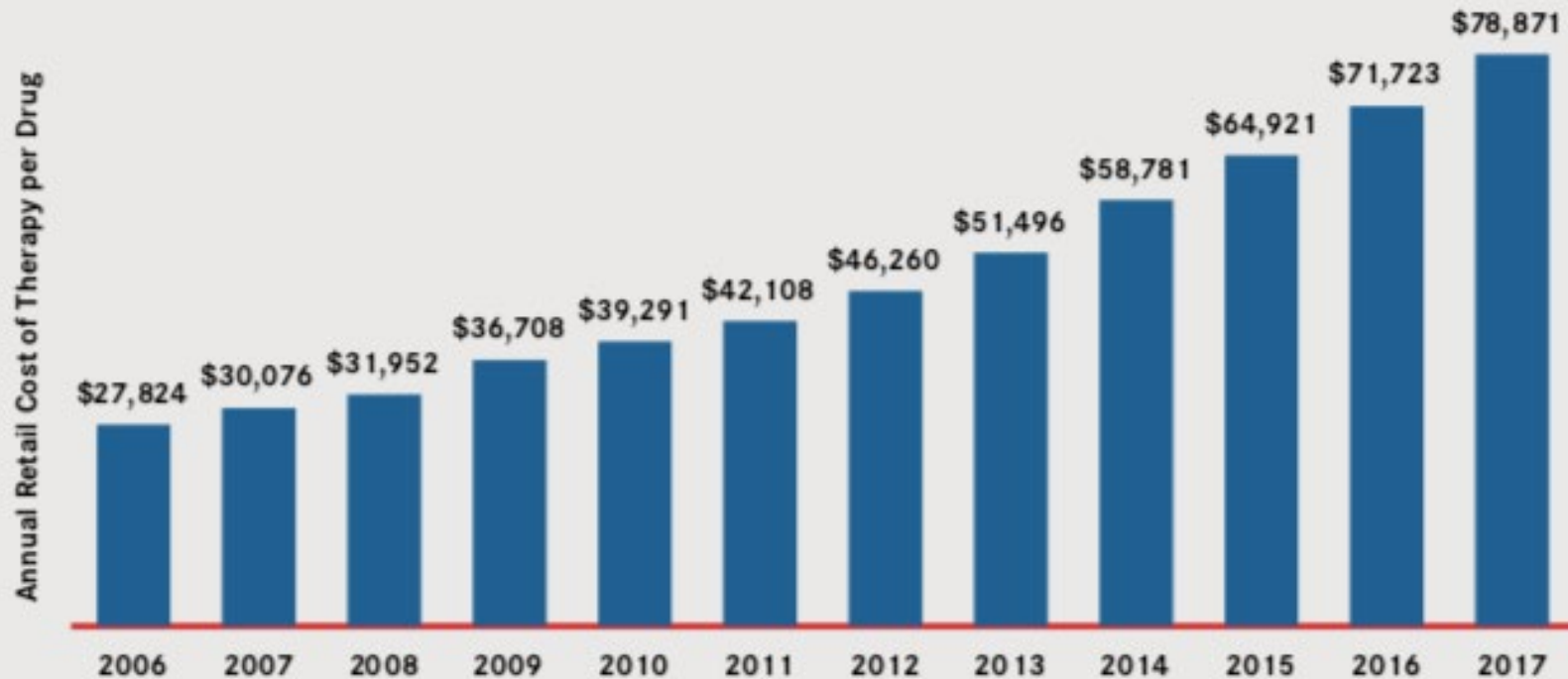


Create *private* hospital price reports for self-funded employers

- \$1,000 minimum
- \$15,000 max
- Only employer sees results -- specific to employer's

Specialty drug prices have skyrocketed

The Average Annual Price of Specialty Drugs Almost Tripled between 2006 and 2017



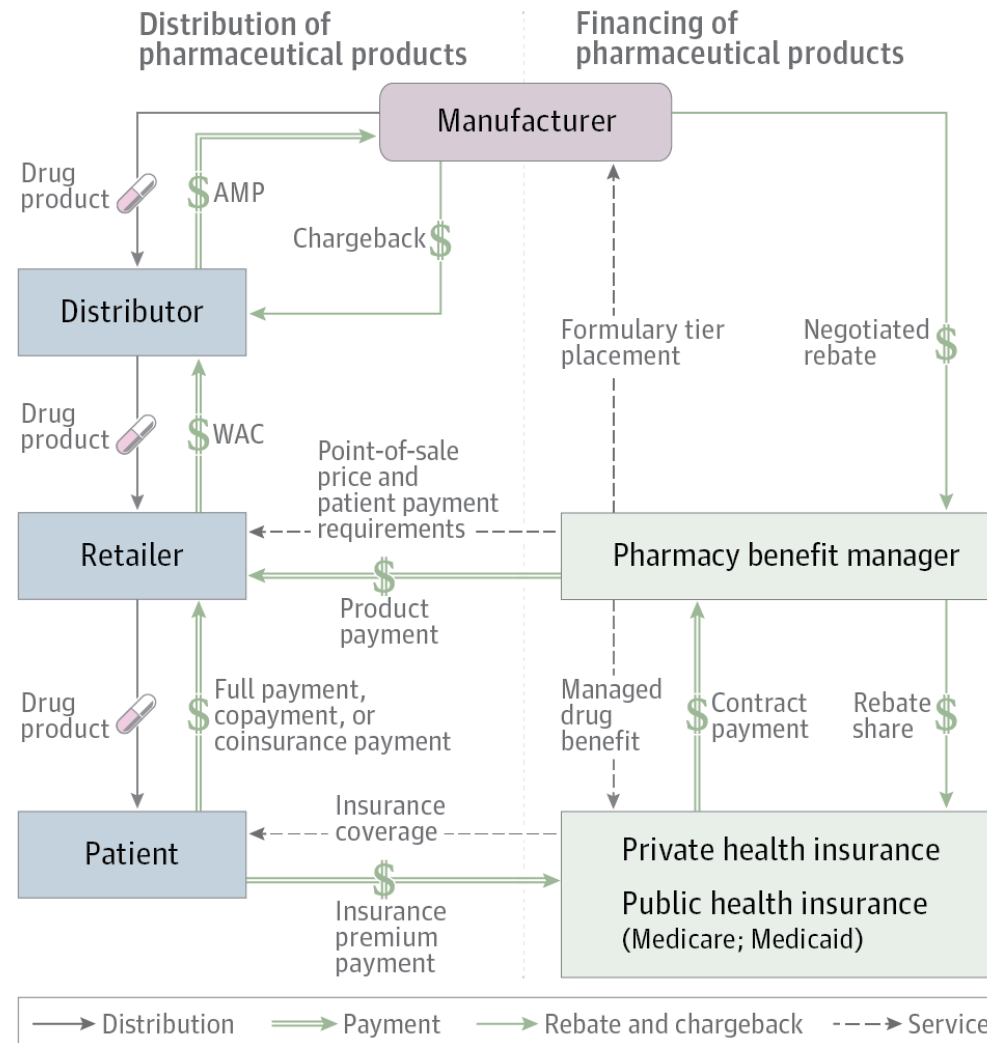
Note: Calculations of the average annual specialty drug price change include the 61 drug products most widely used by older Americans for chronic conditions (see Appendix A).

Source: Prepared by the AARP Public Policy Institute and the PRIME Institute, University of Minnesota, based on data from Truven Health MarketScan® Research Databases.

The Price of Innovation



What about intermediaries?



“Buy and Bill” system for administered drugs

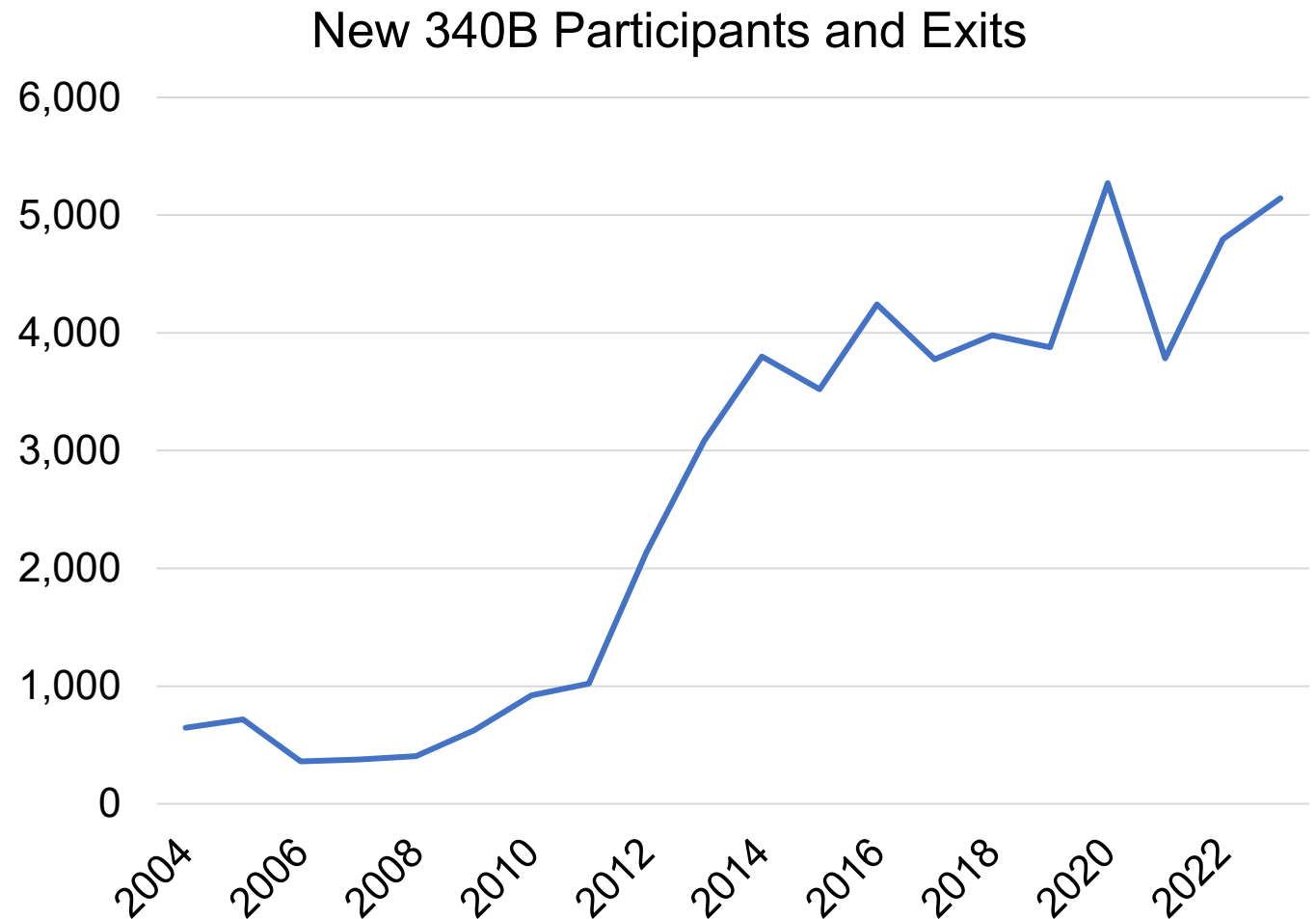
- Physicians, hospitals, or other providers buy infused drugs from manufacturers or wholesalers
- Physicians administer drugs to patient and bill patient for drug
- **Medicare:** $\text{Price} = \text{Average Sales Price} + 6\%$
- **Private Insurance:** Price negotiated between provider and insurer

This analysis: How much infused drug spending is captured by intermediaries (e.g., providers)?

- Use nationwide claims data to compare infused drug prices based on site of care
 - Physician office
 - Non-340B hospital outpatient department
 - 340B hospital outpatient department
- Compare prices and estimate provider profits
- Estimate share of patient drug spending retained by providers

340B Program provides drug price discounts

- 1992 340B program allows hospitals to purchase drugs at Medicaid discounts
 - 50-25% purchase price discounts
- Huge explosion in program scope
 - 700% increase in participants
 - \$38 billion in subsidies / year



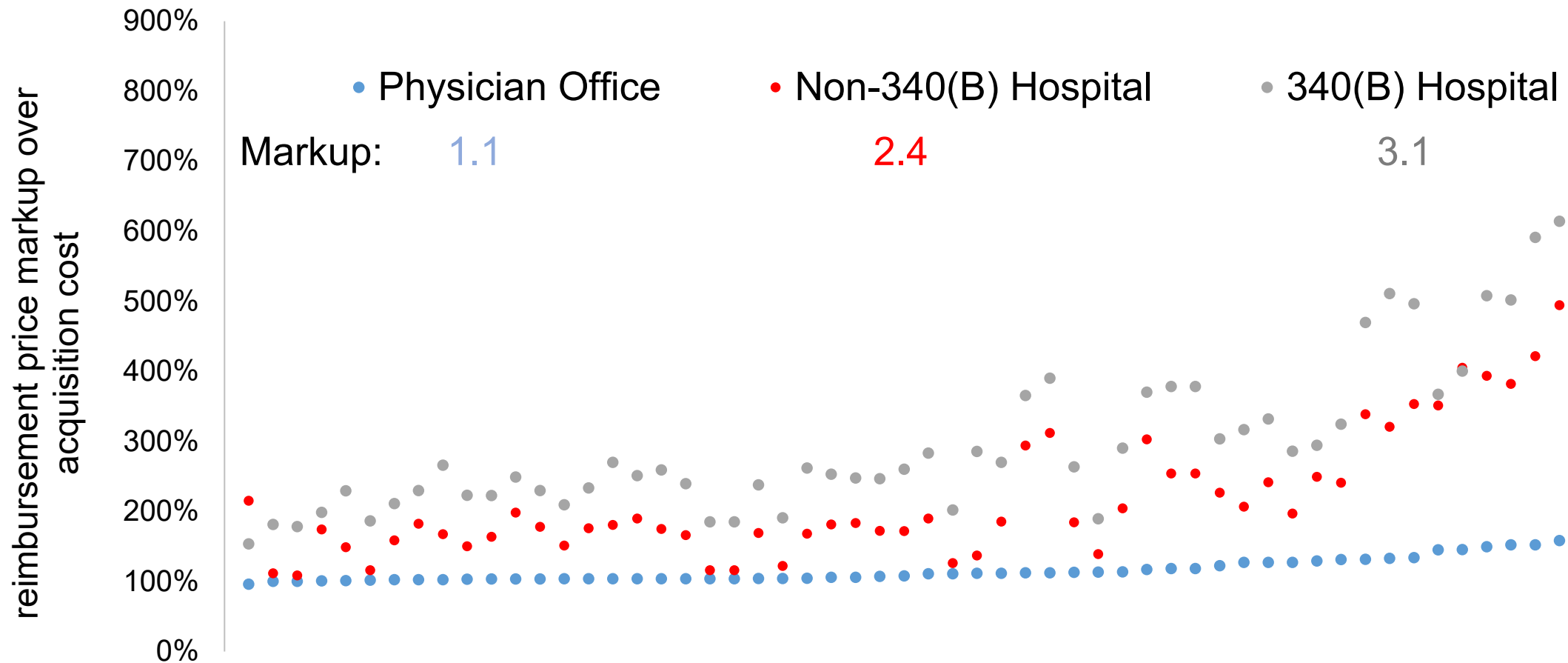
Nationwide BCBS claims data

- 2020-2021 BCBS Axis data from ~50 million people
- Select 57 infused drugs that account for large share of spending and are focus of cost reduction strategies
- Focus on commercial insurance (drop MA and Medicaid managed care)
- Drugs are paid for through medical (not Rx) benefit
 - No confidential rebates included in price
- 400k patients and 4.7 million infusion claims

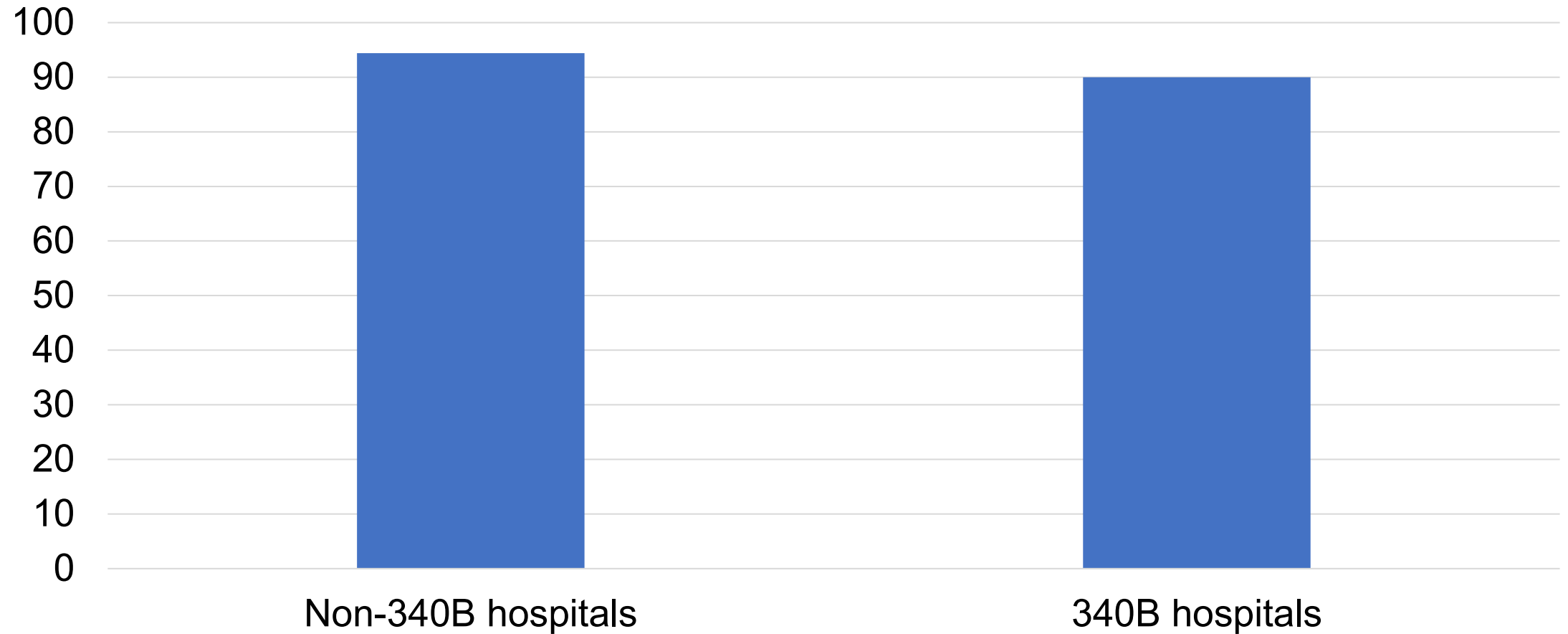
Main outcomes

- Negotiated price (Allowed amount)
 - No rebates included
 - Convert to per-unit price
- Price markup (price – acquisition cost)
 - **Average Sales Price** for POs and hospitals (from CMS)
 - Estimate as ASP x 65% for 340B hospitals (CMS estimates)
- Share of spending retained by provider

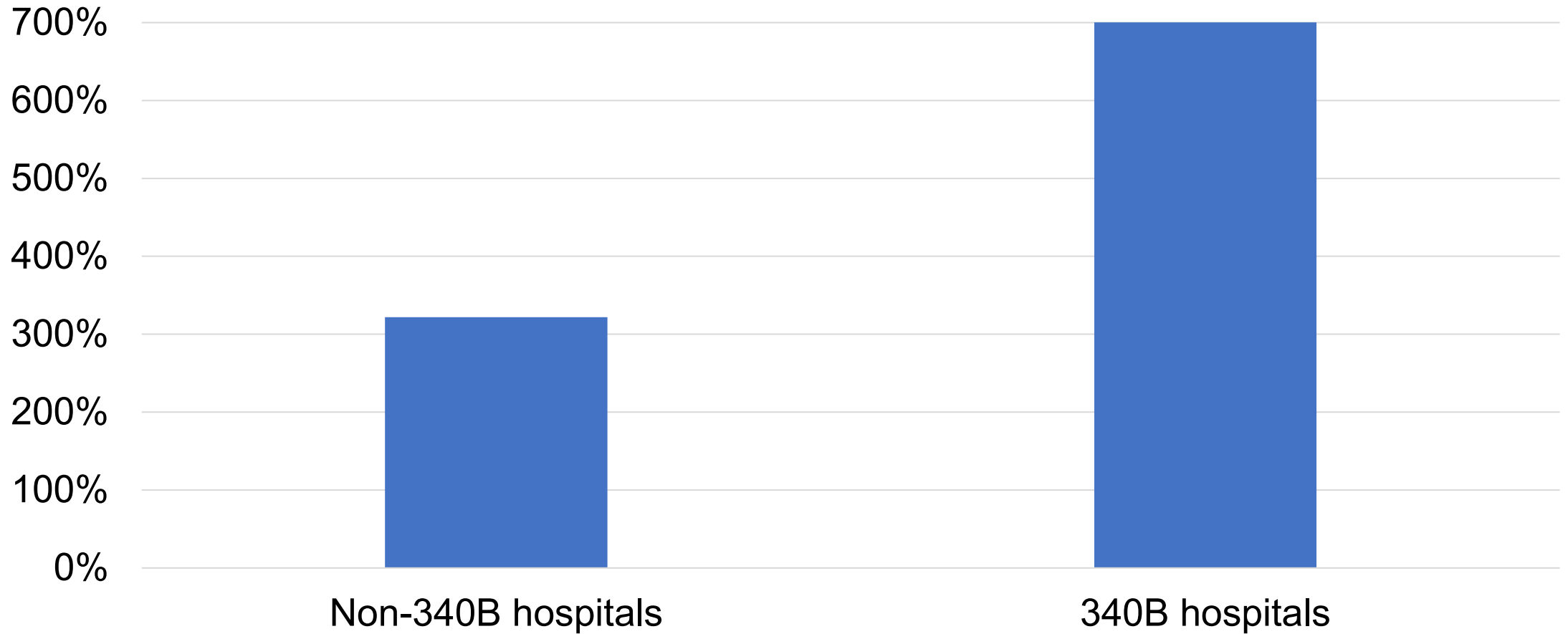
Large variation in drug price markups



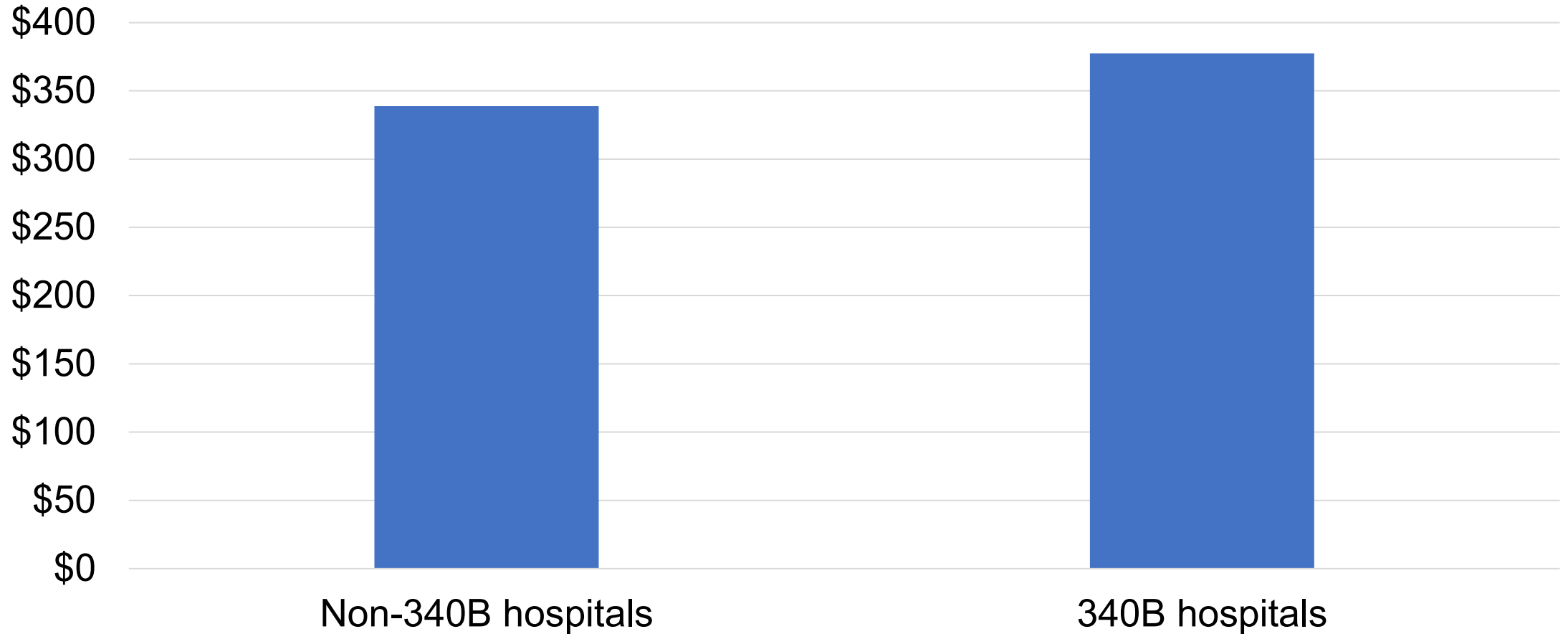
Percentage Difference in Price Charged to Insurers by Hospitals, Compared to Prices Charged by Physician Practices



Hospital Markup of Drug Price over Acquisition Cost, Compared to Price Markups by Physician Practices



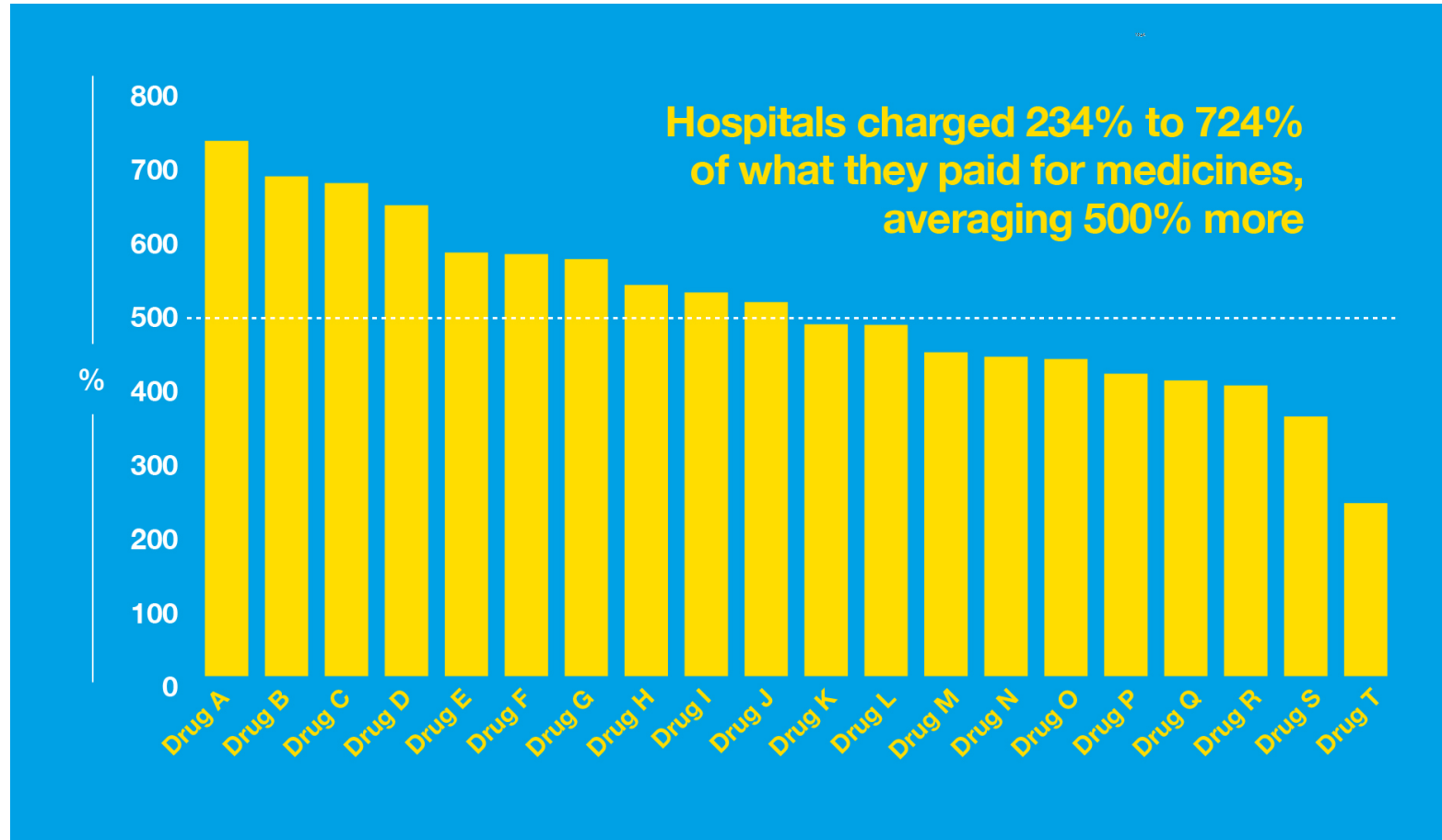
Difference in Profits per Drug Unit Earned by Hospitals Compared to Profits per Drug Unit Earned by Physician Practices



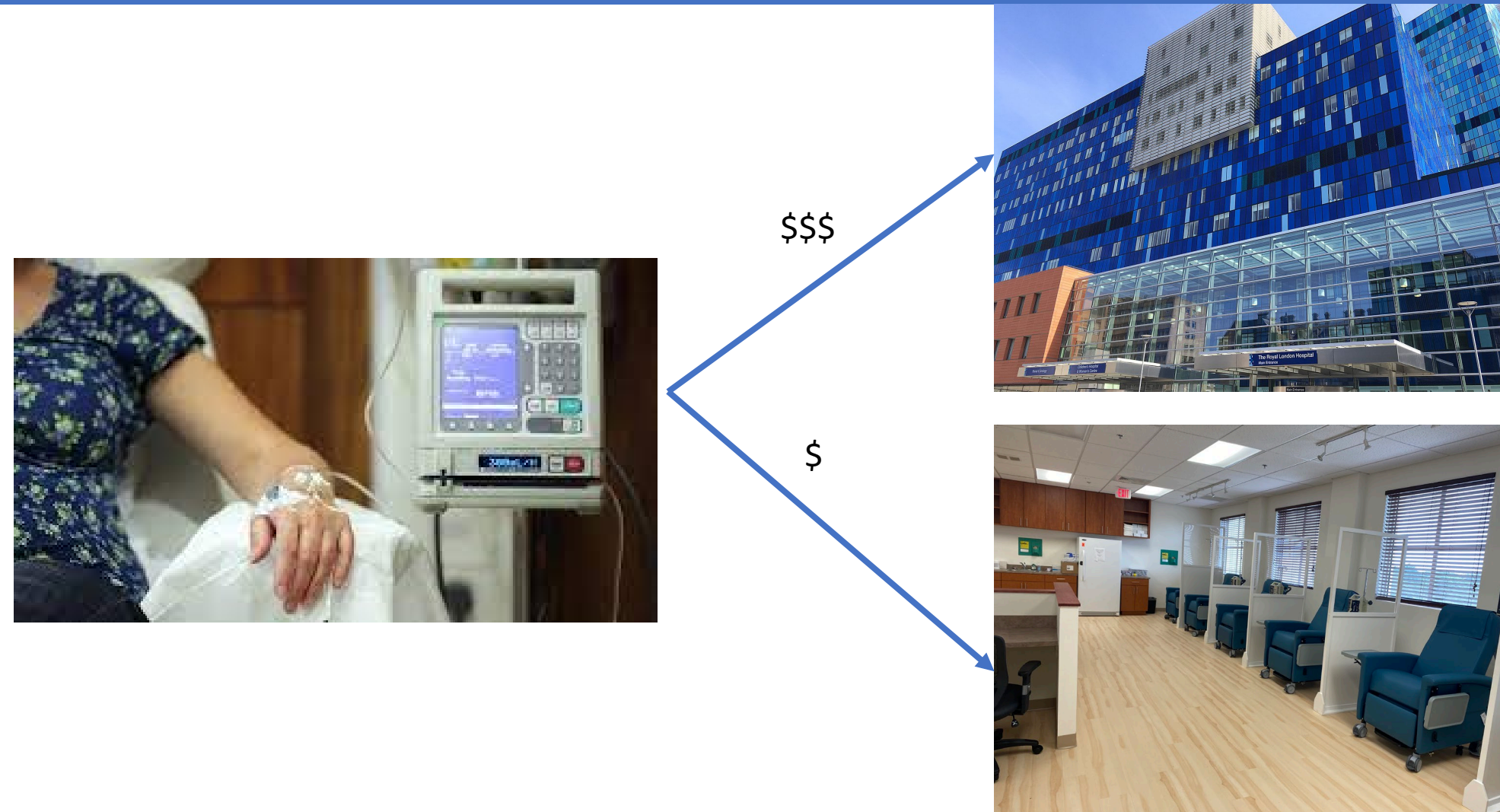
Percentage of Insurer/Employer Spending on Infused Drugs Retained by Providers

	All Hospitals and Physician Practices	Hospitals Eligible for 340(B) Discounts	Hospitals Not Eligible for 340(B) Discounts	Independent Physician Practices
All Drugs (%)	37.7	64.3	44.8	19.1
Oncology Drugs (%)	42.5	64.6	50.0	17.3
Inflammatory Condition Drugs (%)	29.4	68.0	55.2	19.0
Blood Cell Deficiency Drugs (%)	32.7	55.8	9.1	29.8

PhRMA analysis finds 500% markups

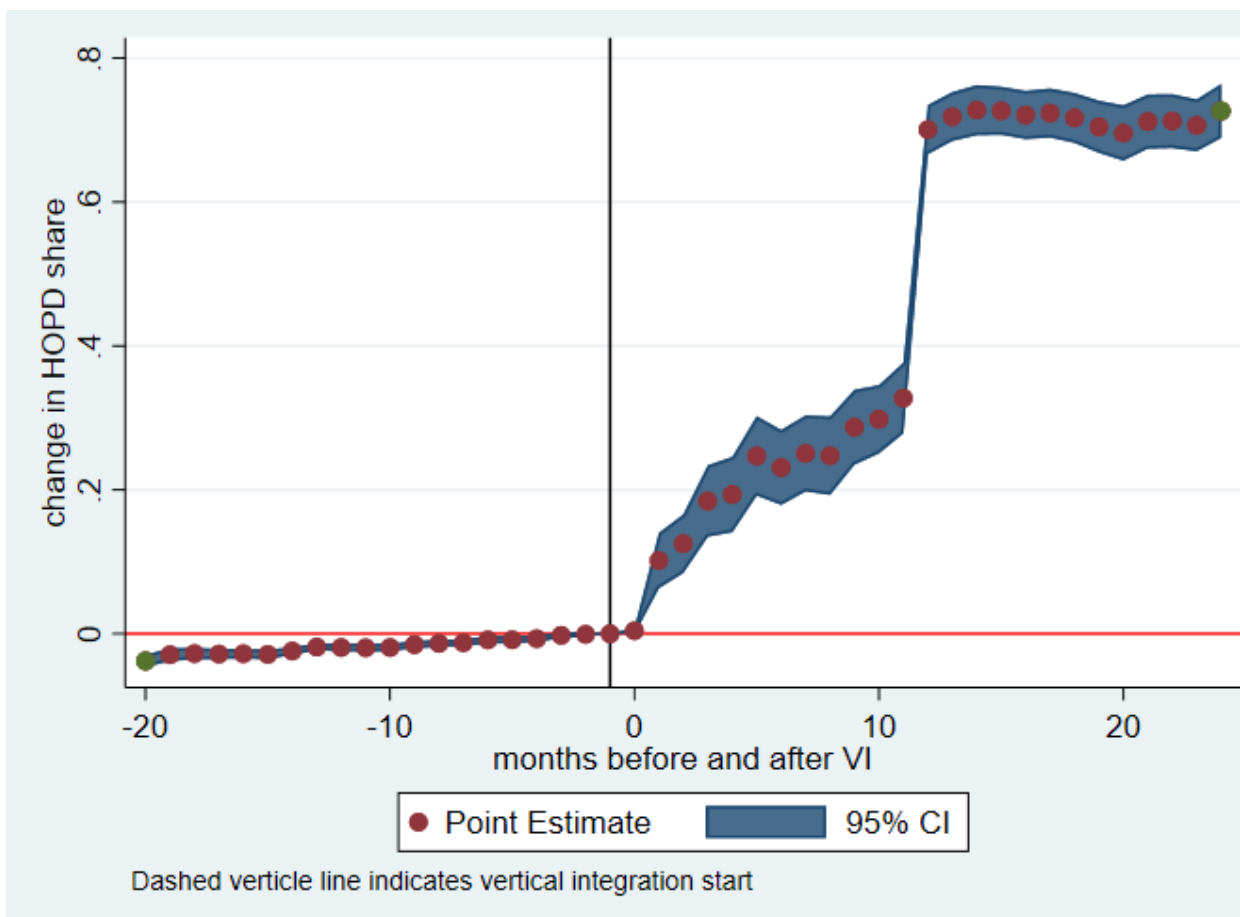


Price differentials create “arbitrage” opportunity



Hospital acquisition shifts infusions to hospital

Change in share of infusions in hospital



75% increase in hospital-based infusions

20% increase in prices

Study Implications

- Large differences in prices and price markups based on site of care that drive consolidation
- 340B-participating hospitals retail subsidized drugs for 7x acquisition cost and retain 2/3 of spending
- Substantial share of infused drug spending does not fuel future innovations