



# Buy and Bill Drugs 101

Module 3: Physician Practice Perspective

---

**PUBLISHED BY**

Health Care Industry Committee

# Health Care Industry Committee

## Project Director

Lindsay Conway

ConwayL@Advisory.com

## Research Team

Viggy Parr Hampton, MPH

### LEGAL CAVEAT

Advisory Board has made efforts to verify the accuracy of the information it provides to members. This report relies on data obtained from many sources, however, and Advisory Board cannot guarantee the accuracy of the information provided or any analysis based thereon. In addition, Advisory Board is not in the business of giving legal, medical, accounting, or other professional advice, and its reports should not be construed as professional advice. In particular, members should not rely on any legal commentary in this report as a basis for action, or assume that any tactics described herein would be permitted by applicable law or appropriate for a given member's situation. Members are advised to consult with appropriate professionals concerning legal, medical, tax, or accounting issues, before implementing any of these tactics. Neither Advisory Board nor its officers, directors, trustees, employees, and agents shall be liable for any claims, liabilities, or expenses relating to (a) any errors or omissions in this report, whether caused by Advisory Board or any of its employees or agents, or sources or other third parties, (b) any recommendation or graded ranking by Advisory Board, or (c) failure of member and its employees and agents to abide by the terms set forth herein.

Advisory Board and the "A" logo are registered trademarks of The Advisory Board Company in the United States and other countries. Members are not permitted to use these trademarks, or any other trademark, product name, service name, trade name, and logo of Advisory Board without prior written consent of Advisory Board. All other trademarks, product names, service names, trade names, and logos used within these pages are the property of their respective holders. Use of other company trademarks, product names, service names, trade names, and logos or images of the same does not necessarily constitute (a) an endorsement by such company of Advisory Board and its products and services, or (b) an endorsement of the company or its products or services by Advisory Board. Advisory Board is not affiliated with any such company.

### IMPORTANT: Please read the following.

Advisory Board has prepared this report for the exclusive use of its members. Each member acknowledges and agrees that this report and the information contained herein (collectively, the "Report") are confidential and proprietary to Advisory Board. By accepting delivery of this Report, each member agrees to abide by the terms as stated herein, including the following:

1. Advisory Board owns all right, title, and interest in and to this Report. Except as stated herein, no right, license, permission, or interest of any kind in this Report is intended to be given, transferred to, or acquired by a member. Each member is authorized to use this Report only to the extent expressly authorized herein.
2. Each member shall not sell, license, republish, or post online or otherwise this Report, in part or in whole. Each member shall not disseminate or permit the use of, and shall take reasonable precautions to prevent such dissemination or use of, this Report by (a) any of its employees and agents (except as stated below), or (b) any third party.
3. Each member may make this Report available solely to those of its employees and agents who (a) are registered for the workshop or membership program of which this Report is a part, (b) require access to this Report in order to learn from the information described herein, and (c) agree not to disclose this Report to other employees or agents or any third party. Each member shall use, and shall ensure that its employees and agents use, this Report for its internal use only. Each member may make a limited number of copies, solely as adequate for use by its employees and agents in accordance with the terms herein.
4. Each member shall not remove from this Report any confidential markings, copyright notices, and/or other similar indicia herein.
5. Each member is responsible for any breach of its obligations as stated herein by any of its employees or agents.
6. If a member is unwilling to abide by any of the foregoing obligations, then such member shall promptly return this Report and all copies thereof to Advisory Board.

# Overview of private practice physicians

The physician specialists that most often prescribe buy and bill drugs include: oncologists, rheumatologists, gastroenterologists, neurologists, and ophthalmologists. For some of these physician specialists, a relatively small portion of their patients require buy and bill drugs, and so it may be more efficient for them to refer patients elsewhere for treatment. But others, especially oncologists and large gastroenterology practices, own and operate their own infusion centers, and as a result, a significant portion of practice revenues (and physician income) come from buy and bill drugs.

Infusion centers are operationally complex, patients are often acutely ill and frail, and revenue cycle operations are challenging. Despite these challenges, many physician practices have developed considerable skill and expertise in managing infusion center operations because it is a major component of their businesses. Those practices that have struggled with financial and operational management have by and large chosen to leave the business by selling their practices or merging with larger physician networks.

## Physician revenues from buy and bill drugs have declined precipitously since 2005

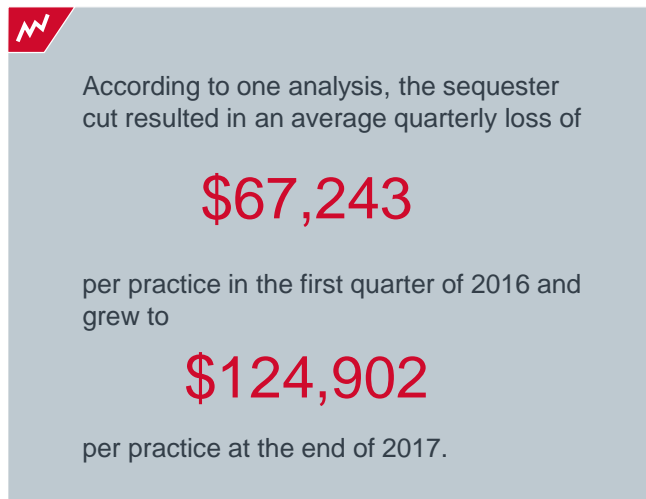
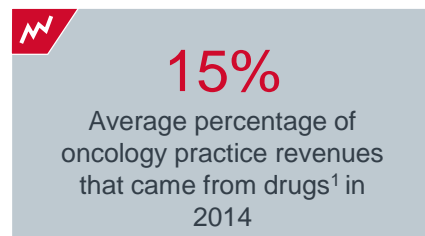
The Medicare Prescription Drug Improvement and Modernization Act changed the formula Medicare used to reimburse physicians for buy and bill drugs (known as “separately payable drugs” in Medicare terminology). Prior to 2005, Medicare reimbursed providers a percentage of AWP (average wholesale price). AWP was not defined by law or regulation and generally represented the manufacturer’s recommended price. Usually providers were able to negotiate significant discounts or rebates, and as a result, were able to earn a substantial margin on buy and bill drugs.

Starting in 2005, Medicare reimbursement changed from a percentage of AWP to ASP (average sales price) plus a fixed percentage mark up. Because ASP is calculated after the application of discounts and rebates, it was lower than AWP. According to one estimate, ASP was approximately 26% lower than AWP for brand drugs and 68% lower for generic drugs.

Following the change in Medicare reimbursement, commercial health plans took the opportunity to renegotiate their payments for buy and bill drugs, and many adopted the “ASP plus” methodology. As a result, many physicians saw their practice revenues - and incomes – decline after 2005.

## Sequester cuts to Part B drugs added further margin pressure

Congress sets reimbursement for Part B drugs at ASP + 6%. However, in 2013, Congress imposed a 2% “sequestration” cut to all Medicare reimbursement rates. The cuts were intended to be temporary, but since then, Congress has extended them multiple times. The cuts are expected to continue for the foreseeable future.



1) Measured as average net drug revenue (from all drugs) as percentage of cost of goods paid for.

Source: C Balch, JD Ogle, JL Senese, “The National Practice Benchmark for Oncology: 2015 Report for 2014 Data,” 2015, *Journal of Oncology Practice*, available at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5015450/>; Brenda Langlais, “Drug Reimbursement Methods—A Moving Target,” 2015, available at: <https://www.mediware.com/home-care/blog/drug-reimbursement-methods-a-moving-target/>; L Gordan, C Schaedig, and S Weidner, “The Financial Impact of the Sequester Cut to Medicare Part B Drug Reimbursement in Community Oncology,” *Evidence-Based Oncology* 2018, available at: <https://www.ajmc.com/contributor/coa/2018/08/the-financial-impact-of-the-sequester-cut-to-medicare-part-b-drug-reimbursement-in-community-oncology>; Advisory Board research and analysis.

# Physician practice financial management strategies

## Sequester cuts to Part B drugs added further margin pressure

As margins on buy and bill drugs have declined, physician practices have had to develop more sophisticated financial management capabilities to ensure they remain profitable. The most common include:

- ▶ **1** Sending unprofitable patients to a hospital or another safety-net provider for treatment
- ▶ **2** Adopting clinical pathways to reduce reimbursement risk
- ▶ **3** Partnering with health plans to develop new payment models that reward value
- ▶ **4** Merging with other physician practices or selling to the hospital
- ▶ **5** Diversifying revenue streams, including investing in specialty pharmacy

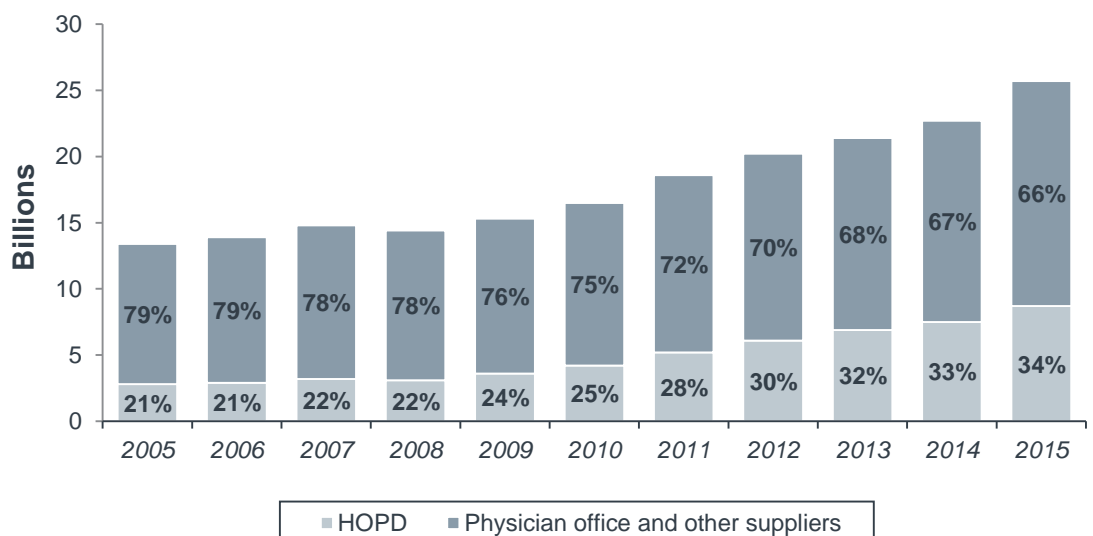
### #1: Sending unprofitable patients to a hospital or another safety-net provider for treatment

In the past, when physician practices earned relatively generous margins on buy and bill drugs, many treated uninsured and underinsured patients. However as margins have shrunk, subsidizing uncompensated care has become more difficult. In response, many practices began referring uninsured and Medicaid patients to a hospital or safety-net provider for treatment. Over time, more practices have developed financial tools to help them calculate the profitability of individual patient's treatment regimens, taking into account their drug acquisition costs and the patient's health benefits. As a result, they are better able to sort profitable patients from unprofitable patients.

#### Multiple drivers of site of care shift

- Physicians sending unprofitable patients to the hospital
- Physicians selling their practices

#### Medicare Part B spending on outpatient drugs by site of care



Source: Adam Fein, "New Part B Buy-and-Bill Data: Physician Offices Are Losing To Hospital Outpatient Sites," *Drug Channels* 2017, available at: <https://www.drugchannels.net/2017/08/new-part-b-buy-and-bill-data-physician.html>; Advisory Board research and analysis.

# Physician practice financial management strategies

## #2: Adopting clinical pathways to reduce reimbursement risk

Private practices were early adopters of clinical pathways. They were eager to demonstrate their adherence to evidence-based guidelines and gain assurance that they would be reimbursed for the drugs they administered to patients. In addition, by standardizing their use of drugs, some practices may have been able to increase their purchase volumes and so secure lower prices.



## #3: Partnering with health plans to develop new payment models that reward value

Declining reimbursement has led many independent physician groups to conclude that fee for service (FFS) reimbursement will become financially unsustainable over time. To that end, many are eager to develop new value-based care reimbursement models that reward them for the value of care they provide, rather than the quantity or cost. Some have partnered with commercial health plans to test alternative payment models, such as ACOs and bundled payments.

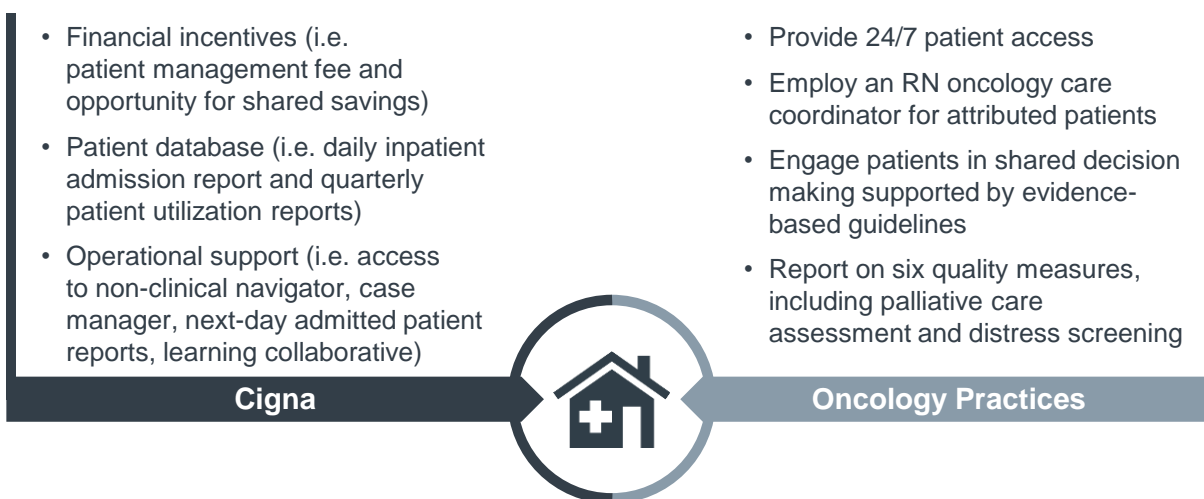
For example, in Cigna's Collaborative Care for Oncology model, the payer and the providers work together to enhance overall patient care. Cigna provides resources such as patient databases and operational support, and, in turn, providers employ oncology care coordinators, integrate evidence-based guidelines for care, and report quality measures back to Cigna.

### CASE EXAMPLE



### Cigna Collaborative Care for Oncology

*Both Payer and Providers Commit Resources to Enhance Patient Care*



Source: B Daly, et al., "Oncology Clinical Pathways: Charting the Landscape of Pathway Providers," *Journal of Oncology Practice*, 2018, available at: <http://ascopubs.org/doi/full/10.1200/JOP.17.00033>; Oncology Roundtable, "State of the Union," 2018; Advisory Board research and analysis.

# Physician practice financial management strategies

## #4: Merging with other physician practices or selling to the hospital

Many factors, including reimbursement cuts, the shift to value-based payment, and increased reporting requirements, have led physicians in all specialties to sell their practices to other physician groups, hospitals, or IDNs. Physicians whose income depends to a large extent on buy and bill drugs, such as oncologists, have been additionally motivated to leave private practice by the declining profitability of the infusion center business. These physicians typically see multiple advantages, including the opportunity to:

- Realize economies of scale
- Relinquish responsibility for running an increasingly complex business and navigating the transition from fee for service to value-based payment models
- Stabilize income
- Begin the transition to retirement, in some cases



### Oncology practice consolidation and acquisition, 2008-2018

658

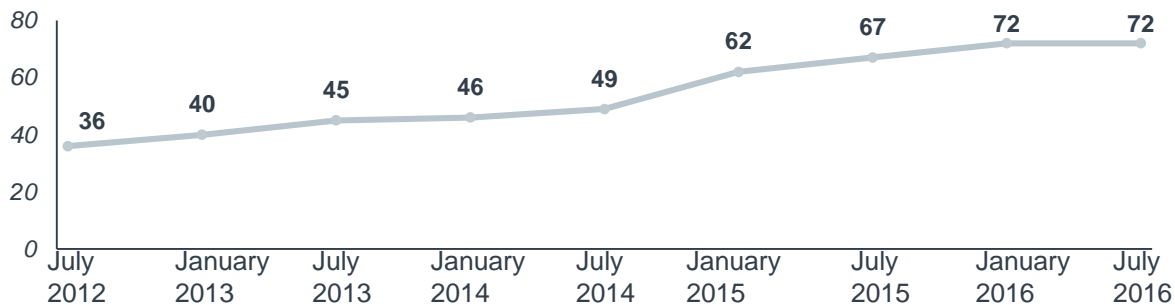
Oncology practices acquired by hospitals

168

Oncology practices merged or acquired by a corporate entity

## Hospital-owned physician practices on the rise

Number of hospital-owned practices (in thousands)



## #5: Diversifying revenue streams, including investing in specialty pharmacy

Another response to declining reimbursement for buy and bill drugs has been to diversify revenue streams. Practices have invested in imaging, radiation therapy, and other forms of procedural care to create new sources of income. The largest oncology practices have even invested in specialty pharmacy so that they can dispense and bill for oral oncolytics.



### Results from the 2017 Trending Now in Cancer Care Survey

25%

Percentage of facilities that own a specialty pharmacy

20%

Percentage of facilities that do not currently own a specialty pharmacy, but plan to start one in the next 12 months



### FOR MORE RESOURCES

To learn more about specialty pharmacy, view our Health System Specialty Pharmacy white paper at: [https://www.advisory.com/research/pharmacy-executive-forum/white-papers/2016/health-system-specialty-pharmacy?WT.ac=Inline\\_PEF\\_ExRb\\_x\\_x\\_x\\_CTC\\_2018Mar01\\_Eloqua-RMKTG+Blog](https://www.advisory.com/research/pharmacy-executive-forum/white-papers/2016/health-system-specialty-pharmacy?WT.ac=Inline_PEF_ExRb_x_x_x_CTC_2018Mar01_Eloqua-RMKTG+Blog)

Source: Community Oncology Alliance, "2018 Community Oncology Alliance Practice Impact Report," 2018, available at: <https://www.communityoncology.org/portfolio-items/2018-coa-practice-impact-report/>; Physician Advocacy Institute, "Updated Physician Practice Acquisition Study," 2018, available at: <http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/2016-PAI-Physician-Employment-Study-Final.pdf>; Oncology Roundtable, "Insights from the Trending Now in Cancer Care Survey," 2018, available at: <https://www.advisory.com/research/oncology-roundtable/expert-insights/2018/insights-from-the-trending-now-in-cancer-care-survey>; Advisory Board research and analysis.

# Buy and bill drugs 101: roadmap

---

## Next up in the buy and bill drugs 101 series

- 
- 1 Introduction**  
Overview of buy and bill basics
  - 2 Health plan perspective**  
Health plans' top priorities and strategies for managing buy and bill drugs
  - 3 Physician practice perspective**  
Physician practices' top priorities and strategies for managing buy and bill drugs
  - 4 HOPD infusion center perspective**  
HOPD infusion centers' top priorities and strategies for managing buy and bill drugs
  - 5 Glossary**  
Buy and bill glossary of key terms

---

The best  
practices are  
the ones that  
work for **you.**<sup>SM</sup>

---



2445 M Street NW, Washington DC 20037  
1-202-266-5600 | [advisory.com](https://www.advisory.com)