



# Buy and Bill Drugs 101

Module 4: HOPD Infusion Center Perspective

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Health Care Industry Committee

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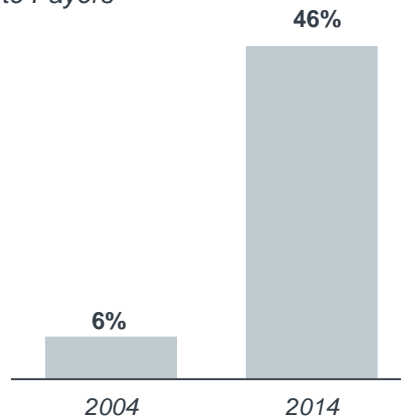
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# Overview of HOPD<sup>1</sup> infusion centers

Prior to 2005, the majority of infused and injectable treatments were administered in the physician office setting. But after Medicare changed reimbursement for Part B drugs, many physicians began shifting their infusion patients to the hospital outpatient (HOPD) setting, or selling their practices to hospitals. As a result, a much larger portion of infusion patients are now treated in the HOPD setting.

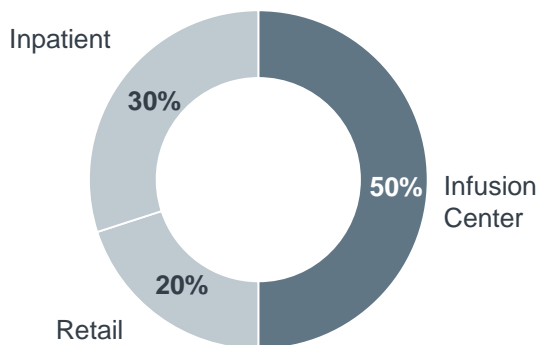
## Percentage of Chemotherapy Infusions Delivered in HOPD Setting

*Private Payers*



At the same time, the increasing incidence of cancer and autoimmune diseases led many health systems to invest in outpatient infusion services. In particular, many have developed oncology service lines to ensure that their communities can access high-quality cancer care. Infusion centers—and buy and bill drugs—are a critical component.

## Typical Health System Drug Spend



As a result of growing patient volumes and rapid drug price inflation, the typical IDN now spends approximately half of its drug budget on infused and injectable drugs. Because outpatient drugs are separately reimbursed, they represent a large and growing revenue stream; however, rising drug prices also come with increased financial risk for the infusion center.

1) Hospital outpatient department.

# HOPD infusion center key challenges

Although reimbursement rates are generally favorable, most HOPD infusion centers struggle financially. In fact, without 340B drug pricing, the best managed HOPD infusion centers typically just break even due to their operational complexity and high costs. Key challenges include:

## **Lack of visibility into and accountability for financial performance**



Responsibility for drug purchasing, inventory management, utilization, administration, and billing are typically distributed across multiple hospital departments and stakeholders. At the same time, financial reporting is very limited; few hospitals are able to produce a profit and loss statement for their infusion centers. As a result, no one has visibility into—or accountability for—the totality of the infusion center business.

## **Patient complexity**



Infusion center patients tend to be acutely ill or frail, and the treatments are often highly toxic, so complications and delays are routine; thus it is very difficult to operate the infusion center efficiently.

## **Payer mix**



As reimbursement rates have declined, private practice physicians have increasingly shifted unprofitable patients, including the uninsured, Medicaid, and Medicare patients without supplemental coverage, to hospitals for care, resulting in a less favorable payer mix for HOPD infusion centers.

## **High operating costs**



Operating costs tend to be high because infusion centers must employ highly trained nurses and pharmacists, maintain an inventory of high-cost drugs, and adhere to stringent regulatory requirements.

## **Challenging revenue cycle operations**



As drug prices have increased, health plans have increased their efforts to manage drug spending. Their tactics include increasing prior authorizations, expanding the documentation required to demonstrate medical necessity, and scrutinizing claims for high-cost drugs. As a result, hospitals report increases in denials and underpayments. Yet few are tracking denials for outpatient drugs, appealing denials, or investigating their causes.

# Threats to infusion center financial sustainability

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In addition to the ongoing challenges listed on the previous page, several more recent reimbursement and policy changes are threatening infusion center's financial sustainability.

## Reimbursement and policy changes impacting infusion centers' business performance

1

### Rising drug prices

The total cost of oncology drugs in the US increased 88% from 2011 to 2016. It is now routine for even a single dose of these medications to cost thousands of dollars. As a result, even a single denial or patient defaulting on his bill can have a significant impact on revenues.

2

### Changes to 340B program

Starting January 1, 2018, Medicare cut reimbursement for Part B drugs purchased at 340B prices from ASP + 6% to ASP-22.5%. As a result, infusion centers that have typically relied on 340B drug margins must now find new efficiencies and improvements in revenue capture.

3

### Medicare's site neutrality policies

As of January 1, 2017, Medicare cut reimbursement for non-excepted HOPD sites. In 2018, non-excepted reimbursement rates are 40% of HOPPS rates. Non-excepted sites include new satellite facilities opened after November 2, 2015 as well as physician practices acquired after November 2, 2015.

4

### Medicare's conditional packaging<sup>1</sup> of drug administration fees

Starting in 2018, Medicare began packaging reimbursement for certain drug administration codes. While the changes have been relatively small to date, they are indicative of a larger trend and likely portend more packaging in the future.

5

### Commercial payers' site-of-care policies

Commercial payers are trying to combat rising drug costs by requiring certain patients to receive their injections and infusions in the freestanding setting. So far, they have targeted patients with less acute diagnoses, such as rheumatoid arthritis, but they may expand site-of-care policies to other patient populations.

6

### Growth in specialty pharmacies

Sales of specialty drugs<sup>2</sup> increased 91% from 2012-2016. As a result, the number of specialty pharmacies has skyrocketed. Use of specialty pharmacies to distribute infused and oral drugs cuts health systems out of drug reimbursement and complicates patient adherence and coordination of care.

Source: Oncology Roundtable, "The Executive's Guide to Infusion Center Business Strategy," 2018, available at: <https://www.advisory.com/research/oncology-roundtable/resources/2018/the-executives-guide-to-infusion-center-business-strategy>; Advisory Board research and analysis.

# HOPD infusion center business strategies

The most progressive IDNs are using multiple strategies to improve HOPD infusion center business performance.



## **Aligning drug spending and revenue accountability**

As drug prices continue to rise, managing drug spending and revenues will only become more important for infusion centers. Progressive health systems have begun to consolidate oversight and accountability for outpatient drugs, including revenue cycle operations, under a single service line, such as pharmacy or oncology. As a result, they are able to capture efficiencies, increase revenue capture, and gain insight into outpatient drug profitability.



## **Improving revenue cycle operations to ensure they capture every dollar owed**

Progressive IDNs are investing in dedicated prior authorization (PA) staff who can develop expertise and experience in securing PAs for high-cost drugs. In addition, they are producing monthly or quarterly reports on outpatient drug denials so that staff can appeal denials, when appropriate, and avoid future billing errors.



## **Expanding patient financial counseling**

Patients' out-of-pocket costs are also rising in proportion to drug prices. Best practice organizations are investing in dedicated financial counseling resources to help uninsured patients enroll in coverage, underinsured patients tap into external sources of financial assistance, and well-insured patients understand and plan for their out-of-pocket costs.



## **Instituting multi-stakeholder group to assess drug value and profitability**

Increasingly, best-in-class IDNs are convening physician leaders, as well as representatives from revenue cycle, pharmacy, and administration, to discuss the relative value of new high-cost drugs. The intention is not to restrict access to these drugs, but rather to develop a holistic understanding of the associated patient outcomes, including toxicities, and the financial ramifications for the patient and health system. Ultimately, the goal is to increase adherence to evidence-based practice, reduce care variation, and when appropriate, select lower-cost therapies.



## **Developing a pricing strategy**

IDNs that have contracted risk for care in the infusion center or that are affected by site of care management policies should review their pricing strategy. The right strategy for any one organization depends on multiple variables including: payer mix, adoption of risk-based contracts, competitive landscape, and 340B status.

Source: Oncology Roundtable, "The Executive's Guide to Infusion Center Business Strategy," 2018, available at: <https://www.advisory.com/research/oncology-roundtable/resources/2018/the-executives-guide-to-infusion-center-business-strategy>; Advisory Board research and analysis.

# Buy and bill drugs 101: roadmap

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Buy and bill glossary of key terms

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the ones that  
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