# CHAPTER 14

# Financial Management in the 340B Program

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The financial management of pharmaceutical supply and costs has long been an element of managing a health-system pharmacy. Inventory, procurement, and supply chain cost management have been key pharmacy leadership responsibilities for the institution and patients that they serve. As the U.S. healthcare system has evolved and health systems have become increasingly complex, drug costs, inflation, utilization changes, shortages, and reimbursement have also come into play. Several chapters in this *340B Program Handbook* address the details of managing a hospital supply chain that contains 340B; this chapter discusses how pharmacy leaders should consider the financial consequences and impact of 340B on hospital financial indicators and decisions. In addition to the base discounts offered under 340B, key performance indicators for department financial performance will read differently for a 340B hospital than for its non-340B counterpart.

This chapter is not designed to provide a full basis for financial management of a health-system pharmacy; readers are referred to the core text for that purpose.[1] The pervasive nature of 340B creates some obvious considerations in any financial model, business result, or performance indicator. A case can be made that the 340B program's impact should be an element of any financial performance overview. 340B impact should also be a consideration in any granular look at services or processes that are drug cost driven. However, some key areas such as 340B contribution require thoughtful and detailed consideration. This chapter covers elements of four chapters from the core text through a 340B lens:

- Forecasting pharmaceutical expenditures
- Understanding drug expense using administrative data
- Managing cost basics
- Analyzing budget variance and controlling operating results

At the very least, purchase price differentials across 340B-elgible outpatient areas and areas of the hospital where 340B does not apply are substantial. 340B discounts on branded drugs are, at a minimum, 23.1%; for multisource generic drugs, it is 15%. Discounts run higher for tenured branded drugs where the 340B discount is influenced by the cumulative price increases over the life of the product. Considering that the cost used in product selection, formulary management, profitability, and pricing is the 340B price where it prevails, hospital leadership's focus on the actual acquisition cost of a drug or biologic has a critical 340B dimension. Surfacing this element of the cost equation is a vital element of financial management of a 340B hospital pharmacy. Although benefits are substantial, it is rare for 340B price differential alone to drive policy and formulary choices. More often, 340B differentials are misunderstood and less than fully teased out in benchmarks and other performance metrics. As a result, pharmacy leaders, their departments, and health systems may make decisions with an incomplete understanding of the 340B underpinnings.

# FORECASTING PHARMACEUTICAL EXPENDITURES

Forecasting future drug expenditures is a challenging annual exercise that includes both external influences (e.g., new drug introductions, practice standard changes) and assessment of the internal environment (e.g., patient and payer mix, program and service planning) to arrive at a forward-looking estimate. Vermeulen et al. recommend a nine-step process to build a reliable forecast.[2] The process is outlined in **Table 14-1** along with 340B specific elements. Beyond the structured steps outlined in the table, a key element of forecasting for 340B hospitals is to build separate budgets for the following:

- Outpatient drug expense (340B and non-340B)
- Inpatient (GPO/non-340B) expenditures

Although most steps throughout the forecasting process remain the same, several elements can lead to substantive differences in performance and should guide a thoughtful forecast development. New drugs enter the market at a 340B cost; 23.1% lower for branded drugs and 15% lower for multisource generics when compared to the corresponding market price for inpatient and non-340B outpatient use.

Because 304B price growth is capped at inflation based on the consumer price index for urban consumers (CPI-U), price increases forecast for other markets should be tempered for 340B purchases accordingly. 340B prices and purchases are insulated from inflation above a trailing CPI-U base after release at the initial market price. Because ASHP, IQVIA, and others do not track 340B sales separately in creating public forecasts, 340B facilities should consider alternatives to the price elements of common public forecasts in local estimates. 340B purchase discounts will be greater than statutory requirements in an environment where manufacturer price increases exceed CPI-U in each year, or over a sustained period. Provider-based hospital clinics for 340B hospitals should, therefore, consider inflation and price increase penalties to be nominal. Clinic growth and development (e.g., acquisition and transfer of non-340B-eligible clinic locations to 340B-eligible, provider-based sites) may lead to a deflationary effect as discounts accrued on the "340B side" of the business exceed typical market-based "non-340B-side" group purchasing organization (GPO) discounts.

## KEY POINT

The basics of health-system pharmacy financial management remain in place in a 340B hospital, but the different cost-basis and pricing behavior of 340B drugs necessitates separate analysis and consideration of drug costs in 340B hospitals.

Assessments of the market size of the 340B program at near 44% of aggregate purchases are probably accurate.[3] 340B purchases have grown from one-third to one-half of all hospital drug purchases in the market, with impact differentially weighted toward high-cost drugs, including infusion and specialty drugs. The impact is differentially weighted by location/hospital; in many hospitals and integrated delivery networks, 340B purchases are equal or exceed standard GPO or hospital class of trade purchases. A clear and complete understanding of 340B price and associated changes will provide the basis for more accurate and useful forecasts.

It is reasonable to consider that 340B purchases mirror the market changes in general, but at a lower cost. The 340B-influenced business decisions in participating hospitals are probably not formulary decisions; they are likely decisions to open, close, or expand pharmacy services and clinics, including retail and specialty pharmacy and prescription services to the uninsured, underinsured, and others.