340B Program Has a Direct Negative Impact on Small Business Community Pharmacies

- Broad 340B “patient” definition allows a 340B pharmacy to dispense a 340B drug to insured patients
- 340B entities are inducing insured patients to leave their community pharmacy to fill prescriptions at 340B pharmacies:
  - providing incentives, including co-pay discounts
  - steering their own employees to the 340B pharmacy
  - affiliating with certain employers, PBM’s and mail order entities to steer employees to the 340B pharmacy
- 340B entities make a substantial profit off of the difference between the 340B cost of drug and the insured patients’ market based third-party reimbursement
- The outcome is small business independent pharmacy owners are losing substantial business to the 340B program

Expansion of Eligible 340B Entities Increases the Negative Impact on Community Pharmacy

<table>
<thead>
<tr>
<th>Pre-ACA 340B Entities</th>
<th>Post-ACA 340B Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>FQHC (194); Family planning projects (3,885); AIDS</td>
<td>Children’s hospitals (152);</td>
</tr>
<tr>
<td>treatment related entities (600); Black lung clinics (14);</td>
<td>Free-standing DSH cancer hospitals (5);</td>
</tr>
<tr>
<td>Comprehensive hemophilia diagnostic treatment centers</td>
<td>Critical access hospitals (710);</td>
</tr>
<tr>
<td>(100); Native Hawaiian health centers (11); Urban</td>
<td>Sole community hospitals (131); and</td>
</tr>
<tr>
<td>Indian organizations (26); STD clinics or tuberculosis</td>
<td>Rural referral centers (30).</td>
</tr>
<tr>
<td>clinics receiving state or local funds (2,683); and DSHs</td>
<td></td>
</tr>
<tr>
<td>(2,948).</td>
<td></td>
</tr>
</tbody>
</table>

Numbers represent the number of 340B entities listed in HHS’s database.
DSH 340B Entities with Community Pharmacies within the Same Zip Code

- There are 1,725 distinct zip codes with a Disproportionate Share Hospital. Of these distinct zip codes:
  - 380 have 0 independent pharmacies
  - 374 have 1 independent pharmacy
  - 300 have 2 independent pharmacies
  - 201 have 3 independent pharmacies
  - 153 have 4 independent pharmacies
  - 76 have 5 independent pharmacies
  - 241 have more than 5 independent pharmacies

Profit Spread on Selected Drugs:
340B Covered Entity vs. Non-340B Pharmacy
Based on third party reimbursement from Medicare Part D plan
The 340B Opportunity!

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CPCA CFO Conference, 2010

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Agenda

- 340B Program Overview
- Six Challenges & Opportunities
- Marketing, Reporting, & Monitoring
- Questions
340B Prime Vendor Program

- HRSA established a 340B "Prime Vendor" Group Purchasing Organization
- Primary goals:
  - Lower drug and supply costs—"Sub 340B"
  - Value added products and services

www.340Bpvp.com

340B Patient Savings

<table>
<thead>
<tr>
<th>Drug 1 (1 inhaler)</th>
<th>$13.56</th>
<th>$91.72</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drug 2 (20MG, 30 caplets)</td>
<td>$91.25</td>
<td>$139.38</td>
</tr>
<tr>
<td>Drug 3 (30MG, 30 caplets)</td>
<td>$60.65</td>
<td>$173.62</td>
</tr>
<tr>
<td>Drug 4 (1 pack)</td>
<td>$18.03</td>
<td>$43.54</td>
</tr>
<tr>
<td>Drug 5 (20MG, 30 caplets)</td>
<td>$16.25</td>
<td>$35.46</td>
</tr>
<tr>
<td>Drug 6 (30 tablets)</td>
<td>$13.85</td>
<td>$120.88</td>
</tr>
</tbody>
</table>

340B cost includes average acrinis fee and average dispensing fee. Prices may vary by pharmacy.
What are the Requirements?

- 340B drugs cannot be "diverted" to patients who are not eligible
  - Patient eligibility capture
  - Drug inventory separation
- Compliance is the responsibility of the covered entity—not the pharmacy
  - Auditable records
  - Independent program audits
- Plan design in compliance with 330 grant
340B Program Challenges

340B Set-Up

Patient
Eligibility

Program
Challenges &
Opportunities

340B Patient Eligibility

Eligible Patients—three tests:

- Health center must have a record of the patient’s care
- Physician must be employed or contracted by the Eligible Entity
- Service must be consistent with the “Scope of Services”

There are NO income requirements for 340B program eligibility
In-house Pharmacy Model

- Enables the greatest degree of control, but this is the most expensive option
- "In-house" capture rate is critical for profitability
- Possibility of "negative selection"—only cash patients

Requirements:
- Establish pharmacy according to state laws
- Recruit personnel
- Contract with 3rd party payers
- Purchase 340B Physical Inventory

Contract Pharmacy Model

- 340B allows the use of contract pharmacies
- In-house pharmacy expertise is not required
- Lower costs, easier to manage for health centers
- More convenient access for patients
- Positive Selection—higher third party capture
- Longer hours
- Expanded formulary
- No startup costs
- "Virtual" Inventory
340B Program Challenges

340B Set-Up
Patient
Eligibility
Program
Challenges
Pharmacy
Arrangements
Inventory
Management

THE VIRTUAL INVENTORY

Patients fill scripts at contract pharmacies.

When bottle is dispensed, PO is generated.

Pharmacy

Wholesaler

Nurse's order is approved.
### Sliding Fee Prescription Flow

A patient starts at a health care center, where a prescription is filled. The prescription is then sent to the pharmacy. The pharmacy then sends the prescription to the patient's home, where it is picked up. The patient then pays for the prescription at the health care center.

### Sample Sliding Fee Set-up

<table>
<thead>
<tr>
<th>Fee Category</th>
<th>Tier 1 (Preferred Formulary)</th>
<th>Tier 2 ($4 Formulary)</th>
<th>Tier 3 (Lifestyle/Choice Meds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>40% of List</td>
<td>100% of List</td>
<td>100% of List</td>
</tr>
<tr>
<td>B</td>
<td>70% of List</td>
<td>100% of List</td>
<td>100% of List</td>
</tr>
<tr>
<td>C</td>
<td>90% of List</td>
<td>$115.512</td>
<td>100% of List</td>
</tr>
<tr>
<td>D</td>
<td>60% of List</td>
<td>100% of List</td>
<td>100% of List</td>
</tr>
<tr>
<td>E</td>
<td>100% of List</td>
<td>100% of List</td>
<td>100% of List</td>
</tr>
<tr>
<td>Self-Pay</td>
<td>75% of List</td>
<td>100% of List</td>
<td>100% of List</td>
</tr>
</tbody>
</table>

Patients will pay their normal insurance copay. If the drug is not covered, they can use 340B. The pay calculation will revert to the Self-Pay Equation.
Third Party Revenue Model

How Revenue is Captured

- Commercial, Medicare Part D, Managed Medicaid

Network Drug Cost + Network Dispensing Fee - 340B Drug Costs + Pharmacy Dispensing Fee + SUNRx Admin Fee

= $ Network Cost

- $ 340B Cost

Health Center's

$ Revenue

Third Party Revenue Example

340B price has three components:

- Drug Acquisition Cost
- Pharmacy Dispensing Fee
- Administration Fee
Reconciliation and Reporting
Real Time Management Information on Inventory, Payments, Eligibility

Monitoring Your Success!
For Additional Information

- Pharmacy Services Support Center
  http://pssc.aphanet.org

- HRSA's Office of Pharmacy Affairs
  www.hrsa.gov/opa

- 340B Prime Vendor Program
  www.340Bpvp.com

Thank You!

QUESTIONS?