YOUR COMPANY
YOUR BOTTOM LINE 2018
AMERICAN ASSOCIATED PHARMACIES

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340B: CLEARING UP A CLOUDED PROGRAM

A Perspective for Independents as 340B Contract Pharmacies

TOPICS FOR DISCUSSION

Boring Stuff

- Rules
- Regulations
- Compliance

Fun Stuff

- $$$
- ☺

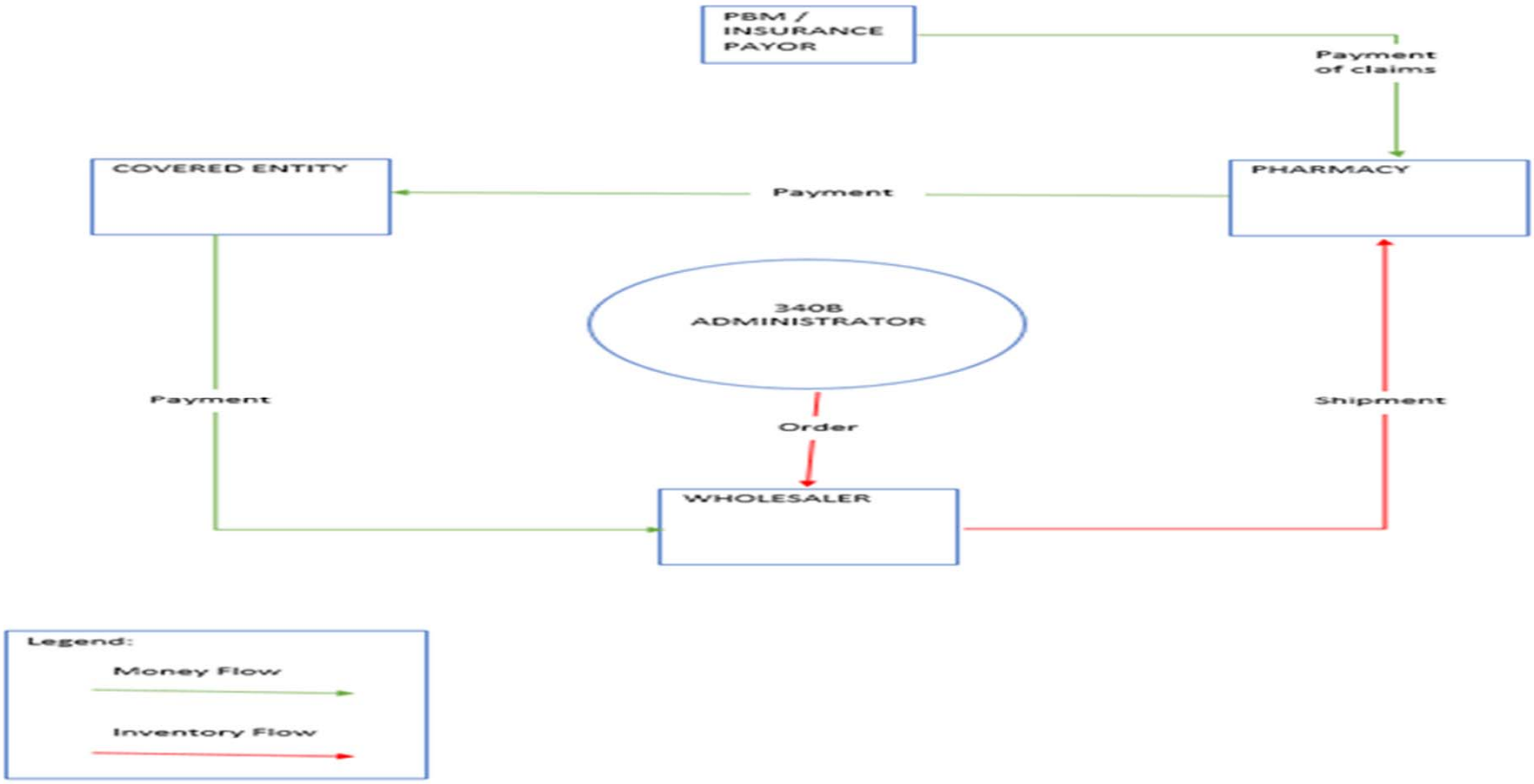
BUT SERIOUSLY…TOPICS CONT'D

- What is 340B?
- 340B Contract Pharmacy--explained
- How did 340B become so confusing!?
- A Tale of Two Perspectives
- A Dose of Reality ☹
- Major Keys
- Takeaways
- Questions…

WHAT IS 340B?

- Federal program enacted in 1992
- Benefits the “safety-net” serving underserved communities/populations
- Discounted pharmaceuticals
- Two big “no-nos”
  - Double Dipping
  - Diversion
- Not just for indigent/uninsured and no you do not have to keep separate inventory

CONTRACT PHARMACY—EXPLAINED



CONTRACT PHARMACY—EXPLAINED

- Pharmacy: Rx 12345—Levemir Flextouch
  - Retail transaction (as it happens today)
    - Reimbursement (pt. copay + insurance pymt.): $400
    - Retail AAC: $391
    - Pharmacy Gross Margin: $9
  - 340B transaction
    - Reimbursement (pt. copay + insurance pymt.): $400
    - Amt. Due Covered Entity: $368
    - 340B Dispense Fee: $32

CONTRACT PHARMACY—EXPLAINED

- Pharmacy 340B Savings
  - $391 (AAC) - $368 (Due CE) = **$23** reduction in cost for Levemir Flextouch
- Covered Entity 340B Savings
  - Reimbursement (payment from pharmacy): $368
  - 340B AAC (to replace your inventory): $0.14
  - Total Net “Savings”: **$367.86**

HOW DID 340B GET SO CONFUSING?!

- A trip down 340B lane…
  - Pre-2010
    - 1-to-1: Contract Pharmacy per Covered Entity site
    - Direct contracts, usually with local independent—inventory kept separate, used for discount to uninsured/indigent
    - A simpler time *sigh*
  - Post -2010
    - 1-to-many: As many Contract Pharmacies as you want per Covered Entity site
    - Chains entered the mix
    - 340B TPA explosion— “cast the net”
    - Birth of “Virtual Inventory”

CONFUSION CONT'D...

- The Players
  - Covered Entities—hospitals/clinics eligible for 340B pricing
  - Contract Pharmacies—YOU
    - Contracted dispense agent for eligible facility; "in-house" extension of CE
    - Dispense drugs > Collect payment > Drugs replaced > Share payment
  - 340B Administrators (i.e. MacroHelix, Sentry, SUNRx, CaptureRx...ZZZZzzzz)
    - Software tracks eligibility, compliance, inventory, ordering, invoicing...
    - Advisors?...340B PBMs???
  - Consultants
    - Regulatory & compliance experts—YES; Business of Pharmacy experts—not so much

A TALE OF 2 PERSPECTIVES

- Contract Pharmacies—Assumptions
  - 340B can and should be positive for your business
  - Symbiotic relationship with CE to serve community as a medical partner
  - Supports local hospital or clinic and indigent / uninsured population
  - Must be worthwhile for both parties
- Perspective
  - We assume the risk (financial); CE deposits a check and does not do any work

A TALE OF 2 PERSPECTIVES

- Covered Entities—Assumptions
  - Pharmacy "receives" a dispense fee
  - Pharmacy receives inventory for "free," replaced by CE
  - Pharmacy sees increased foot traffic and Rx volume as a "partner" or "in-network" Contract Pharmacy
- Perspective
  - We assume the risk (Regulatory); Pharmacy is transactional business, pills put in a bottle, set cost to dispense, a simple increase in "fee" is enough

SO WHO IS RIGHT?

A DOSE OF REALITY

- Risks and responsibilities on both sides (CP & CE)
- Two starkly contrasted realities:
  - 340B: The Regulatory Side
    - CE level comprehension--☑
  - 340B: The Business Side
    - CE level comprehension--☒
- Couple with lack of understanding of retail pharmacy business = a dangerous combination

A DOSE OF REALITY CONT'D

- Contract Pharmacy 340B IS a pharmacy program—NOT a hospital / clinic program
  - Pharmacy sees the pt./customer, receives inventory, collects money

A DOSE OF REALITY CONT'D

- The Reality…
  - Dispense Fee *replaces* pharmacy regular retail margin, not in addition
  - Pharmacy only realizes the dispense fee if / when drug is replaced
  - Replenished inventory is not "free," pharmacy pays CE for it
  - Pharmacy floats cash / inventory for months until inventory is replaced or "trued up"
  - Pharmacy receives replaced inventory whether or not it is wanted or needed. Results in excess inventory that pharmacy cannot sell, equals cash tied up in inventory
  - DIR fees are "clawed back" by PBM / insurances retrospectively. 340B causes *compounded* DIR charge for pharmacy

WHY IS THIS IMPORTANT?

- These things impact a pharmacy's ability to pay CE
- If pharmacy cannot see/feel the benefit of 340B, they will opt-out
- When understood, these challenges can be overcome

MAJOR KEYS!

- What can you do?
  - Know your power!!!
    - You are filling these Rxs today without 340B
    - By participating, you are ALLOWING the CE to make money from YOUR prescriptions—they are NOT paying you, the other way around

MAJOR KEYS!

- What can you do?
  - Know your options
    - Covered Entities and 340B TPAs are NOT PBMs!…so don't let them dictate your financials
    - Understand how the program will work and decide how YOU want it to operate
    - Opinions are like 'you know what…'—listen to data not opinions or comparisons ("Wal-Mart does it for $XXX, so you should too…") WHO CARES?!

MAJOR KEYS!

- Communicate
  - Work with and discuss as much as possible directly with Covered Entity
  - Explain challenges that come along with 340B at your level (inventory, DIRs, cash flow, etc.)
  - Detail your ancillary and clinical services and how they need funding and management, ultimately enhancing outcomes of mutual patients
  - You are NOT A WAL-MART! So tell them not to compare you to one…

REMEMBER THESE 3 THINGS…

- Pay close attention to these 3 KIPs when analyzing any existing or future 340B opportunity
  1. *Program Model*—look out for terms such as: (“winners,” “profit-rule/logic,” “carve-out,” “claims where reimbursement is greater than pharmacy fee and 340B COGS”
  2. *Dispense Fees*—this will be your new GM per Rx; make sure you have an idea of which claims will be 340B, your GM on those Rxs and potential impact on wholesaler/GPO rebates, discounts, etc.
  3. DIR Fees—DIR fees must be addressed; you are paying $$$ that you did not collect. Non-negotiable.

AND FINALLY…

- DO NOT SIGN a contract if you aren't comfortable
- If you are unsure of your current program—do something about it!
- CE/TPA/Consultant are not incentivized to give you the best deal possible—what if there is a more optimal arrangement available?
- There is almost always opportunity for improvement

RANT OVER…

Questions?