Tales from the Road

340b Drugs

By: Michael Ryan, President of CostFlex Systems, Inc.

In many ways, cost accounting is very straight forward - - except when it is not! One issue that we run into when implementing a cost system for a hospital's Decision Support System is dealing with 340B drugs.

What are 340B Drugs?

A quick summary is that certain drugs if given to certain patients, will cost much less for the hospital (anywhere from 20% to 50% less) from the same vendor than if they were given to other patients.

The term "340B" refers to the section 340B in the *Public Health Service Act*, created under Section 602 of the *Veterans Health Care Act of 1992* which requires pharmaceutical manufacturers to sign an agreement, called a pharmaceutical pricing agreement, with the HHS Secretary in exchange for having their drugs covered by Medicaid and Medicare Part B. Under this agreement, drug manufacturers agree to provide discounts on covered outpatient drugs bought by certain providers ("covered entities") who serve the nation's most vulnerable patient populations. These "covered entities" are Disproportionate Share Hospitals (DSH), Children's Hospitals, and some Cancer Hospitals, Sole Community Hospitals, Rural Referral Centers, and Critical Access Hospitals (CAH).

Why is this a costing issue?

Although the 340B program can be a financial blessing for a hospital treating underserved populations, it is a curse when doing cost accounting. The reason is that most hospitals (in fact 100% of all that we have installed over the last 30 years) typically only have one charge code for each drug, and when calculating cost for a month (say January) the drug will have one average cost for the month i.e. $100, but in reality, the cost for the drug for a 340B patient might be $50, and the non-340B would be $150. This disparity can skew cost reports and profitability analysis if it is not handled.

Another issue is that the General Ledger Account for drugs in the Pharmacy might have 340B and non-340B expenses co-mingled which would cause the opposite issue as all drugs would be allocated a share of the savings, thereby under costing the Inpatient book of business.

Solutions to the issue:

Since the 340B program came out in the early 1990s, CostFlex has been working with clients on solutions to give accurate costs on this issue. The following are some of the tactics that we have used:

Solution 1: Create unique activity codes/charge codes:

This is a simple and elegant solution where a unique charge code is created for the 340B drugs at the time of data load for the effected outpatients so costs can be calculated separately. An example is if a charge code for "TRELISTAR" (CPT: J3315) is "12345" in a hospital's CDM, the interface to CostFlex for certain Patient Types (i.e. Outpatient) and certain payers, will be intercepted and the drug will be given a new charge code i.e. "12345.340B - TRELISTAR" which can be assigned a lower cost than the normal "12345 – TRELISTAR".

Solution 2: Download actual costs at the patient level

CostFlex can load the actual cost at the patient level, and then use that cost as the Direct Variable for costing. This functionality is used mostly for Orthopaedic Implant costing (where the same ball joint could cost vastly more depending on the bundled discounts), but it can be used for drug costing as well. In the example above, the cost for each drug, and each patient would be downloaded to the system and the software would calculate two different costs for the patients without having to create separate charge codes. The downside of this solution is that most of the hospitals we have encountered do not keep the actual costs of drugs at this granular level, thus the data is not available to load.

Solution 3: Segregate the 340B General Ledger Expenses

For hospitals that either has a separate GL line for the 340B expenses or can provide a monthly number of what those expenses are, the user can re-class the drug expenses into a separate GL for cost accounting and apply the costs only to the 340B drugs classified in "solution #1" above.

Although we have listed a couple of standard solutions in this article, each hospital we install has a unique issue, and thus a unique solution, due to the type of data that is captured, stored and available for cost accounting.

Some useful links on 340B:

https://www.340bpvp.com/

https://www.340bhealth.org/

https://340binformed.org/

https://en.wikipedia.org/wiki/340B_Drug_Pricing_Program