

High Drug Costs Take Top Slot in New Poll of Health System CEOs

Rising prescription drug prices might seem like an inevitable part of the cost of doing business in the healthcare industry, but it doesn't mean the issue is out of sight or out of mind for professionals. *Modern Healthcare* has conducted a new CEO Power 100 survey, and over 60% of the respondents predict that the cost of drugs will be their most rapidly growing expense for this year.

“Something is going to give...”

Of course this is not the first survey that reveals how concerned healthcare administrators are about the impact of drug prices on their budgets. But the concern seems to have intensified, especially considering there's no downward trend in sight. “The problem can't withstand price increases that are multiples of overall healthcare inflation,” Joseph Fifer, CEO of the Healthcare Financial Management Association, told *Modern Healthcare*. “Something is going to give here at some point. It can't go on forever.”

Edward-Elmhurst Health is an Illinois-based health system with three hospitals in operation. CEO Mary Lou Mastro reported a 40% increase in per-admission inpatient drug costs from 2013 to 2015, and she said that the system's pharmacy expenses increased 14% last year, the bulk of that seen in prescriptions for treating cancer, neurological diseases and blood disorders. Mastro said Edward-Elmhurst works to curb expenses where possible by employing a team that searches for suitable lower-cost drug substitutions and by using a group purchasing organization. But still, that can't keep soaring pharmaceutical prices in check.

Not-for-profits decide to start generic drug company

Increasingly high drug costs don't just strain health systems, they can create shortages that put patients at risk.

Dr. Richard Gilfillan, CEO of Trinity Health, has said it's been a challenge for the health system to reliably keep supplies of basic pharmaceuticals on hand. Solely because of increased prices, Trinity spent \$16 million more on prescription drugs in 2017 than the previous year. To address the issue, the Michigan-based organization has partnered with three other not-for-profit health systems with the intent of forming their own generic drug company.

Gilfillan told *Modern Healthcare*: “One thing we've said is, ‘We will not accept a world in which it's easier to have morphine kill people on a street corner than save lives in ICUs. That's literally what's happening.’”

Salt Lake City-based Intermountain Healthcare is one of the four health systems planning to start the aforementioned generic drug company. Although CEO Dr. Marc Harrison forecasts drug costs will be the expense that grows the most rapidly over the course of the year, he says the main impetus for launching the generic drug company is ameliorating prescription shortfalls rather than merely reducing costs.

Harrison told *Modern Healthcare* that he's been communicating with pharmaceutical companies that have expressed interest in value-based approaches to particularly costly drug treatments. For instance: the idea of capitated, flat-rate payment arrangements according to how many patients a health system has. Or making payment by patient or health system contingent upon the biologic's treatment success.

“Anything we could do to take some of the volatility out of what happens with drug pricing would be good for us and our patients,” Harrison said, “and would give some predictability to our colleagues in pharma.”

Shortage of IV fluids serious problem across the country

Since the hurricanes that devastated Puerto Rico and caused extensive damage to many drug manufacturing plants in September,



the country has been suffering from a shortage of IV fluids. San Diego-based Scripps Health is one of the health systems affected by that shortage. However, CEO Chris Van Gorder — a healthcare professional for four decades — believes the hurricanes are solely to blame. He points to too little competition resulting from drug company mergers as exacerbating the problem. He was among the 60% of survey respondents predicting that prescription costs will represent their companies' fastest-growing expenses.

Barclay Berdan is CEO of Texas Health Resources. He reported that his health system saw an eight percent increase in drug costs in acute-care environments, and, despite the four not-for-profits' plan to create a generic drug company, he doesn't expect that percentage to decrease in the coming year, foreseeing challenges for the health systems as they move forward.

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