Ozarks Medical Center, located in Missouri, suffered a serious financial blow this year when it learned that its state Medicaid funding would be cut by $1.3 million. Safety-net hospitals across the country face similar news of Medicaid reductions at a time of growing uninsured patient visits, thanks to the crushing effects of the lingering recession.

Unlike most of the other 2,900 safety-net hospitals in the U.S., however, Ozarks Medical is about to receive a financial transfusion in the form of comprehensive use of the Section 340B Drug Pricing Program. The medical center qualifies for this federal program because it serves a high number of Medicaid recipients. As a result, the center can contract with local pharmacies to fill prescriptions in its south central Missouri service area, using inventory purchased by the hospital at deep discounts. Through this “pharmacy network,” the hospital can provide medications at a reduced cost to its uninsured patients and can generate much needed supplemental revenue from prescriptions covered by insurance. Executives at Ozarks Medical knew of safety-net health care providers, smaller than their hospital, that were earning as much as $200,000 per year from a well-managed 340B program.

The 340B drug discount program is not new. Administered by the U.S. Office of Pharmacy Affairs (OPA), it has been around since 1992. Until recently, though, its scope and usage were restricted. Previously, 340B-eligible facilities had been limited to a single pharmacy per clinic or site. Safety-net hospitals generated revenue almost exclusively from prescriptions filled at their on-site outpatient pharmacies and sometimes at a single retail location down the street.

In 2010, the OPA announced new guidelines that allowed multipharmacy retail networks, such as the one Ozarks Medical is now putting in place. This change has made it possible for 340B-eligible hospitals to work with community pharmacies that are convenient for their patients—who often live many miles from the hospital’s outpatient pharmacy—and to generate supplemental revenue by stocking those pharmacies with inventory purchased at 340B discounts. Even with these regulatory changes, few safety-net hospitals have taken full advantage of the program, partly because of the administrative overhead and complex auditing requirements associated with managing a retail pharmacy network. However, Ozarks Medical was undaunted, and it is now well ahead of the curve. Its strategy was to enlist the services of an experienced contract pharmacy administrator to manage the program.

Located in West Plains, Mo., a town of 10,000 people, the nonprofit hospital serves approximately 160,000 residents, spread over 11 counties, including some of the poorest in the U.S. Nearly one-fourth of the residents in its five core service counties live below the poverty line. The next closest major medical center is in Springfield, Mo., 90 miles away. Despite its relatively small size, Ozarks Medical offers the clinical capability of larger institutions, such as a $1.5 million linear accelerator for its cancer center.

“Providing these services in communities like ours is an economic challenge,” explains David Pointer, 340B Program Director for the center, whose philosophy has been “if you build it, they will come.”

And come they have. In 2009, the hospital recorded more than 5,000 inpatient admissions, 20,000 emergency department visits, 130,000 physician clinic encounters, and nearly 200,000 behavioral clinic visits. Although patient visits have boomed, the hospital’s finances have not. The recession crippled the area’s employment numbers and bad debt increased by nearly $4 million in 2010. Added to charity care ($6.6 million in 2010) and contractual losses ($5 million), including payment shortfalls from Medicare and Medicaid, the hospital was losing close to 10% of its annual revenue, leaving an operating margin in the area of 1% to 2%. Hospital executives didn’t think the financial noose could get any tighter; then they learned the full extent of the 2011 Medicaid cuts.

Fortunately, Mr. Pointer and Jeremiah McWilliams, PharmD, Pharmacy Director at Ozarks, had already begun to investigate how to transform the hospital’s pharmacy program into a more significant revenue producer, based on expanded 340B access. The first order of business was to build a network of contract pharmacies that would be in a convenient location for their patients. They decided to use a mix of independent and chain pharmacies and bring in an experienced contract pharmacy administrator to manage the program.

Given the rural setting, Mr. Pointer said, “Restricting our network to a national chain would not allow us to reach most of our patients. And frankly, the hospital wants to work with independent pharmacies too. We see them as playing a key part in delivery of services.”

Increasingly, independent pharmacies are making Section 340B part of their business strategy. Kevin Faris, an owner of independent pharmacies in Seattle and Bellingham, Wash., has participated in a 340B network for more than a year. So far, he estimates that prescriptions filled at his Custom Rx Shoppes have increased by about 5% as a result of the 340B program. The patients are customers who would have probably gone

---

Mr. Barlas, a freelance writer based in Washington, D.C., covers issues inside the Beltway.
elsewhere, such as Walmart or another chain. According to Mr. Faris, many of the new prescriptions have a higher profit margin than non-340B prescriptions, and although 340B discounts bring uninsured patients to his pharmacies, the key to the program’s revenue promise is to attract insured patients as well. He is working hard to increase that 5% by paying greater attention to the program.

Mr. Faris says that he has been outspoken about needed tweaks. “We expect 340B to be a growing part of our business.”

Theoretically, Ozarks Medical Center could have set up a pharmacy network without outside help, but the hospital did not have the necessary staff, time, or expertise.

“There were limitations to us administering the network that we just couldn’t get around,” Dr. McWilliams says.

In the summer of 2010, the medical center began discussions with Wellpartner, Inc., a contract pharmacy administrator based in Portland, Ore., to lay the groundwork for an expanded 340B program with full coverage of its service area.

“Wellpartner has made modifications for all participating pharmacies based on our feedback,” Mr. Faris says.

In choosing Wellpartner, Mr. McWilliams was influenced by a recommendation from Paul Logan, Executive Director of Northwest Human Services, a community health center that had already put a pharmacy network in place. Mr. Logan’s federally qualified health center, located in Salem, Ore., has one of the first multiple pharmacy networks in the U.S. Launched in 2008 with the help of Wellpartner as part of an OPA-approved demonstration program, the Oregon network generates between $160,000 and $200,000 in revenue per year for Northwest Human Services.

According to Mr. Logan, the health center reports 49,000 patient visits per year. In 2009, by comparison, Ozarks Medical Center recorded more than 330,000 physical and behavioral health encounters and expects its 340B program usage to be proportional to that of Northwest Human Services. For larger, urban safety-net hospitals, pre-March 2010 340B revenue from their outpatient pharmacies and a single retail location amounted to as much as $10 million per year.

Paul Logan explains that his health center tried to create and manage its own network first, but the bookkeeping and inventory challenges to meet internal, federal, and manufacturer audit requirements were overwhelming. He says:

“Being able to align these processes is important for us when our annual internal auditors review our books for sound business practices. Our administrator’s accounting and auditing systems allow us to truly be ‘in charge’ of our 340B program in terms of following the prescriptions and the dollars.”

Besides leading to a new revenue stream, Ozarks Medical also expects its new 340B program to be a significant contributor to overall community health. Previously, many of the prescriptions that were written by its physicians went unfilled because of high drug costs and a lack of insurance for many patients; however, 340B-eligible prescriptions filled by network pharmacies are much more affordable. For example, a qualified patient can buy a 30-day supply of a cholesterol-lowering drug for $90 instead of $150, which can mean the difference between filling and not filling that prescription. According to David Pointer, Ozark network pharmacies will be able to offer discounts of up to 80% for many drugs. There is also clinical value to a well-run 340B program. Patient adherence to drug therapy can be monitored simply by checking refill reports provided by the program administrator.

Mr. McWilliams commented, “Wellpartner produces a 340B savings guide customized with our prices. It lets our prescribers know just how much a given prescription will cost the patient when they fill it at one of our partner pharmacies.”

Patients who fill those prescriptions at 340B pharmacies in West Plains and neighboring towns, such as White Church, South Fork, and Pottersville, are helping to ignite an Ozarks Medical Center–inspired economic stimulus program in south central Missouri. The 340B revenue will be used to fund staff positions that might otherwise have to be cut, purchase supplies locally, and help to maintain a facility construction program that might actually create jobs. The pharmacies in the network can expect to see more prescriptions filled and the additional store traffic that goes with it. The uninsured and underserved population in the West Plains vicinity will pay less for prescriptions and will thus have more money for food, clothing, and other items they might not otherwise be able to afford.

Notes Jeremiah McWilliams: “David Pointer and I have already been contacted by other hospitals [that] want to pick our brains. This is a gigantic opportunity, to have wrestled through this, and brought it up from the ground level. It cannot help but be beneficial to our hospital and our community.”

And go a long way toward closing the Medicaid funding gap.