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Estimation of Hospital Share of Gross Profits for Physician-Administered Medicines Reimbursed by Commercial Insurers

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Summary

In the commercial market, hospitals retain a disproportionately large share of the gross profit margin in the supply chain for physician-administered medicines relative to physician offices.

Hospital profit margins can also result in hospitals retaining more than the biopharmaceutical manufacturer.

Background

Injectable and infused drugs—such as those for rheumatoid arthritis and oncology—are typically administered in an outpatient setting by physicians, either in a physician office or at a hospital outpatient clinic. Research indicates that commercial payers reimburse hospital clinics at a higher rate than physician offices.[1,2]

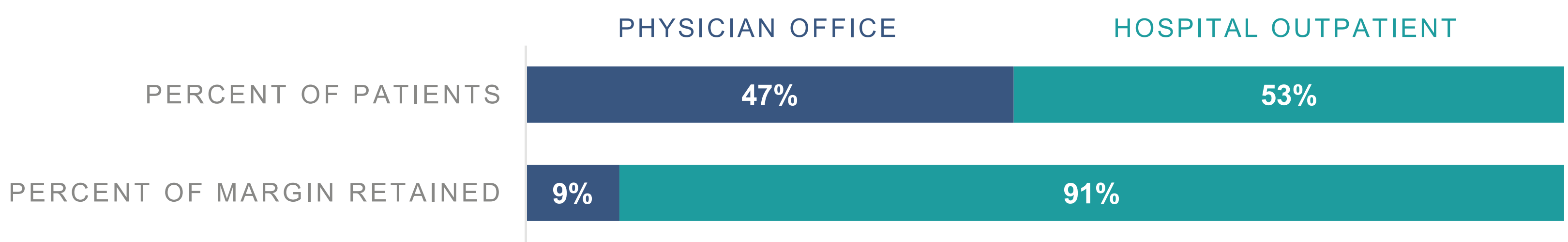
Hospitals also are eligible for discounts not offered to physician practices, such as the 340B drug discount program. Prior estimates of margins in the pharmaceutical supply chain do not disaggregate hospitals and independent physician practices.

The aim of this analysis is to estimate the share of physician-administered medicine gross profits retained by hospitals in the commercial market using publicly-available data sources and transparent calculations.

1. Winn AN, Keating NL, Trogdon JG, et al. Spending by Commercial Insurers on Chemotherapy Based on Site of Care, 2004-2014. *JAMA Oncol*. 2018;4(4):580. doi:10.1001/jamaoncol.2017.5544
2. Kalidindi Y, Jung J, Feldman R. Differences in spending on provider-administered chemotherapy by site of care in Medicare. *Am J Manag Care*. 2018;24(7):328-333.

Physicians and **hospitals** treat similar numbers of patients in the commercial market, but hospitals receive a larger share of the total profits.

Hospitals collect 91% of the gross profit margin while serving 53% of patients receiving physician-administered medicines.



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Hospitals retain more than biopharmaceutical manufacturers for medicines administered in the outpatient setting.

For every $100 spent on physician administered medicines in the hospital outpatient setting, the hospital retains $58, while the manufacturer receives less than $42.[3]

This is consistent with recent research published by the Moran Company that found that in the commercial market, hospitals retain 2.40 times their acquisition cost for a basket of 20 brand medicines.[4,5]

3. Other intermediary payments that reduce manufacturer retained amount (such as GPO administration fees) are not included in analysis making this estimate conservative.
4. The Moran Company. Hospital Charges and Reimbursement for Drugs: 2019 Update Analysis of Markups Relative to Acquisition Cost. July 2019. Available at: http://www.themorancompany.com/wp-content/uploads/2019/07/Hospital-Charges-Report-July-2019.pdf
5. The ratio reported by The Moran Company (2.40) indicates that for every $1 of medicine spending in the hospital outpatient department, hospitals would retain 58.3%. Calculated as: [2.40/(2.40 – 1.00)]

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