

Testimony of Christopher A. Hatwig, M.S., R.Ph., FASHP
Senior Director of the
340B Drug Pricing Program's Prime Vendor
to the
United State House of Representatives Subcommittee on Oversight and Investigations of the
Committee on Energy and Commerce
December 15, 2005

Personal Background

Good Afternoon. My name is Chris Hatwig. I am a registered pharmacist and currently serve as Senior Director of the 340B Prime Vendor Program (PVP). I am employed by HealthCare Purchasing Partners International (HPPI), an LLC based in Irving, Texas. HPPI competed in HRSA's public bid of the 340B Program's Prime Vendor and was awarded the contract effective September 10, 2004. Prior to that, HPPI operated for a year as a subcontractor to AmeriSourceBergen, a pharmacy wholesaler, which served as HRSA's first Prime Vendor for the 340B Drug Discount Program. In the capacity as Senior Director of the 340B Prime Vendor Program managed by HPPI, I am pleased to appear before you today. By way of background before taking the position at HPPI, I held the position of Director of Ambulatory Pharmacy and Value Analysis Programs at Parkland Health & Hospital System. Parkland is a major disproportionate share hospital located in Dallas, Texas where I practiced for thirteen years. I was responsible for management of Parkland's ambulatory pharmacy and purchasing programs. Parkland is one of the larger and more progressive safety-net healthcare systems in the U.S. It operates a network of community based clinics in medically underserved areas and processes approximately 10,000 outpatient prescriptions per day at an expense in excess of \$65 million.

Prime Vendor Program

In 1992 Congress enacted the Veterans Health Care Act. Section 340B of the Act required pharmaceutical companies whose drugs are covered by the Medicaid program to provide mandatory discounts on outpatient covered drugs purchased by certain government-supported facilities called covered entities. Today, there are over 12,000 covered entities participating in the 340B Drug Discount Program, which include disproportionate share hospitals, federally qualified health centers, family planning clinics and other government grantees.

The Veterans Health Care Act also requires HRSA's Office of Pharmacy Affairs (OPA) to establish a Prime Vendor for the 340B Drug Discount Program. A primary mission of the 340B Prime Vendor is to improve access to affordable medications for covered entities and their patients. Its primary goals include:

- Contracting for pharmaceuticals below the 340B ceiling prices
- Providing covered entities with access to efficient drug distribution solutions to ensure access to affordable medications
- Providing contracts for other products and services to meet the unique needs of participating covered entities

The Prime Vendor Program is designed to use the private industry and the free market to increase competition and lower drug prices for all participating covered entities by securing voluntary discounts from pharmaceutical manufacturers.

Since participation in the PVP is voluntary for the eligible covered entities and manufacturers, the Prime Vendor must recruit participants and manufacturers to the program based on the value it provides. HPPI has structured the program to enable a covered entity to participate in the program

using its existing pharmacy wholesaler with no additional costs to the entity. There are eleven wholesalers participating in the current program, greatly improving access to the program and its discounts. During HPPI's first year of managing the Prime Vendor Program, it has more than tripled the number of participating covered entities. The program currently represents over 2000 covered entities (including 690 hospitals and 580 community health centers) purchasing \$2.2 billion in pharmaceuticals annually. HPPI has successfully leveraged the entities' business to secure sub-ceiling discounts on branded and generic products from 18 pharmaceutical manufacturers. The program's contract portfolio also includes discounts for important products such as vaccines, diabetic meters, and test strips which are not required to be discounted through the 340B program but are critical products for the participating covered entities' preventive health programs. As more covered entities join the program, the value of the program's contract portfolio will continue to grow.

In summary, the 340B Prime Vendor Program provides the following benefits to participating covered entities:

- No cost to participation
- In most cases, enables covered entities to maintain their existing distributor while accessing the program
- Offers a contract portfolio of sub-ceiling discounts on branded and generic pharmaceuticals
- Offers discounts on other outpatient pharmacy related products and services
- Leverages the collective purchasing power of the program's participants to secure discounts for even the smaller covered entities (It is important to note that there are approximately \$3.5 billion in 340B related pharmaceutical sales in the U.S. representing only one to two percent of all US pharmacy sales)
- Provides participants a secure website to access the program's contracted pricing on products and services.

Voluntary Transparency of 340B Selling Prices

Many of the Prime Vendor participating hospitals and clinics have expressed a desire to have access to the 340B ceiling prices to validate the accuracy of pricing listed in the pharmacy wholesalers systems. At HPPI, we had already developed a secure website requiring logons and passwords to share our confidential sub-ceiling pricing with participants. We were initially approached by HRSA's Office of Pharmacy Affairs and GlaxoSmithKline (GSK) about conducting a pilot to make GSK's reported selling prices available on a voluntary basis in a secured portion our website. A separate section of the website was proposed to avoid any confusion with the Prime Vendor's separate contract portfolio. We were able to work with GSK staff to finalize an agreement, complete programming enhancements, and activate the value added service on October 1, 2005. The website currently lists GSK's 4th quarter pricing. As of December 5th, we have had 792 hits on the secure site and the GSK price file was downloaded a total of 75 times or nearly 10% of the time a participant accessed the site.

I believe the additional service will encourage more manufacturers to work with the Prime Vendor Program and will eventually lead to manufacturers offering additional sub-ceiling pricing on their products to further benefit the program's participants. The service offering is available at no cost to any pharmaceutical manufacturer offering sub-ceiling discounts on their products to the program's participants. The new section of the website provides a more efficient method for pharmaceutical manufacturers to directly share their selling prices with eligible covered entities over previous methods. Having access to the selling prices will enable the covered entities to verify they are receiving the accurate pricing through their pharmacy wholesalers and enable them to pursue appropriate resolution of any pricing discrepancies.

Recently I have received inquiries from other pharmaceutical manufacturers about the pilot program and have shared copies of our data sharing agreement for those companies to review.

Suggestions for Improving the 340B Drug Pricing Program

Improving the accuracy and transparency of the 340B ceiling prices is critical to improving the effectiveness and value of the program. The following recommendations would serve this purpose:

1. HRSA should work directly with pharmaceutical manufacturers to verify the accuracy of 340B ceiling prices prior to the prices being made available to pharmacy wholesalers at the start of each quarter.
2. HRSA should identify a secure mechanism for sharing the selling prices with its Prime Vendor to validate its own contracts are indeed sub-ceiling. HRSA should also establish a secure method of providing access to 340B selling prices to pharmacy wholesalers and the eligible covered entities through its contracted Prime Vendor or other means.
3. HRSA should be granted sufficient resources to audit manufacturers, wholesalers, and covered entities to ensure accountability with the requirements of the 340B program.

I appreciate the opportunity to appear before the sub-committee to discuss the 340B Drug Discount Program and ways to improve its effectiveness. This program is critically important to the safety-net providers in their mission of providing access to affordable medications for the low-income and uninsured populations in the U.S.

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