Understanding the mechanics of the 340B drug pricing program

The 340B Drug Pricing Program, designed to increase access to specialty pharmaceuticals for low-income patients, is a ***perennial area of concern for health policy***. The program has **grown** exponentially since its inception almost 30 years ago: 340B providers **increased** purchases of discounted drugs from $4B in 2009 to $38B in 2020, five times faster than the overall growth rate of US drug sales. Insurers and drug manufacturers are advocating for significant changes to the program, or even favor eliminating it entirely, claiming that ***340B has grown beyond its original intent to help safety net facilities, and simply enriches providers without directly benefiting patients***. Indeed, the profits from 340B have become essential for many hospitals' sustainability; some systems tell us that 340B accounts for their entire margin.

In the graphic below, we outline the basics of revenue and product flow within this complex program. The 340B program is meant to allow hospitals that treat low-income, underserved patients to purchase drugs from manufacturers at a 25 to 50-plus percent discount, but still be reimbursed by payers at standard network rates. ***The discounts are intended to help hospitals overcome losses they incur in providing uncompensated care, but apply to drugs for all patients, regardless of income and insurance status.*** 340B providers often partner with independent pharmacies to dispense the drugs, and payers are billed the full list price for the medication. Thus, insured patients pay co-payments on the full price of drugs, leading to criticism that 340B savings are not passed on to patients. 340B providers share an **estimated** $40B in total annual profit with partner contract pharmacies. The program has been targeted for overhaul by both the Trump and Biden administrations, and faces another threat later this month, when the US Supreme Court is set to hear a case between the hospital industry and the Department of Health and Human Services (HHS) to decide whether the Centers for Medicare & Medicaid Services (CMS) has the authority to enact payment cuts through rulemaking. ***If the court rules in favor of the agency, 340B providers could see significant cuts in payment rates***. In our next edition, we'll dive deeper into the potential impact of that ruling on the industry.