

The Daily Dish

Yet Another Way for 340B to Go Wrong

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The 340B Program (or, in Klingon, SaD – somehow very appropriate) is a tax and transfer program that levies a targeted tax on pharmaceutical manufacturers and uses the proceeds to subsidize the drug purchases of needy patients. Well, not quite, since the manufacturers don't actually pay a tax. Instead, they are forced to sell drugs at a steep discount. But the effect on the bottom line is the same.

And not quite, since the drugs aren't sold directly to needy patients. Instead, they are sold to "covered entities" – clinics, hospitals, etc. – that may or may not pass the discount along to the needy patient. Therein lies a big problem, because once the discounted drugs are loose in nature, there is an incentive to get them reimbursed – for example, from an insurance company – at market value and pocket the difference.

What could possibly go wrong?

Lots of things. The covered entity could provide the subsidy to patients perfectly capable of paying the market price – the program suffers from poor targeting. The covered entity could simply charge full price and pocket the subsidy – the program can be diverted completely from its intent.

Now, *The Wall Street Journal* is reporting a new twist on the SaD (couldn't resist):

> *Companies such as Rescription, MakoRx and Liviniti are selling pharmacy-benefit plans that save employers money by funneling workers to those 340B hospital pharmacies instead of traditional drugstores. The workers get the discounted 340B price under these plans. Hospitals participate because it expands their customer base and they receive fees for dispensing prescriptions, the companies say.*

The 340B monster was spawned by the original sin of federal drug pricing policy: Medicaid best price. Under the best price system, Medicaid is charged the lowest price in the commercial market. Unfortunately, if a drug company was nice enough to donate drugs to indigent patients, the best price became zero. Charity dried up. Congress invented 340B in 1992 and it has grown to the point that $66 billion in drugs were purchased at an average discount of 55 percent (per *The Wall Street Journal*).

But the real miscreant here is Congress. It has created a program that does not identify its intended recipients yet forces manufacturers to provide discounts to more than 50,000 covered entities. The result is billions of dollars sloshing around the health care system that are fair game for whichever participant can grab them.

The right solution is for Congress to reform the program to genuinely target needy patients. Unfortunately, reform is difficult because all those covered entities – and now employers – are addicted to the cash. Since the entire program is off the federal budget, Congress does not have to face its costs, and participants can more easily fight reforms.

What else could go wrong? We'll probably find out next week. SaD.