



Weekly Checkup

340(B)loated Medicare Payments

LAURA HOBBS | APRIL 19, 2024

Last Friday, the Medicare Payment Advisory Commission (MedPAC) [presented](#) its initial findings - from an analysis of Medicare Part B payment rates and [340B Drug Pricing Program](#) (340B Program) ceiling prices - showing that both Medicare and its beneficiaries are overpaying by almost 50 percent (or \$4 billion) for medications subject to the 340B Program. Moreover, **MedPAC estimated that Medicare and its beneficiaries paid hospitals a total of \$11.9 billion for 340B Program-purchased products, an amount that should strike us as rather high for a program originally created to “stretch scarce federal resources.”** But rather than the 340B Program working to stretch federal resources, MedPAC’s findings appear to have found that Medicare overspends significantly on 340B Program drugs. **Let’s explore these data points and discuss why Congress will need to enforce greater transparency measures on the 340B Program to ensure its funds benefit patients.**

First, let’s discuss what the 340B Program is supposed to do. The program was created in 1992 to [address the lack of voluntary pharmaceutical drug donations](#) by allowing covered entities, such as hospitals, to purchase physician-administered and outpatient drugs at a discount (typically 25 percent) from those manufacturers participating in the Medicaid program. The drug would then be reimbursed by an insured patient’s health plan at a higher price. In turn, the covered entity should, in theory, use the funds for charitable care. **There is some evidence, however, that the 340B Program is failing in its mission to provide this charitable care:** A 2024 study [found](#) that “85 percent of disproportionate share hospitals in the U.S. received more from [340B Program profit](#) than they invested in charity care in 2022.” **And there may be a larger, more fundamental problem with the program that complicates its objective: a lack of clarity in the statute. The 340B statute does not require any level of charitable care to be provided to patients, nor does it clarify what [type of patient](#) should receive access to these funds.**

MedPAC’s recent findings complicate this picture further. It estimated that fee-for-service

Medicare and Medicare beneficiaries' payments for about 48 percent (\$3.9 billion) of 189 single-source drugs, biologics, and biosimilars exceeded the 340B ceiling prices (that is, the amount the product costs after a basic rebate and inflation rebate are deducted from the average manufacturer price). Specifically, the Medicare payment rate exceeded the 340B ceiling price by 38 percent to 60 percent, and that 10 percent of products had a Medicare payment rate at least 145 percent above the 340B ceiling piece. In short, **it appears that hospitals are making significant revenue on 340B Program discounted drugs from Medicare and Medicare beneficiaries, which is not exactly the intended purpose of a program that, in theory, should be helping hospitals provide more charity care.**

Of course, these facts present a problem for the Medicare program. Although Medicare Parts B and D cannot become [insolvent](#) - as beneficiaries pay premiums and general revenue contributions covers the rest - long-term financing of Medicare ([Part A](#)) remains a challenge for both policymakers and beneficiaries. And **the apparent problems with the 340B Program raise an important question: Should Medicare and Medicare beneficiaries pay a greater rate of reimbursement for 340B-discounted drugs?** After all, in some states, it could be reasonably assumed that the majority of 340B Program profitability is driven by Medicare patients rather than commercial ones (and Medicaid is [prohibited by statute](#) from 340B Program participation). **Greater transparency is needed to fully understand the flow of 340B Program funds and the potential for hospitals to rely too heavily on Medicare payments, rather than commercial reimbursement, to maintain financial solvency in certain geographic areas.** Regardless, Medicare funds were intended to be used in the provision of charitable care under the 340B Program - and not simply keeping the doors open and lights on for some hospital locations.

Last year, a Senate working group issued a bipartisan [request](#) for information on the 340B Program. In February 2024, a discussion draft, which calls for greater transparency, was [released](#) with an April 1 deadline for additional feedback. The recent findings from MedPAC provide even more evidence that there's a problem of Medicare overspending in the 340B Program, in which Medicare funds are being used to provide a de facto hospital subsidy. Certainly, **Congress should consider extending drug price transparency into Medicare's reimbursement of 340B Program-purchased drugs to ensure federal funds are being used appropriately for seniors.**