The Daily Dish

Life After Tax Reform

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Eakinomics: Life After Tax Reform

At some point, the tax reform debate and legislation will be in the rear view mirror. That doesn't mean that Congress won't have important work to do. It is imperative to raise the debt ceiling, fund the government for fiscal 2018, raise the cap on defense spending, and reauthorize the Children's Health Insurance Program (CHIP). But beyond the end-of-year agenda, there remain other pressing — if smaller — reform issues.

A reminder of this reality is the research of AAF's Tara O'Neill Hayes highlighting the problems with the 340B drug discount program. Recall that the 340B program, which requires manufacturers to provide heavily discounted drugs to hospitals and other health care facilities that are treating low-income individuals, was created in reaction to the Medicaid best price (price fixing) requirement.

The program is clearly a tribute to good intentions. But the reality is that good intentions are not enough. The 340B program has insufficient oversight, which mushrooms into several related problems. First, the program has expanded rapidly in recent years. For example, the Affordable Care Act expanded 340B even though covering more individuals should have made it less necessary. After the first 13 years of the 340B program, only 583 hospital organizations participated. Now the total number of unique covered entities is more than 12,000 (in 2016).

This large growth means that prices have to be higher elsewhere to make up for the discounts to participating entities. Worse, there are perverse incentives that cause entities to prefer to prescribe more expensive drugs — they can be acquired cheaply and federal programs reimburse generously. The upshot is that rapid expansion of the program in recent years is adversely affecting patient access to community-based, affordable health care, in direct contradiction to the program's mission. Patients are too often not benefitting from the mandatory discounts provided under the program.

Poor oversight also permits the program to be ineffectively targeted. The amount of charitable care provided by hospitals has declined considerably, even though the intent of 340B was to provide participating entities with a greater ability to provide more charity care. Unfortunately, hospitals are under no obligation to use the funds derived from the program for charity care. Only 24 percent of 340B hospitals, which represent 45 percent of all hospital beds, provide 80 percent of all charity care delivered by 340B hospitals.

The 340B program is a great example of the broad need for oversight and reform, and should be part of the ongoing legislative agenda.