The Daily Dish

No A Grade for 340B Reform

DOUGLAS HOLTZ-EAKIN | NOVEMBER 13, 2017

Eakinomics: No A Grade for 340B Reform

As Eakinomics has noted previously, the 340B program, which requires manufacturers to provide heavily discounted drugs to hospitals that are treating low-income individuals, was created in reaction to the Medicaid best price (price fixing) requirement. The 340B program has mushroomed out of control: the discounts are poorly targeted, often going to hospitals providing little charity care, and more and more drugs are distributed in this fashion. Of course, what is lost in steep 340B discounts must be made up elsewhere, so reforming 340B would be one way to make some modest headway against the high cost of prescription drugs.

Health and Human Services (HHS) has finalized its proposed reform to 340B. Previously, hospitals could acquire drugs at 22.5 percent below the sales price (on average) and get reimbursed at 6 percent above the sales price (on average). HHS has changed this so that when treating a Medicare beneficiary at a 340B facility, a hospital will get reimbursed at average sales price minus 22.5 percent. It is a sensible and desirable reform.

It also looked like a way to save the taxpayer $1.6 billion in reimbursements to 340B entities, but…not so fast. As it turns out, HHS will offset the $1.6 billion payment reduction by increasing by 3.2 percent the payment rates for all other items and services at all hospitals. In hindsight, one could see this coming; the intention to have a budget-neutral reform was noted in the preliminary rule. So, no benefit to the taxpayer was ever in the cards. Still, it seems a bit odd. After all, entities must be non-profit to participate in 340B, so it will largely be non-profit hospitals that get reduced 340B payments. The payment increase, however, applies to all hospitals. For-profit hospitals will be unambiguously made better off, while the non-profits trade off lower 340B rates for higher reimbursements elsewhere.

Turning off the 340B slush fund for hospitals treating Medicare beneficiaries is a great idea. Passing up the opportunity to save the taxpayer several billion dollars in order to engage in hospital redistribution is a disappointing turn of events.