



**American Hospital
Association**

The 340B Drug Discount Program

Background

In 1990, Congress established the Medicaid drug rebate program, which requires drug manufacturers to enter into and have in effect a rebate agreement with the Secretary of the Department of Health and Human Services. The rebate agreement requires that pharmaceutical manufacturers supply their products to state Medicaid programs at the manufacturer's "best price" – that is, the lowest price offered to other purchasers.

Section 340B of the Public Health Service Act expanded the program. It requires pharmaceutical manufacturers participating in Medicaid to sell outpatient drugs at discounted prices to taxpayer-supported health care facilities that care for uninsured and low-income people. Covered entities include community health centers, children's hospitals, hemophilia treatment centers, and public and nonprofit disproportionate share hospitals that serve low-income and indigent populations.

The AHA's View

AHA supports extending the 340B discounts to the purchases of drugs used during inpatient hospital stays. Many of these hospitals are in urban settings and are the safety net for their communities. This would allow these hospitals to further stretch their limited resources and relieve them of the burden of carrying two separate inventories and pricing structures for inpatient and outpatient drugs.

AHA also supports extending the 340B program to critical access hospitals, sole community hospitals, rural referral centers and Medicare-dependent hospitals. These hospitals serve the nation's low-income patients in rural areas by providing emergency and health care services and are the sole source of care for patients in their communities.

This would be a "win-win" for taxpayers, as well as for hospitals. The 340B program generates savings for the Medicaid program by requiring hospitals to rebate Medicaid a percentage of their savings on inpatient drugs administered to Medicaid patients and would also reduce Medicare costs, as critical access hospitals are paid 101 percent of their inpatient and outpatient costs by Medicare, and the 340B pricing mechanism will lower critical access hospitals' drug costs.