

The 340B Drug Discount Program

THE ISSUE

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. Savings provided through the program are used by hospitals to expand services while also saving the Medicaid program millions of dollars.

Section 340B of the *Public Health Service Act* 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.

According to the Health Resources and Services Administration (HRSA), the federal agency with responsibility for administering the 340B program, enrolled hospitals and other covered entities can achieve average savings of 25 to 50 percent in pharmaceutical purchases. HRSA states that the savings can be used to reduce the price of pharmaceuticals for patients, expand services offered to patients, and provide services to more patients.

Under the *Patient Protection and Affordable Care Act*, Congress further expanded eligibility for the discount drug prices available under the program to critical access hospitals (CAHs) and certain sole community hospitals (SCHs) and rural referral centers (RRCs) for outpatient services. Despite the 340B program's proven record of decreasing government spending and expanding patient access, some in Congress have expressed concern over the current structure and may attempt to scale back the program.

AHA POSITION

The AHA supports extending the 340B discounts to the purchases of drugs used during inpatient hospital stays and opposes any attempts to scale back this vital program.

WHY?

- **Many 340B-eligible hospitals are the safety net for their communities.** Expanding the program 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.
- **Expansion of the program would be a "win-win" for taxpayers, as well as for hospitals.** Expanding the 340B program would generate savings for the Medicaid program by requiring hospitals to rebate Medicaid a percentage of their savings on inpatient drugs administered to Medicaid patients. This change also would reduce Medicare costs, as CAHs are paid 101 percent of their inpatient and outpatient costs by Medicare, and the 340B pricing mechanism would lower CAHs' drug costs. According to the Congressional Budget Office, expanding the program to cover inpatient services would save the federal government upwards of \$1.2 billion.

KEY FACTS

AHA supports congressional efforts to extend the 340B drug discount program to the inpatient setting for safety-net hospitals, CAHs, SCHs, RRCs and Medicare-dependent hospitals.