The Daily Dish

A 340B Reminder

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Suppose you wanted to help needy patients pay for their prescription drugs. A straightforward approach would be to come up with an operational definition of "needy," figure out the appropriate rate of subsidy, and then authorize sending the subsidies for verified expenses by the certified needy. This is meat-and-potatoes government subsidies funded out of general revenue or borrowing.

But it seems like it would take a lot of accountability to know both how much subsidy is deserved and to whom it is paid. So, you could just send the subsidies to entities (hospitals, clinics, etc.) who *say* they treated needy patients and report the amount they spent on drugs. It would be a poorly targeted program with lots of opportunities for gaming the system, but that would become obvious because of the bloated spending and larger deficits.

That might be problematic, so you could stop using general revenue and instead pass a targeted tax on the revenue of drug manufacturers that covers the outlays. This would be a political twofer because there would be no deficits – and everyone hates deficits – and the burden would be on drug manufacturers – and everyone hates drug manufacturers.

But it would still be uncomfortably obvious what was going on. So, a real "improvement" would be to bypass the budget process and have the entities go directly to the manufacturers and require the latter to pay them. Perfect! Bloated spending, but off-budget and no deficits, and topped off with zero legislative accountability.

Meet the 340B Program, which allows covered entities to purchase physician-administered and out-patient drugs at a discount (typically 25 percent or more) from manufacturers that participate in Medicaid. The drug is then reimbursed at the market price by insurance, so the covered entity has the difference available to, well, maybe provide care to deserving patients or, well, maybe not.

The 340B Program is a mess, but it is hard to document and measure because it is implemented with the off-budget mandate. But a recent report from Drug Channels highlights the growing problems:

> For 2023, discounted purchases under the 340B program reached a record $66.3 billion—an astounding $12.6 billion (+23.4%) higher than its 2022 counterpart. The gross-to-net difference between list prices and discounted 340B purchases also grew, to $57.8 billion (+$5.5 billion). 340B purchases are now almost 40% larger than Medicaid's prescription drug purchases.
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> Hospitals again accounted for 87% of 340B purchases for 2023. Purchases at every 340B covered entity type grew, despite drug prices that grew more slowly than overall inflation.

Reform of the 340B Program is hard to accomplish because the various entities are addicted to the *de facto* slush fund and the good actors are afraid the needy will actually be made worse off by reform. But it is long overdue.