Weekly Checkup

The 340B Program Is Increasing Medicare Part B Costs

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Last week, the Centers for Medicare & Medicaid Services (CMS) released the rates Medicare beneficiaries will pay in 2024 for Parts A (hospital care) and B (physician services, outpatient care, and certain home health services and durable medical equipment), including the standard premium and deductible. Medicare beneficiaries will see a cost increase for both their standard premium and deductible – and CMS points to the **340B Drug Pricing Program (340B Program) as one factor increasing costs.** Let's walk through the details.

New Costs: Part B enrollees will see their monthly standard premium grow from $90 to $174.70, an increase of $9.80. The annual deductible will rise from $226 to $240, an increase of $14. In total, Medicare beneficiaries will pay an additional $131.60 in 2024 ($117.60 from higher premiums, plus an additional $14 deductible).

Why Now? CMS stated that the fairly standard 2024 cost increases are mainly driven by a projected rise in health spending and, to a lesser extent, a Medicare payment remedy to hospitals. For the budget nerds among us, the first factor is notable since the Congressional Budget Office testified this week about an unexpected recent slowdown in federal health care The second point, however, is more nuanced, so let's explore it.

In 2017, the Department of Health and Human Services (HHS) announced its intention to cut Medicare reimbursement to hospitals participating in the 340B Program from the average sales price of a drug plus 6 percent down to the average sales price of a drug minus 22.5 percent. These cuts reduced Medicare payment to the estimated discounted amount hospitals paid for drugs acquired through the 340B Program. In June 2022, however, HHS lost a lengthy lawsuit on these underpayments made to hospitals from 2018 to 2022. As a result, CMS owes participating hospitals $9 billion. In order to repay hospitals, CMS published a **proposed rule outlining a one-time lump sum payment to 1,600 hospitals, with $7.8 billion to be realized by future reductions for non-drug items and services to be paid by Medicare.** As required to maintain budget neutrality, Medicare will pay providers less via Part B over the next 16 years.

The 340B Problem: The?340 Program?was created in 1992 to "stretch scarce federal resources" by allowing covered entities, such as hospitals, to purchase physician-administered and outpatient drugs at a discount (typically 25 percent) from those manufacturers participating in the Medicaid program. The drug would then be reimbursed by an insured patient's health plan at a higher price. In turn, the covered entity should, in theory, use the funds for charitable care. As a 2020 study found, however, 340B Program "[p]articipation was not associated with the probability of offering low?profit medical care services." **In short, 340B-participating hospitals are not providing substantial charitable care to low-income or indigent individuals.** (And indeed, there is no federal requirement to do so.) Now, hospitals are receiving back payment from Medicare greater than the cost of the drugs hospitals provided to Medicare beneficiaries, which in turn appears to have pushed up the cost of Medicare Part B The upshot is that Medicare **beneficiaries are now subsidizing hospitals.**

Instead of stretching scarce federal resources, the 340B Program seems to be allowing hospitals to absorb them. Thankfully, Congress is now looking into the program to determine how its 340B dollars are actually spent. Policymakers must consider whether the 340B Program is increasing health care costs and prescription drug prices for consumers, especially for seniors.