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340B State Policy Recommendation:
A Path to Directly Benefit Patients

Under the 340B drug pricing program, pharmaceutical manufacturers participating in Medicaid and Medicare Part B are required to provide reduced pricing on outpatient drugs to eligible hospitals and certain "safety-net" clinics. These providers, also referred to as "covered entities," can include disproportionate share hospitals (DSHs), critical access hospitals, sole community hospitals, and federal grantees. The 340B program reduces drug costs for these entities, with the expectation that they will use these profits to increase access to affordable medicines for low income and medically underserved patients.

Since the 1990s, the number of 340B covered entity sites has grown substantially, increasing from approximately 1,000 in 1992 to approximately 60,000 in 2024.[1] Furthermore, the share of pharmacies participating in the program as contract pharmacies has expanded from less than 1% of US pharmacies to over 40% between 2010 and 2022.[2]

Despite the growth of the program, it does not appear that reduced 340B prices are being used to lower drug costs for patients. A 2020 analysis found outpatient drug spending for commercially insured patients at 340B hospitals was, on average, 150% higher than prescriptions at non-340B hospitals.[3] With the vast networks of contract pharmacies dispensing 340B medicines, and covered entities and contract pharmacies at times charging uninsured patients the full cost of the medicine, patients who are meant to benefit from the program may end up bearing much of the cost themselves.

Policy Issue & Proposal: Sliding Fee Scale for Cost Sharing on 340B Medicines

Studies have shown that the prolific growth of the 340B program has not led to a commensurate benefit to patients.[4,5,6] In fact, evidence suggests the 340B program has led to increased health care costs for patients and the health care system as a whole. ***A sliding fee scale that would lower the costs of medicines for low income privately insured and uninsured patients receiving care at a 340B-covered entity location would help to ensure that many underserved patients directly benefit from this safety net program and better align system-wide incentives***.

To understand the potential savings to patients, actual median annual out-of-pocket spending on medicines among low income privately insured and uninsured patients was compared to the estimated median spending with a sliding fee scale in effect. The sliding fee scale used for this model would eliminate cost sharing for privately insured and uninsured patients at or below 100% of the federal poverty level (FPL), and limit cost sharing for privately insured and uninsured patients above 100% but below 200% FPL to no more than $3 at all 340B hospitals.

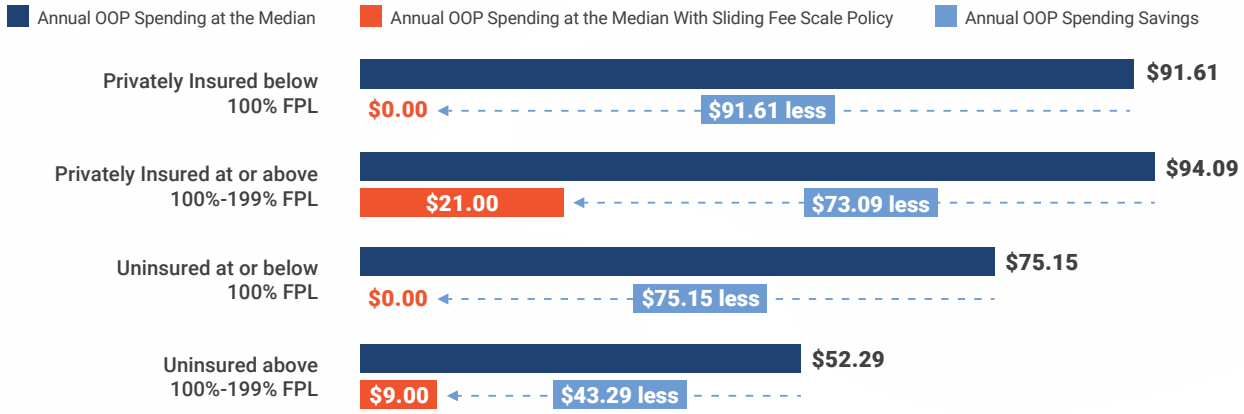
References: 1. Mulligan K. The 340B Drug Pricing Program: background, ongoing challenges and recent developments. USC Schaeffer. October 13, 2022. Accessed January 6, 2025. https://healthpolicy.usc.edu/research/the-340b-drug-pricing-program-background-ongoing-challenges-and-recent-developments/ **2.** McGlave C, Bruno JP, Watts E, Nikpay S. 340B contract pharmacy growth by pharmacy ownership: 2009–2022. *Health Aff Sch.* 2023;2(1). doi:10.1093/haschl/qxad075 **3.** Hunter M, Holcomb K, Kim C. Analysis of 2020 commercial outpatient drug spend at 340B participating hospitals. Milliman. September 13, 2022. Accessed January 6, 2025. https://www.milliman.com/en/insight/2020-outpatient-drug-spend-at-340b-hospitals **4.** Thomas K, Silver-Greenberg J. How a hospital chain used a poor neighborhood to turn huge profits. *New York Times.* September 24, 2022. Accessed January 6, 2025. https://www.nytimes.com/2022/09/24/health/bon-secours-mercy-health-profit-poor-neighborhood.html **5.** Winegarden W. Profiting from 340B. A Pacific Research Institute Publication. November 2021. https://www.pacificresearch.org/wp-content/uploads/2021/11/340B-Study_FinalWeb.pdf **6.** James R, Whaler C, Dhruva S. Hospital prices for physician-administered drugs for patients with private insurance. *N Engl J Med.* 2024;390(14):1347-1348. doi:10.1056/nejmc2402132

Results

Privately insured and uninsured patients below 200% FPL were estimated to have annual median out-of-pocket costs of $93.34 and $56.70, respectively. Had the sliding fee scale been in effect:

- Privately insured patients below 200% FPL would have saved 93.6%, or $87.34, in annual out-of-pocket spending at the median
- Uninsured patients below 200% FPL would have saved 94.7%, or $53.70, in annual out-of-pocket spending at the median

Median National Savings From Sliding Fee Scale Policy for 340B Hospitals, by Income

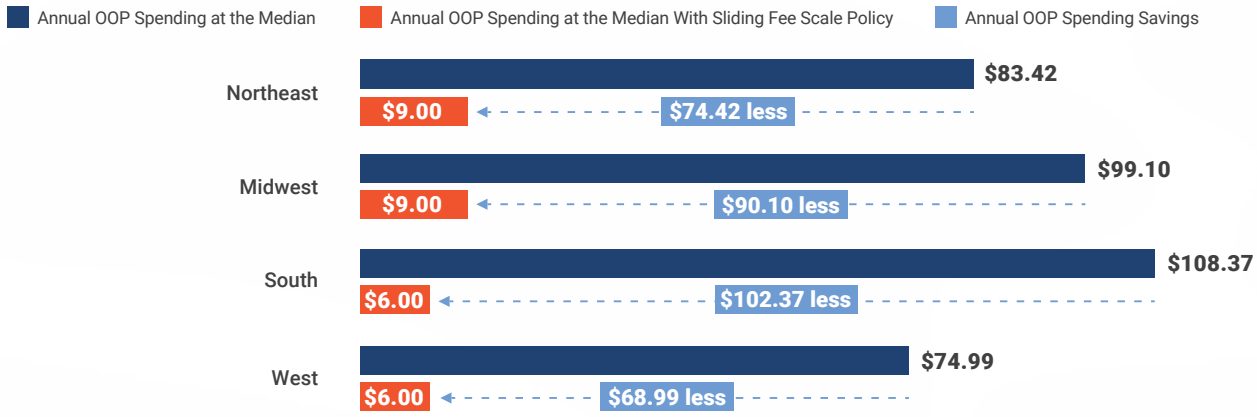


Note: The uninsured analysis using Medical Expenditure Panel Survey (MEPS) included prescription claims only. The privately insured analysis using closed claims data included prescription and medical claims in the hospital outpatient setting.

Regional & State Results

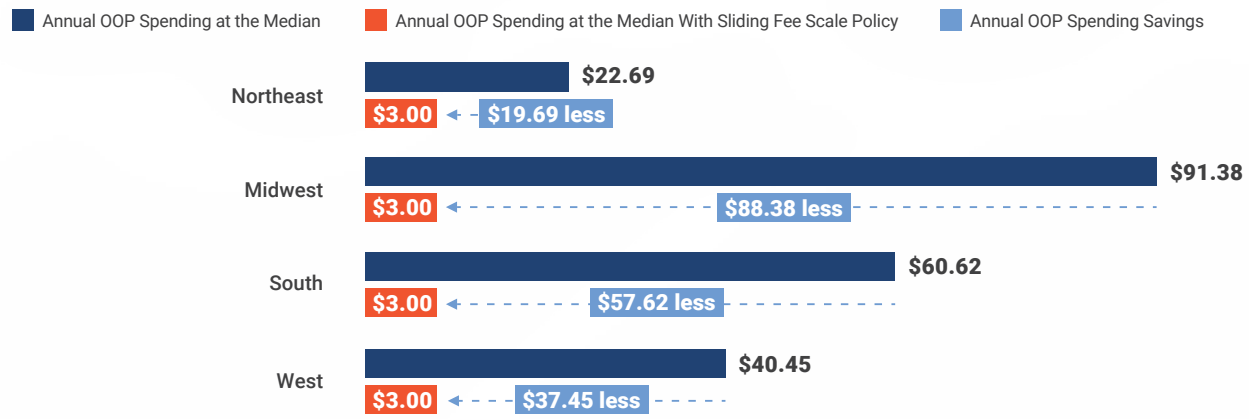
The savings from a sliding fee scale policy varied significantly by region and state. The largest savings among low income privately insured patients was observed in the South, where median annual out-of-pocket costs fell by 94.5%, or $102.37, with a sliding fee scale, while the largest savings among uninsured patients was observed in the Midwest, where median annual out-of-pocket costs fell by 96.7%, or $88.38.

Median Regional Savings for Privately Insured Patients Below 200% FPL From Sliding Fee Scale Policy for 340B Hospitals



Note: The privately insured analysis using closed claims data included prescription and medical claims in the hospital outpatient setting.

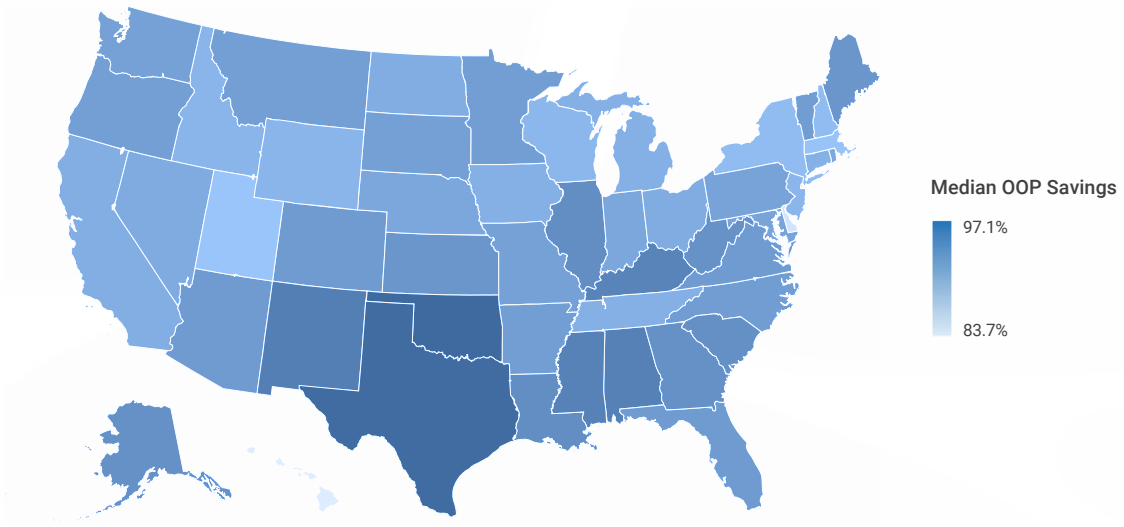
Median Regional Savings for Uninsured Patients Below 200% FPL From Sliding Fee Scale Policy for 340B Hospitals



Note: The uninsured analysis using MEPS included prescription claims only.

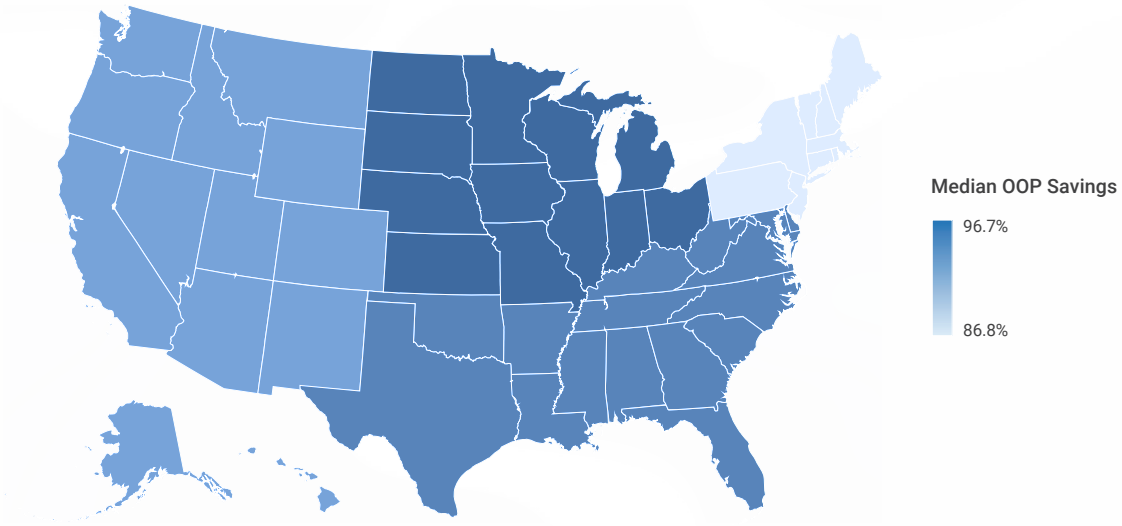
At a state level, the largest savings among low income privately insured patients was observed in Oklahoma, where median annual out-of-pocket costs fell by 97.1%, or $100.89, with a sliding fee scale, and the largest savings among uninsured patients was observed in North Dakota, where costs fell by 96.7%, or $91.81.

Privately Insured Below 200% FPL State-Level Savings From Sliding Scale Policy



Note: The privately insured analysis using closed claims data included prescription and medical claims in the hospital outpatient setting.

Uninsured Below 200% FPL State-Level Savings From Sliding Scale Policy



Note: The privately insured analysis using closed claims data included prescription and medical claims in the hospital outpatient setting.

Implementing a sliding fee scale policy could significantly reduce patient out-of-pocket spending on outpatient drugs subject to 340B program pricing. Significant savings were seen for both low income privately insured and uninsured groups across regions and states. Variations were driven by a combination of differences in the total number of prescriptions per patient and the types of drugs they most commonly used.

Policy Considerations

Despite significant growth in the 340B program over the last several decades, many uninsured and low income privately insured patients continue to struggle to afford their medicines. Yet, covered entities are not required to use their 340B profits to subsidize patients' out-of-pocket drug costs. As a result, profits generated through the 340B program may be diverted to other priorities by some covered entities. Policymakers should consider legislation that would require 340B covered entities to implement a sliding fee scale for prescription drugs for low income privately insured and uninsured patients. Passing a share of program profits on to vulnerable patients in the form of lower medicine costs would better align incentives in the program and ensure patients seeking care at safety net providers are able to access and afford the medicines they need.

Beyond the implementation of a sliding fee scale, policymakers should consider legislation to require covered entities to spend a minimum portion of their 340B profits on charity care, including providing uncompensated care to underserved patient populations. Use of 340B profits should be more heavily scrutinized by regulators to ensure the benefits of the 340B program are reaching patients most in need.

Methodology

Real-world medical and pharmacy drug utilization data was used to estimate how a 340B sliding fee scale policy could change out-of-pocket costs for low income privately insured and uninsured patients. Patients were grouped based on their income relative to FPL guidelines. For each patient group, out-of-pocket costs under their respective sliding fee scale policy scenario were compared to actual out-of-pocket costs to estimate the impact of the policy on patients. Drug costs were standardized to 2024 dollars using the U.S. Bureau of Labor Statistics' Consumer Price Index for All Urban Customers (CPI-U).

Commercial Data Source

Magnolia Market Access' Data Repository for Innovation and Value Evidence (DRIVE), which includes closed claims and social determinants of health (SDOH) databases. All patients with 12 months of continuous medical and prescription drug coverage in 2022 with claims and SDOH survey data were included in the analysis.

Uninsured Data Sources

The Medical Expenditure Panel Survey (MEPS) database's 2021 Full-Year Consolidated Data files and 2021 Prescribed Medicines files. Patient counts and claims were estimated at the state level using the U.S. Census Bureau American Community Survey (ACS) data for the population 19 years and older. Drug costs were estimated at the state level using premium data for privately insured patients as reported in the MEPS Insurance Component (IC) Complete Table Series for 2022 (specifically, Table II.C.1 Average total single premium [in dollars] per enrolled employee at private-sector establishments that offer health insurance by firm size and state: United States, 2022). The percent change in costs between the baseline and policy is reflective of the percent change calculated at the regional level as data was not available to estimate state-level differences.

Limitations

The analysis uses median annual out-of-pocket spending regardless of where a patient filled their prescription. The analysis is not limited to prescriptions eligible for 340B. Rather, the analysis uses overall spending data to estimate the potential savings if a patient were to receive care at a 340B hospital with a sliding fee scale policy in effect.

Privately Insured Analysis Using Closed Claims

This analysis does not account for benefit design parameters for privately insured patients. As such, patients may or may not have reached their maximum out-of-pocket threshold under each proposed policy, which would have an impact on their out-of-pocket costs on a per claim basis and could result in over- or underestimating annual out-of-pocket savings.

Uninsured Analysis Using MEPS Data

The MEPS database does not include physician-administered drug information, and therefore, uninsured patients' out-of-pocket costs for physician-administered drugs are not included in the analysis. The results applied the full-year person-level weights so that the patient counts are nationally representative. Results may be impacted when population estimates are broken down into additional subgroups (e.g., region and FPL groups) due to sample size, and patient counts may not be representative of that subgroup of patients. For the state-level adjustments, aggregate state-level percentiles are representative of the regional percentile with the adjustment factor applied and do not account for the effect of population distribution at the state level.

Appendix

Table 1. Annual Patient OOP per Patient for 340B Eligible Drugs (national, by insurance type and FPL group)

	Median Annual OOP Cost	Median Annual OOP Cost With Sliding Fee Scale Policy	Savings From Sliding Fee Scale Policy ($)	Savings From Sliding Fee Scale Policy (%)
Privately Insured ≤100% FPL	$91.61	$0.00	-$91.61	-100.0%
Privately Insured >100%-199% FPL	$94.09	$21.00	-$73.09	-77.7%
Uninsured ≤100% FPL	$75.15	$0.00	-$75.15	-100.0%
Uninsured >100%-199% FPL	$52.29	$9.00	-$43.29	-82.8%
Total Privately Insured Patients <200% FPL	**$93.34**	**$6.00**	**-$87.34**	**-93.6%**
Total Uninsured <200% FPL	**$56.70**	**$3.00**	**-$53.70**	**-94.7%**

Note: The uninsured analysis using MEPS included prescription claims only. The privately insured analysis using closed claims data included prescription and medical claims in the hospital outpatient setting.

Table 2. Annual Patient OOP per Patient for 340B Eligible Drugs (by US Region and Insurance Type)

	Privately Insured Patients <200% FPL				*Uninsured Patients <200% FPL*			
	Median Annual OOP Cost	Median Annual OOP Cost With Sliding Fee Scale Policy	Savings From Sliding Fee Scale Policy ($)	Savings From Sliding Fee Scale Policy (%)	Median Annual OOP Cost	Median Annual OOP Cost With Sliding Fee Scale Policy	Savings From Sliding Fee Scale Policy ($)	Savings From Sliding Fee Scale Policy (%)
Northeast	$83.42	$9.00	-$74.42	-89.2%	$22.69	$3.00	-$19.69	-86.8%
Midwest	$99.10	$9.00	-$90.10	-90.9%	$91.38	$3.00	-$88.38	-96.7%
South	$108.37	$6.00	-$102.37	-94.5%	$60.62	$3.00	-$57.62	-95.1%
West	$74.99	$6.00	-$68.99	-92.0%	$40.45	$3.00	-$37.45	-92.6%
Total Patients	**$93.34**	**$6.00**	**-$87.34**	**-93.6%**	**$56.70**	**$3.00**	**-$53.70**	**-94.7%**

Note: The uninsured analysis using MEPS included prescription claims only. The privately insured analysis using closed claims data included prescription and medical claims in the hospital outpatient setting.

Table 3. Annual Patient OOP per Patient for 340B Eligible Drugs (by US State and Insurance Type)

	Privately Insured Patients <200% FPL				*Uninsured Patients <200% FPL*			
	Median Annual OOP Cost	Median Annual OOP Cost With Sliding Fee Scale Policy	Savings From Sliding Fee Scale Policy ($)	Savings From Sliding Fee Scale Policy (%)	Median Annual OOP Cost	Median Annual OOP Cost With Sliding Fee Scale Policy	Savings From Sliding Fee Scale Policy ($)	Savings From Sliding Fee Scale Policy (%)*
AK	$81.51	$5.36	-$76.16	-93.43%	$47.34	$3.51	-$43.83	-92.6%
AL	$183.28	$9.00	-$174.28	-95.09%	$55.77	$2.76	-$53.01	-95.1%
AR	$126.36	$10.00	-$116.36	-92.09%	$56.53	$2.80	-$53.73	-95.1%
AZ	$79.88	$6.00	-$73.88	-92.49%	$39.60	$2.94	-$36.66	-92.6%
CA	$61.41	$5.87	-$55.54	-90.44%	$41.43	$3.07	-$38.35	-92.6%
CO	$78.61	$6.00	-$72.61	-92.37%	$38.59	$2.86	-$35.73	-92.6%
CT	$81.95	$8.09	-$73.86	-90.13%	$22.21	$2.94	-$19.27	-86.8%
DC	$63.19	$3.55	-$59.63	-94.38%	$71.27	$3.53	-$67.74	-95.1%
DE	$75.14	$6.00	-$69.14	-92.01%	$67.30	$3.33	-$63.96	-95.1%
FL	$78.22	$6.00	-$72.22	-92.33%	$62.21	$3.08	-$59.13	-95.1%
GA	$91.83	$6.00	-$85.83	-93.47%	$60.70	$3.00	-$57.69	-95.1%
HI	$36.78	$6.00	-$30.78	-83.69%	$40.44	$3.00	-$37.44	-92.6%
IA	$92.22	$9.00	-$83.22	-90.24%	$89.99	$2.95	-$87.03	-96.7%
ID	$87.81	$8.99	-$78.82	-89.76%	$40.03	$2.97	-$37.06	-92.6%
IL	$96.67	$6.00	-$90.67	-93.79%	$91.37	$3.00	-$88.37	-96.7%
IN	$102.33	$9.00	-$93.33	-91.20%	$92.02	$3.02	-$89.00	-96.7%
KS	$126.17	$9.00	-$117.17	-92.87%	$83.35	$2.74	-$80.62	-96.7%
KY	$115.61	$6.00	-$109.61	-94.81%	$57.59	$2.85	-$54.74	-95.1%
LA	$144.92	$9.00	-$135.92	-93.79%	$61.15	$3.03	-$58.12	-95.1%
MA	$77.45	$9.00	-$68.45	-88.38%	$21.71	$2.87	-$18.84	-86.8%
MD	$69.94	$6.00	-$63.94	-91.42%	$65.73	$3.25	-$62.48	-95.1%
ME	$88.18	$6.15	-$82.03	-93.02%	$21.55	$2.85	-$18.70	-86.8%
MI	$96.38	$9.38	-$87.00	-90.27%	$88.09	$2.89	-$85.20	-96.7%
MN	$76.08	$6.00	-$70.08	-92.11%	$91.11	$2.99	-$88.12	-96.7%
MO	$108.74	$9.00	-$99.74	-91.72%	$93.67	$3.08	-$90.59	-96.7%
MS	$119.16	$6.00	-$113.16	-94.96%	$55.41	$2.74	-$52.67	-95.1%
MT	$74.54	$5.98	-$68.55	-91.97%	$42.59	$3.16	-$39.43	-92.6%
NC	$114.63	$9.00	-$105.63	-92.15%	$63.88	$3.16	-$60.71	-95.1%
ND	$94.58	$9.00	-$85.58	-90.48%	$94.93	$3.12	-$91.81	-96.7%
NE	$100.59	$9.00	-$91.59	-91.05%	$92.02	$3.02	-$89.00	-96.7%
NH	$79.18	$8.70	-$70.48	-89.01%	$21.71	$2.87	-$18.84	-86.8%
NJ	$87.13	$9.00	-$78.13	-89.67%	$22.06	$2.92	-$19.14	-86.8%
NM	$63.25	$3.00	-$60.25	-95.26%	$42.78	$3.17	-$39.61	-92.6%
NV	$65.45	$6.00	-$59.45	-90.83%	$37.59	$2.79	-$34.80	-92.6%
NY	$82.15	$9.00	-$73.15	-89.04%	$24.09	$3.18	-$20.91	-86.8%
OH	$96.42	$9.00	-$87.42	-90.67%	$93.74	$3.08	-$90.66	-96.7%
OK	$103.89	$3.00	-$100.89	-97.11%	$55.31	$2.74	-$52.57	-95.1%
OR	$75.40	$6.00	-$69.40	-92.04%	$38.92	$2.89	-$36.04	-92.6%
PA	$84.58	$7.18	-$77.39	-91.51%	$21.83	$2.89	-$18.94	-86.8%
RI	$106.89	$9.72	-$97.17	-90.91%	$22.15	$2.93	-$19.22	-86.8%
SC	$139.10	$9.00	-$130.10	-93.53%	$59.75	$2.96	-$56.79	-95.1%
SD	$80.30	$6.52	-$73.78	-91.88%	$92.49	$3.04	-$89.46	-96.7%
TN	$90.97	$8.89	-$82.08	-90.23%	$59.17	$2.93	-$56.24	-95.1%
TX	$101.73	$3.00	-$98.73	-97.05%	$60.56	$3.00	-$57.57	-95.1%
UT	$76.08	$9.00	-$67.08	-88.17%	$37.03	$2.75	-$34.28	-92.6%
VA	$82.72	$6.30	-$76.43	-92.39%	$63.24	$3.13	-$60.11	-95.1%
VT	$38.21	$3.00	-$35.21	-92.15%	$22.69	$3.00	-$19.69	-86.8%
WA	$79.29	$6.62	-$72.67	-91.65%	$39.36	$2.92	-$36.44	-92.6%
WI	$84.75	$8.94	-$75.81	-89.45%	$92.89	$3.05	-$89.84	-96.7%
WV	$142.28	$9.55	-$132.73	-93.29%	$66.45	$3.29	-$63.16	-95.1%
WY	$58.44	$6.00	-$52.44	-89.73%	$43.82	$3.25	-$40.57	-92.6%
Missing Pts.	$18.86	$3.00	-$15.86	-84.1%	$585.92	$0.00	-$585.92	-100.0%
Total Patients	**$93.34**	**$6.00**	**-$87.34**	**-93.6%**	**$56.70**	**$3.00**	**-$53.70**	**-94.7%**

Note: The uninsured analysis using MEPS included prescription claims only. The privately insured analysis using closed claims data included prescription and medical claims in the hospital outpatient setting.

*The percent change in OOP costs between the baseline and policy is reflective of the percent change calculated at the regional level since data was not available to estimate the state-level differences due to the policy. Premium information from the MEPS IC was used to adjust the OOP costs to the state level.

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