



Vermont House Healthcare Committee H. 266

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340B Program Basics

Congress envisioned 340B as a small safety-net program

What is 340B?

An outpatient drug program administered by the federal government **intended to help vulnerable patients gain better access to medicines** at certain qualifying hospitals and clinics.

Who is eligible to participate in 340B?

340B covered entities are defined in federal law and include **certain qualifying hospitals** (e.g., DSH, children's and rural hospitals) **and safety-net clinics** (e.g., community health centers), known as grantees.

Why was 340B created?

To **address unintended consequences of the 1990 Medicaid drug rebate statute** by reinstating discounted pricing manufacturers had voluntarily provided to certain safety-net clinics and hospitals.

How does 340B work?

Manufacturers are required to sell medicines at a discounted price to covered entities who Congress envisioned would use the money saved to help patients. 340B prices are, on average, 57% below the list price.

Sales at the 340B Price Have Skyrocketed

2nd

340B is the **second largest prescription drug program administered by the federal government**, behind only Medicare Part D

Larger than Medicare Part B, Medicaid and VA / Tricare / DOD

Berkeley Research Group, "Measuring the Relative Size of the 340B Program: 2020 Update," June 2022

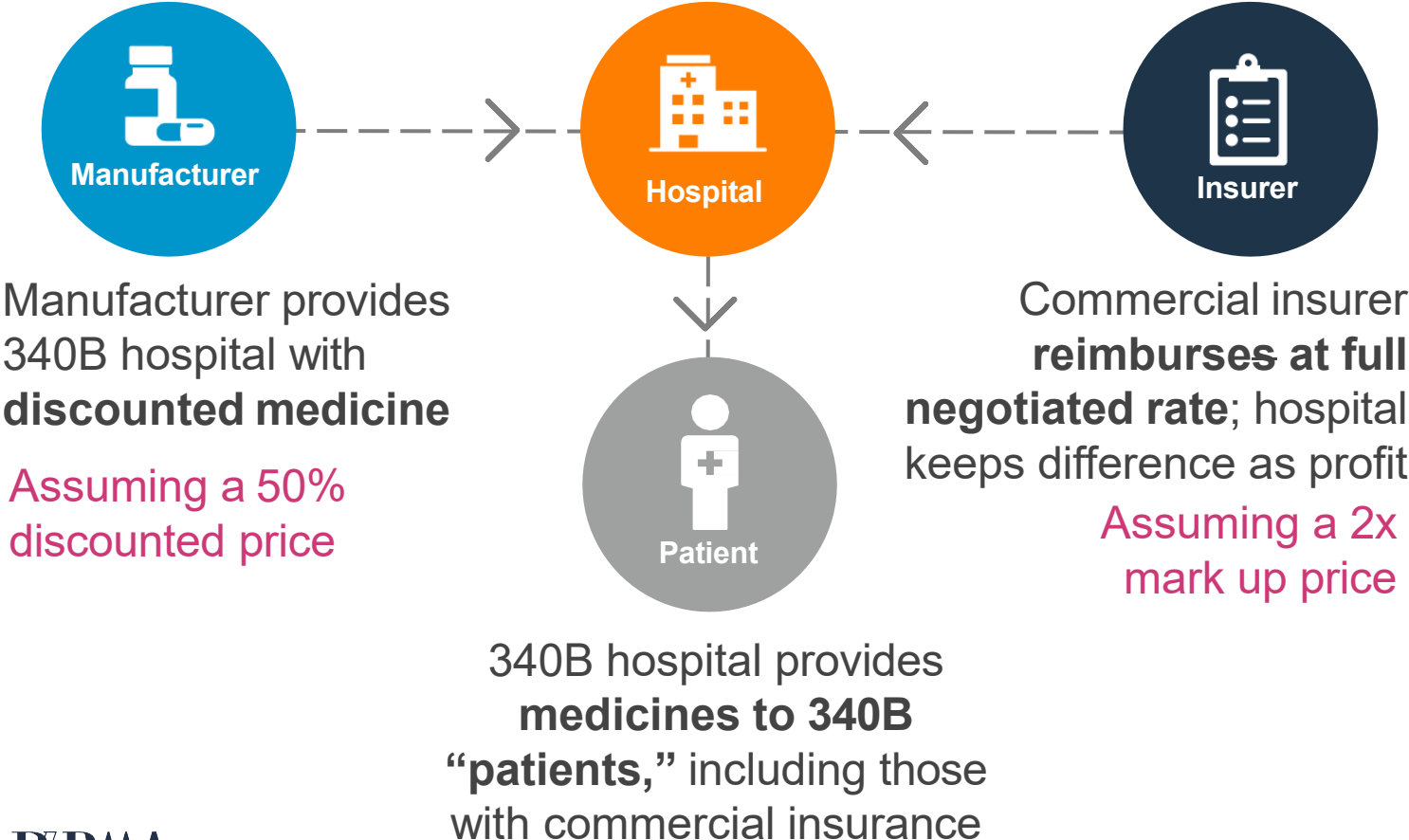
\$66 Billion

Purchases at the 340B discounted price in 2023, 23% higher than in 2022

Hospitals accounted for 87% of program purchases

HRSA. 2023 Covered Entity Purchases..

Illustrative Example



Example assuming \$1000 medicine with a negotiated rate of \$2000:

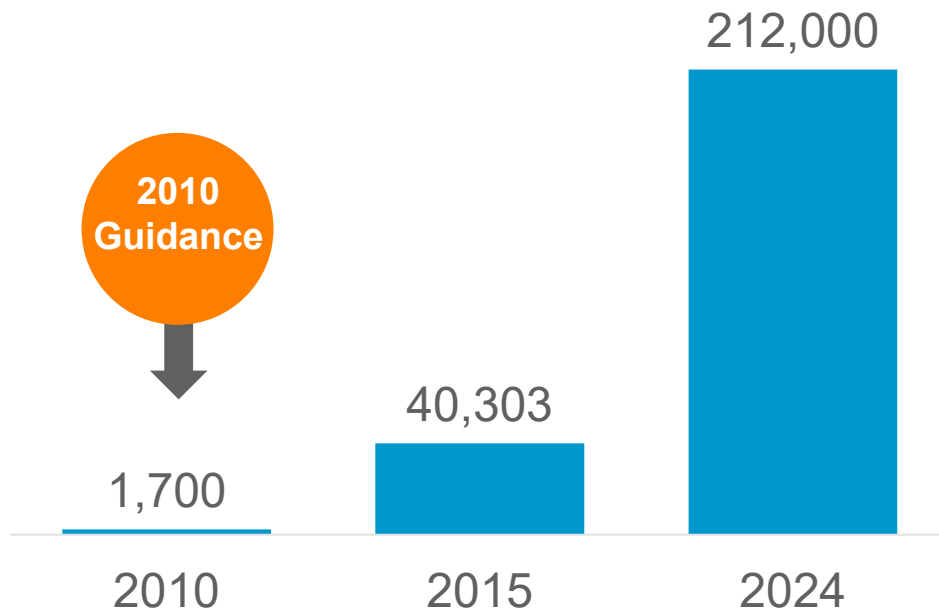
- \$500** Hospital buys medicine at discounted 340B price
- +\$1400** Hospital reimbursed at negotiated price by commercial insurer
- +\$600** Hospital receives 30% coinsurance from patient based on negotiated price

+\$1500 profit for 340B hospital

How are profits used?

Growth of Contract Pharmacy Relationships

Contract Pharmacy Arrangements

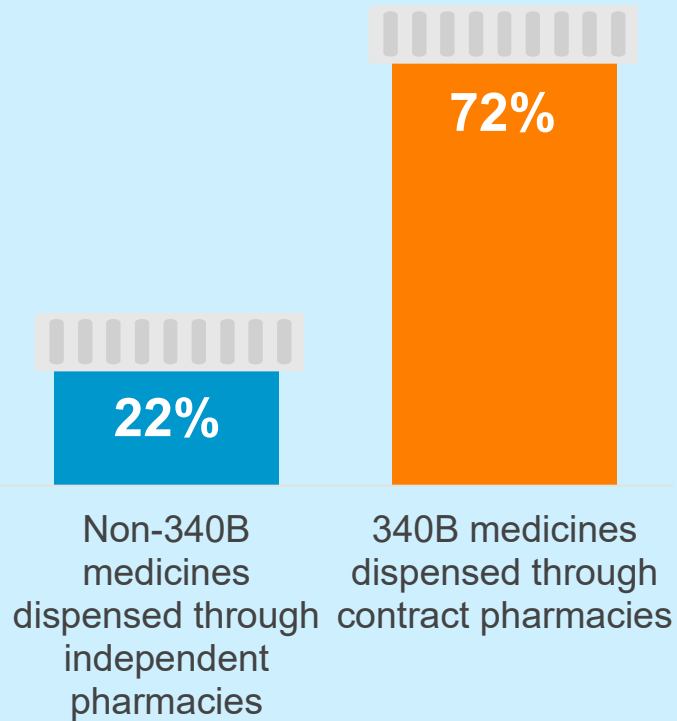


- HRSA allows 340B covered entities to have an **unlimited number of contracts** with pharmacies to dispense 340B medicines
- Currently, **over 33,000 distinct pharmacies** participate in the 340B program, and each one may have arrangements with multiple entities inside and outside their state
- The number of contract pharmacy arrangements has **grown by more than 12,000% since the 2010 guidance**

Pharmacies Have Growing Financial Stake in 340B

Funds leaving the safety net.

Massive Profit Margins



Concentrated Corporate Profits



More than half of 340B profits retained by contract pharmacies are **concentrated in four pharmacy companies**

Pharmacy Chains and PBMs Wield Negotiating Power



75% of arrangements are between 340B entities and **five multi-billion-dollar, for-profit, publicly traded pharmacy chains and PBMs**

The Cost of the 340B Program to States (IQVIA/ NPC)

Forgone rebates on prescriptions filled with 340B pricing **increased employer costs by over \$6.6B and state/ local government plans by \$1B in 2023.**

340B contract pharmacy mandate bills would **further increase this cost by \$1.9B for employers and \$273M for state/ local government plans.**



- Plan sponsors often do not receive rebates or discounts on prescriptions filled at the 340B price, which increases total health care costs.
- Under a more aggressive patient definition, those costs could more than double.
- This is an estimate of one source of increased cost from 340B, but 340B drives up costs for employers and the government in multiple ways (e.g., incentivizing use of more and higher-cost medicines, shifting care to more expensive settings, and driving provider consolidation, etc.)

Understanding the Economic Burden on Federal and State Tax Liability of Forgone Commercial Rebates Due to the 340B Drug Pricing Program (*Magnolia*)

The combined increase of \$7.8 billion in health care costs for employers and workers from forgone rebates on medicines due to 340B resulted in \$1.8 billion in lost federal and state tax revenue in 2021.

- Increased health care costs move employer spending from taxable uses (wages, profit) to non-taxable uses (health care), reducing the amount of tax revenue.
- Again, this is just one source of increased spending, but many more exist.



A Closer Look at 340B in Your Community

Under the federal 340B program, manufacturers reduce prices of outpatient medicines by tens of billions of dollars each year for safety-net clinics and qualifying non-profit hospitals (“covered entities”). The expectation is that those entities use the profit they generate from the program to help vulnerable patients access more affordable medicines, but a lack of transparency and oversight has led to abuse of the 340B program.

Today, the 340B program is broken. 340B has become less about patients and more about boosting the bottom lines of hospitals and middlemen through excessive markups and extensive networks of contract pharmacies. After a decade of more than 20% annual growth, 340B sales at the discounted prices totaled \$66 billion in 2023.

Here's what the program looks like in Vermont



Fast Facts: 340B in Vermont

- 14 hospitals in VT participate in 340B.
- Since 2015, the government has only conducted 13 audits of covered entities (CEs) in the state, with 8 returning adverse findings like illegal distribution of 340B purchased drugs.
- There are currently 1,065 arrangements between for-profit contract pharmacies and 340B CEs. 681 are with pharmacies outside the state.



Are Vermont 340B hospitals providing adequate charity care?

- Charity care is free or reduced-cost care provided to qualifying patients.
- Charity care, on average, accounts for just 0.7% of total operating costs at 340B hospitals in the state, with 100% falling below the national average of all hospitals (2.5%).
- From 2014 to 2022, these 340B hospitals saw assets increase by 19%, while charity care decreased by 83%.

Employers in Vermont pay an estimated \$43.9M more in health care costs due to foregone rebates (which reduce the price of medicine) as a result of the 340B program. This leads to a \$1.1M reduction in state and local tax revenue.

340B hospitals and their middlemen partners prioritize wealthy areas where they can maximize profit, rather than underserved areas 340B was meant to serve.



Of the 119 340B in-state contract pharmacy locations, just 66% are in rural areas, despite 85% of the state's zip codes being considered rural.

Only 13% of 340B in-state contract pharmacy locations are in zip codes with an average household income over than the state median (\$85,190).



What is the deal with 340B contract pharmacies?

- LOST REBATES:** Proposed contract pharmacy legislation in Vermont is estimated to increase health care costs for employers and state and local governments by \$20.8M due to additional foregone rebates.
- UNCONSTRAINED GROWTH:** Contract pharmacy arrangements increased 12,000% since the government expanded their use in 2010, with 69% of arrangements now with one of the three largest pharmacy benefit managers.
- RISK TO ACCESS:** As 340B hospitals drive business to their contract pharmacies (~70% are large chains), independent pharmacies struggle to stay open, putting patient access to care at risk.

What does this mean for Vermont?

340B has tangible costs

- Vermont employers pay an estimated \$49.9m more in health care costs due to foregone rebates
- State employers pay an estimated \$7.8m more

Source: IQVIA “The cost of the 340B Program to States” (2025)

North Carolina State Treasurer's Report

- 340B hospitals billed state employees an average **markup of 5.4 times for cancer** medicines compared to their purchase price
- 340B hospitals generated an average **\$13,617 in profits** per claim on cancer medicines
- Hospitals are increasingly contracting with **pharmacies in wealthier areas**
- “Now we know **hospitals are getting rich on the backs of cancer patients**, state employees and taxpayers.” – NC Treasurer



Minnesota 340B Transparency Report

- MN 340B hospitals received **\$1.5B for discounted** 340B drugs (\$630M net)
- A “**significant underestimate.**” Doesn’t include physician-administered drugs or 80% of all 340B drug spending
- **Largest hospitals make up 80% of 340B revenue** but just 13% of reporting entities
- TPAs and other external parties **received \$16 out of every \$100** generated in gross 340B revenue

