



# Vermont Senate Committee on Health and Welfare 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.

## 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.

## 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.

## 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

## 2<sup>nd</sup>

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..

# PBM Vertical Integration 2025

							
Insurer							
PBM							
GPO			—			—	
Manufacturer	—		—		—	—	
Wholesale distribution	—		—	—	—	—	
Specialty/mail pharmacy							
Retail/LTC pharmacy	—	—	—		—	—	
Provider	—						

PBM = pharmacy benefit manager; GPO = group purchasing organization; LTC = longterm care

1. Prime Therapeutics sources formulary rebates from—and has a minority ownership interest in—Ascent Health Solutions, which is part of Cigna's Evernorth segment.

2. Synergie is a buying group focused on medical benefit drugs. Its ownership includes the Blue Cross Blue Shield (BCBS) Association, Prime Therapeutics, Elevance Health, and other independent BCBS health plans.

3. Prime Therapeutics Pharmacy was previously known as Magellan Rx Pharmacy. Prime's clients have the option to use Express Scripts for mail/specialty pharmacy services.

4. In 2022, Cigna invested \$2.7 billion for an estimated 14% ownership stake in VillageMD. In 2024, it wrote down the full value of this investment. Walgreens Boots Alliance owns a majority of VillageMD.

5. Centene began outsourcing its PBM operations to Express Scripts in 2024. In 2023, Centene rebranded its Envolv Pharmacy Solutions pharmacy benefit subsidiary as Centene Pharmacy Services.

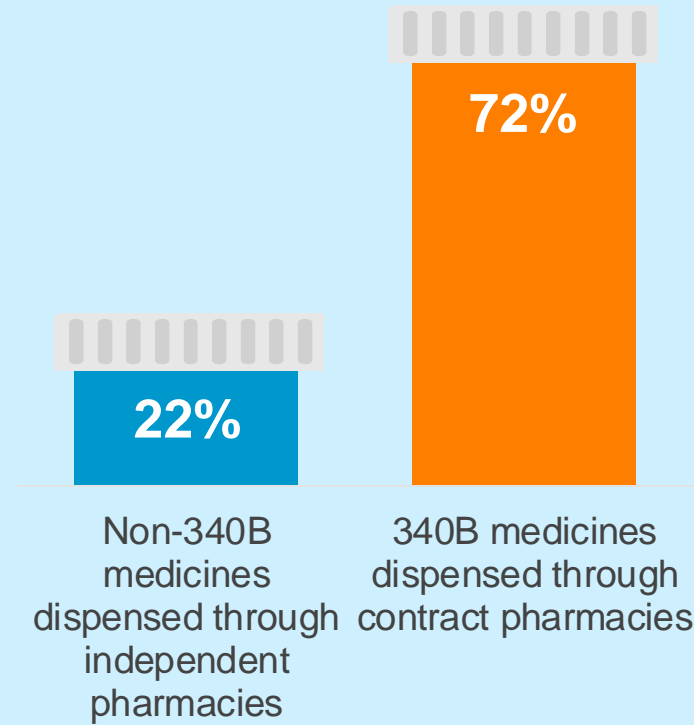
6. CVS Caremark provides certain PBM services to CarelonRx business. CarelonRx also sources formulary rebates from—and has a minority interest in—Zinc Health Services, which is a subsidiary of CVS Health.

Source: *The 2025 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Exhibit 261. Exhibit does not illustrate every subsidiary business operated by each company.

# Pharmacies Have Growing Financial Stake in 340B

Funds leaving the safety net.

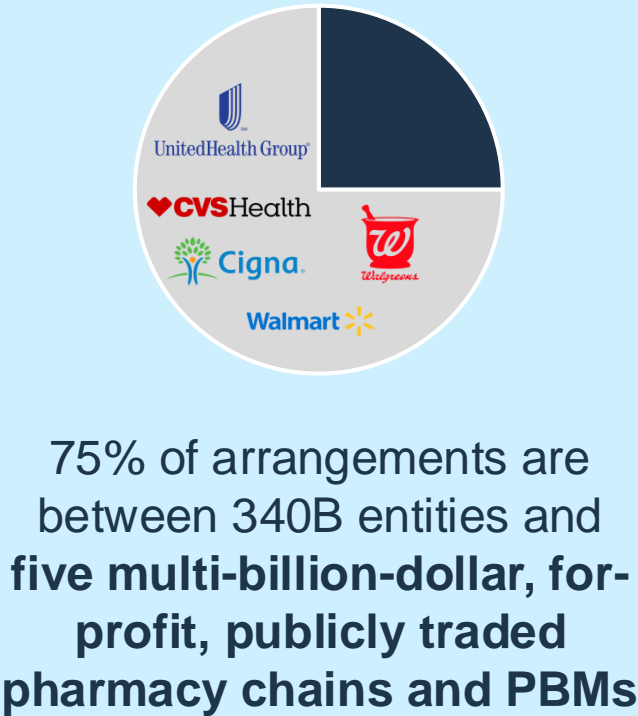
## Massive Profit Margins



## Concentrated Corporate Profits



## Pharmacy Chains and PBMs Wield Negotiating Power



# 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
- **1 in 10 federal grantees** reported **net losses** due to excessive fees to TPAs and contract pharmacies
- TPAs and other external parties **received \$16 out of every \$100** generated in gross 340B revenue





## 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.

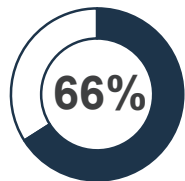


#### Are Vermont 340B hospitals providing adequate charity care?

- 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%.

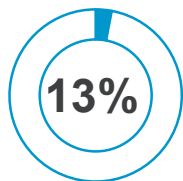
**Employers in Vermont pay an estimated \$43.9M more in health care costs due to foregone rebates (which reduce the price of medicine) as a result of the 340B program. This leads to a \$1.1M reduction in state and local tax revenue.**

**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 lower 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.

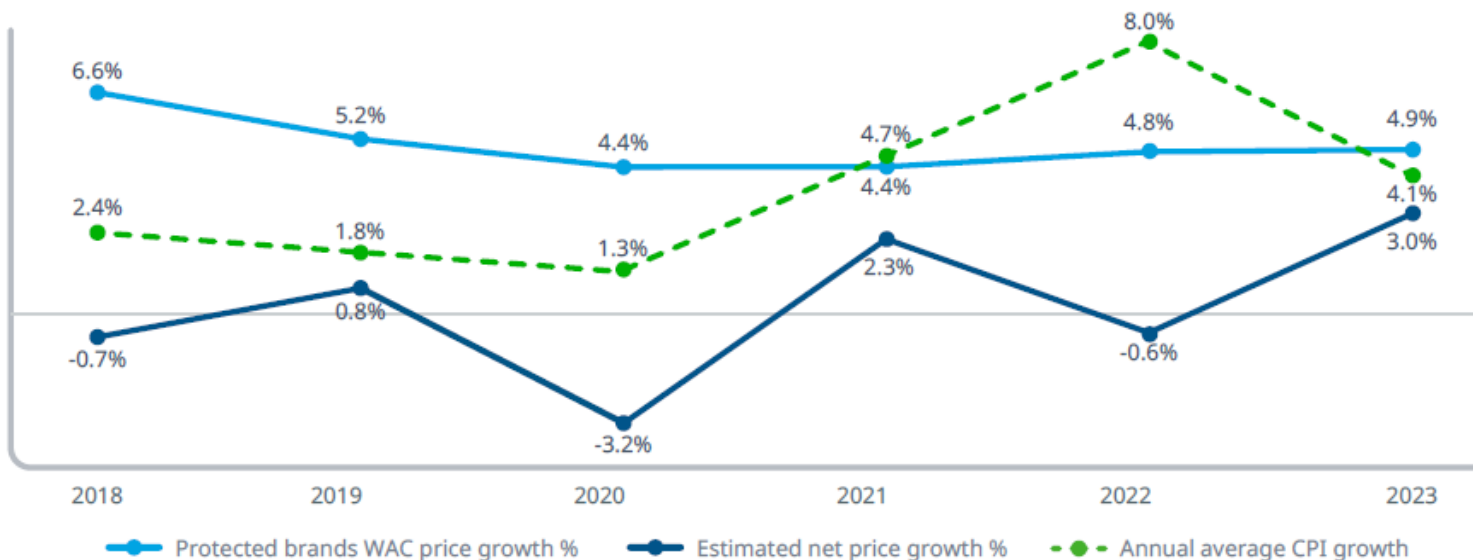
## What does this mean for Vermont?

### 340B has tangible costs

- Plan sponsors often do not receive rebates or discounts on prescriptions filled at the 340B price, which increases total health care 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

# IQVIA: Net prices for protected brand medicines grew below inflation for the sixth year in a row

Exhibit 45: Wholesaler Acquisition Cost (WAC) growth and net price growth for protected brands



Source: IQVIA Institute, National Sales Perspectives, Dec 2023; Bureau of Labor Statistics, Annual Average Monthly CPI Growth, Dec 2023.

- Average **net price growth** for protected brand medicines is **projected** to be **-1 to -4% per year** through 2028.
- Medicine net prices are, on average, **53% lower** than their list price
- Patient **OOP** spending grew, on average, **2.1%** per year over the past five years
- Manufacturer patient assistance totaled **\$23 B** in 2023



# Patients often pay more as a result of the 340B program

340B price reductions are not required to be shared with patients. In fact, **patients can be charged multiple times** what the covered entity paid for the medicine. Perverse incentives further increase the costs for patients.

Source: Robinson, J. C., Whaley, C., & Dhruva, S. S. (2024). Hospital Prices for Physician-Administered Drugs for Patients with Private Insurance. New England Journal of Medicine, 390(4), 338-345. <https://doi.org/10.1056/NEJMsa2306609>



Higher out-of-pocket costs

Increasing drug prices

More expensive hospital settings and treatments

Higher premiums, eroding wage growth

# Questions?