Federal Drug Discount Program faces challenges, report finds

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A federal program that provides billions in drug discounts to safety net hospitals and other health care providers is expanding under health care reform, but divergent views on the purpose and future scope of the program creates uncertainty for safety net providers and drug manufacturers, according to new report from the RAND Corporation.

The so-called 340B program faces a number of critical issues, such as whether to change and better define eligibility, strengthen compliance efforts and provide greater transparency about the discounts provided through the program, according to the report. The federal Health Resources and Services Administration is developing new regulations to address these and other issues.

"Policymakers need a clear, objective description of the 340B program and the challenges it faces on the road ahead," said Andrew Mulcahy, the report's lead author and a policy researcher at RAND, a nonprofit research organization. "There are increasingly divergent views on the program's purpose and the role it should play in supporting safety net providers."

The federal 340B program began in 1992 to help health care providers extend services to vulnerable populations, including the indigent and uninsured. The program allows some hospitals, clinics and health centers to buy outpatient prescription drugs at discounted prices that are generally lower than the amount paid by state Medicaid programs.

Today more than 7,800 entities are covered by the program, a result of expanding eligibility rules. RAND researchers estimate that the hospitals that participate in the program account for more than one-third of all U.S. outpatient hospital visits.

Federal officials estimate that the 340B program accounts for $6 billion in outpatient drug spending, about 2 percent of all U.S. prescription drug spending in 2011. This translates into savings of $1.6 billion for eligible safety net providers.

RAND researchers found these savings are small in comparison to the disproportionate share hospital payments and primary health care grants that play a large role in financing care in the safety net. However, some estimates suggest that the size of the program could double under provisions in the federal Affordable Care Act.

RAND researchers reviewed the available information about the 340B Drug Pricing Program and developed a set of key issues policymakers should consider as changes are discussed.

Among those issues is whether to keep eligibility based on characteristics of health care facilities or to make only certain patients eligible for discounted drugs. Drug manufacturers contend that eligibility rules should change because some facilities in the program generate revenue by marking up the cost of drugs bought at a discount and selling them to patients with insurance.

Another important issue is a recent change that excludes expensive orphan drugs from the program. The change, made to protect the financial incentives for developing orphan drugs, has increased the complexity of recordkeeping for participating health care providers.

In addition, the RAND analysis says policymakers should consider

whether there needs to be more transparency about how the program's discounts are calculated. The formulas used to calculate prices are based, in part, on proprietary information, which can make it difficult for health care providers to know whether they could negotiate a lower price for drugs through another source.

More information: The report, "The 340B Prescription Drug Discount Program: Origins, Implementation, and Post-Reform Future," is available at www.rand.org

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