Drug Pricing Lab
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# Drug Pricing Lab Data Brief

## President Trump's reform of drug pricing: first look at hospitals impacted by proposed new rules to the 340B drug discount program

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The 340B drug discount program has been a frequent target of policymakers, as hospitals that qualify can generate a large amount of profit by obtaining drugs at a discount but then charging patients, insurers and the government rates they charge for undiscounted drugs. Meanwhile, the overarching aim of the program is for hospitals to use those funds to support care of the poor and uninsured. Today, President Trump released a "Blueprint to Lower Drug Prices," which proposed several reforms to reign in profit-seeking behavior in the 340B program. One proposed reform was to require that 340B hospitals provide charity care that totals 1% or more of their patient revenue in order to continue to qualify for outpatient drug discounts.[1]

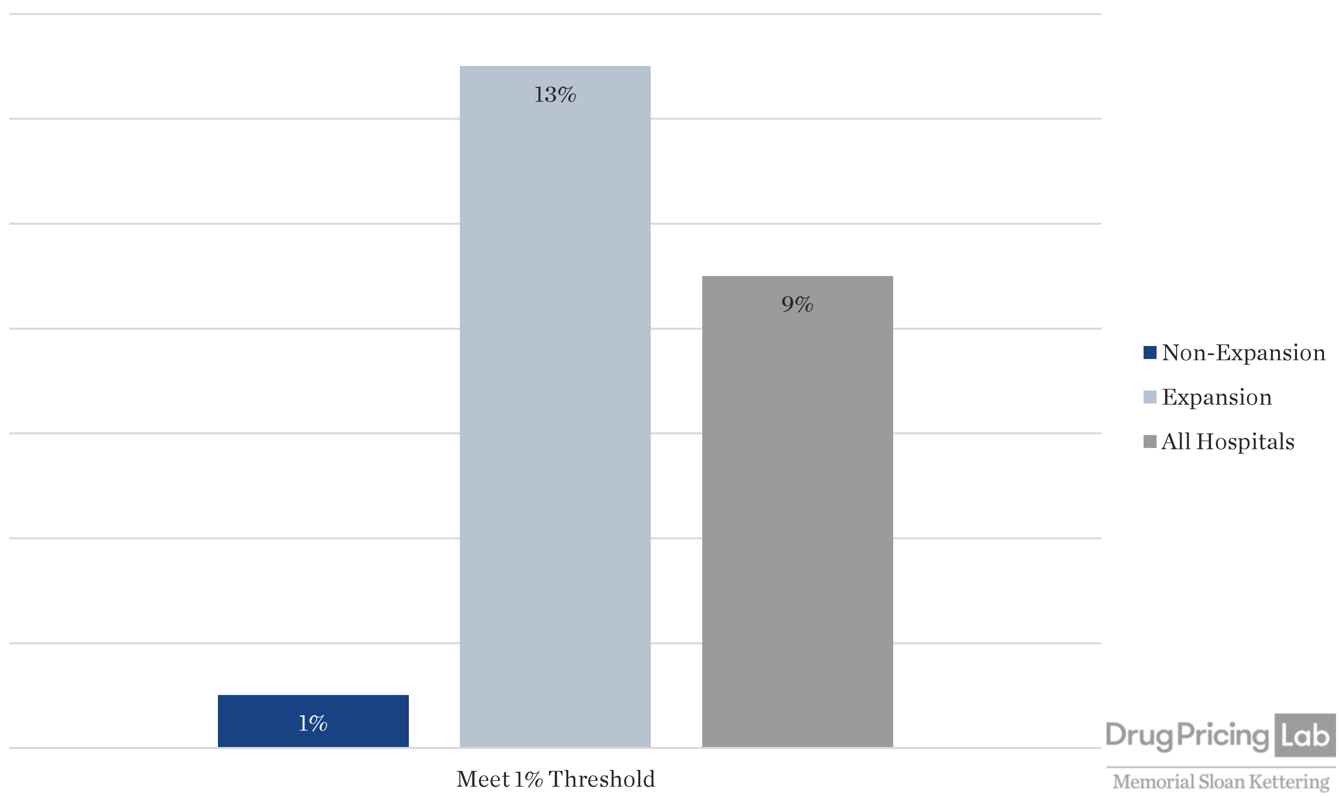
We examined which hospitals would be affected by this requirement using administrative data from 1,099 general acute care disproportionate share hospitals that participated in 340B in 2016, the latest available year of complete data. Our data come from CMS hospital cost reports linked to the HRSA 340B Provider List.

In 2016, of the 1,099 hospitals enrolled in the 340B program in 2016, 9% would have not been eligible under these new rules. Only 1% of hospitals located in states that did not expand Medicaid would lose their eligibility; 13% of those in Medicaid expansion states would ($P < 0.001$ for comparison). Hospitals in rural areas are also less likely to lose status than those in urban areas (10% vs. 25% would lose their status respectively, $p<0.01$). Despite providing less charity care, there were no differences in the number of clinics ($p=0.34$) and contract pharmacies ($p=0.36$) between those 340B hospitals that would and would not meet the new criterion (Table 1).

Recent research suggests the program has strayed from its original goals with newer participants located in wealthier communities and paltry safety-net care provision for a sizeable number of participants. This new uncompensated care based requirement is a step in the right direction, although it may not be far enough. The requirement will also hit hospitals in expansion states harder than in non-expansion states.

[1]The calculation is charity care + write offs for patient bad debt (uncompensated care) are 1% or more of patient revenue. Although not explicitly stated we used patient revenue net of negotiated discounts with insurers (net patient revenue).

**Figure 1.** Percent of hospitals losing 340B status




Source: Fiscal Year 2016 Hospital Cost Reports matched to the 340B DSH hospital Provider List. Our sample included 1,099 general acute care 340B DSH hospitals. Uncompensated care is defined as the cost of charity care and bad patient debt. Net operating revenue is revenue from inpatient and outpatient care, net of any negotiated discounts with insurers. We used state of location to assign Medicaid expansion status as of May 11th, 2018. Expansion states include AK, AZ, AR, CA, CO, CT, DE, DC, HI, IL, IN, IA, KY, LA, MD, MA, MI, MN, MT, NV, NH, NJ, NM, NY, ND, OH, OR, PA, RI, VT, WA, and WV.

**Table 1.** Average Characteristics by 1% Uncompensated Care Threshold Status

| Characteristics | Not-Passing 1% Threshold | Passing 1% Threshold | Difference | P-Value |
|---|---|---|---|---|
| Operating Revenue ($M) | 1650 | 1330 | -320.00 | 0.082 |
| Net Operating Revenue ($M) | 496 | 383 | -113.00 | 0.024 |
| Uncompensated Care Costs ($M) | 3.68 | 20.90 | 17.22 | 0.001 |
| Charity Care Costs ($M)* | 1.95 | 13.60 | 11.65 | 0.017 |
| CMS Urban Designation | 89.58% | 75.27% | -0.14 | 0.002 |
| Located in an Expansion State | 94.79% | 58.92% | -0.36 | 0.001 |
| South | 12.50% | 46.86% | 0.34 | 0.001 |
| Northeast | 19.79% | 16.05% | -0.04 | 0.345 |
| Midwest | 19.79% | 16.45% | -0.03 | 0.403 |
| West | 47.92% | 20.64% | -0.27 | 0.001 |
| Number of 340B Child Sites | 11.92 | 14.85 | 2.93 | 0.343 |
| Number of 340B Contract Pharmacies | 13.44 | 16.65 | 3.21 | 0.358 |

Source: Fiscal Year 2016 Hospital Cost Reports matched to the 340B DSH hospital Provider List. Our sample included 1,099 general acute care 340B DSH hospitals. Operating revenue is total inpatient and outpatient patient revenue, net operating revenue is operating revenue less allowances for insurer discounts, uncompensated care cost is charity care plus bad debt, urban status is based on CMS' designation, South, Northeast, Midwest, and West are census regions.

5/11/2018