

# *How a Company Makes Millions Off a Hospital Program Meant to Help the Poor*

A private business has helped supercharge a controversial federal drug program. Patients and insurers have been left with big bills.



Virginia King was charged more than \$2,500 after receiving a cancer drug, even though the clinic was enrolled in a federal discount program. Credit...Adria Malcolm for The New York Times



By [Ellen Gabler](#)

Published Jan. 15, 2025 Updated Jan. 16, 2025

Soon after being diagnosed with metastatic breast cancer, Virginia King sat in an outpatient clinic in Santa Fe, N.M., while a nurse injected her with a powerful drug to slow damage to her spine, where the disease had spread.

Even though the drug had a list price of about \$2,700, the hospital that owned the cancer center billed Mrs. King's insurance company \$22,700. Her insurer paid \$10,000, but the hospital wanted more.

She got a bill for over \$2,500 — “more than half my take-home salary for a month,” said Mrs. King, 65.

She had unknowingly sought care from a hospital that participates in a federal program allowing it to buy drugs at a steep discount and charge patients and insurers a higher amount, keeping the difference.

The intention behind the program was for a small number of safety-net providers to have access to affordable drugs and be able to expand their care for needy patients. But instead, the program has exploded: Now, more than half of nonprofit hospitals in the United States take part. While some providers say it has helped keep their doors open, others — especially large nonprofit health systems — [have been accused](#) of maximizing payouts and swallowing the profits.

The program's escalation has driven up health care costs for employers, patients and taxpayers, studies show.

In 2023, for instance, New York changed the way it administers drug benefits for Medicaid patients, in part because the state had discovered the cost of the federal program had increased by more than 200 percent over three years, said Amir Bassiri, the state's Medicaid director.

“The numbers and the growth were staggering,” he said. “We all bear the cost.”



Mrs. King was treated at Christus St. Vincent in Santa Fe, N.M. Credit...Adria Malcolm for The New York Times

Along the way, one little-known middleman has been cashing in, The New York Times found.

The company, Apexus, has worked behind the scenes to supercharge the program, according to interviews with current and former employees and emails, internal reports and other documents.

Twenty years ago, the federal government chose Apexus to manage what was then a small program, negotiating with drug distributors and manufacturers to secure better prices and access to medications. But Apexus is allowed to collect a fee for almost every drug sold under the program, giving the company an incentive to help hospitals and clinics capture as many prescriptions as possible:

- Its “purchasing optimization team” shows hospitals how they can make more money by buying different drugs.
- A certification program and an Apexus-run “university” trains providers in boosting earnings.
- Apexus employees give advice that broadly interprets the rules of the program so hospitals can claim additional patients and drugs.

Apexus was on track to double its revenue from 2018 to 2022, projecting \$227 million that year, according to a 2022 internal memo written for the directors of Apexus’ parent

corporation and reviewed by The Times. The company costs relatively little to operate and has enjoyed profit margins above 80 percent, according to that memo and three former employees.

In a statement, Apexus said it simply executed its government contract and did not contribute to the growth of the program, called the 340B Drug Pricing Program. “The drivers of growth are multifaceted,” the statement said.

But in the 2022 memo, the president of Apexus, Chris Hatwig, posed a question: “Are there other areas for program expansion within 340B that we are not thinking about?”



Mrs. King’s bill — “more than half my take-home salary for a month,” she said. Credit...Adria Malcolm for The New York Times

Government officials have told Apexus to focus solely on administering the program and not to influence drug purchases. But Apexus leaders have sometimes ignored that request, according to two complaints filed with a government watchdog and six current and former employees, speaking on the condition of anonymity because they feared professional or legal retribution.

In its statement, Apexus said it was “fully transparent” with the Department of Health and Human Services and had never breached its contractual obligations.

The Health Resources and Services Administration, an agency within H.H.S. that oversees the program, declined to answer detailed questions from The Times. But in a

statement, a spokeswoman said the agency “conducts rigorous oversight of all contracts,” and “to our knowledge, Apexus has not violated” its contract. Regulators and leaders of the company meet frequently to discuss the company’s work and prevent conflicts of interest, the spokeswoman said.

The growth of 340B has drawn criticism for years from Congress, [drugmakers](#) and employers, who say it has added to ballooning health care costs. But the role of Apexus has largely gone unexamined.

“They’ve got a license to hunt,” said Marsha Simon, who as a staff member of a congressional committee helped write the bill that authorized the program.

## **\$66 Billion in Sales**

Established in 1992, the 340B program essentially requires pharmaceutical manufacturers to offer discounts on outpatient drugs to hospitals and clinics that treat a greater share of low-income and uninsured patients.

The hospitals then can charge insurers and patients the standard price and keep the profits. Although the money is supposed to encourage care for impoverished patients, there are few rules to enforce that.

Patients rarely know they are part of this system. Their prescriptions can be counted as 340B when they get outpatient treatment at a hospital or clinic that qualifies for the program, regardless of the patients’ own income or insurance status. The provider can continue to make money off the patients’ future outpatient prescriptions, even if they get them somewhere else.

Apexus has had contracts to handle the program since the early 2000s. The government does not pay Apexus — instead, drugmakers and distributors pay the company a small percentage of sales.

Based in Irving, Texas, it is a subsidiary of Vizient, a private business owned by hospitals that negotiates a range of health care discounts. Apexus was established as a small nonprofit in 2007 but became a for-profit company in 2014.

Image



Apexus is a subsidiary of Vizient, a private company in Irving, Texas, that is owned by hospitals and negotiates health care discounts. Credit...Desiree Rios for The New York Times

Around the same time, 340B began to explode for a number of reasons. More hospitals qualified for the program after the Affordable Care Act expanded the number of people on Medicaid. Other health care systems qualified after acquiring hospitals and clinics in poor areas. Some, already eligible for 340B, bought up practices that used high-margin drugs, like oncology clinics. And a government rule change meant hospitals could make money from prescriptions filled at a greater number of pharmacies.

A decade ago, sales of 340B drugs were \$12 billion. In 2023, they reached [a high of \\$66 billion](#).

Fighting the program's growth has become a top priority for drugmakers, as well as some employers and insurers.

In North Carolina, prescription drug spending for state employees jumped almost 50 percent from 2018 to 2022. [A report in May](#) from the state treasurer's office found that 340B was partly to blame: Hospitals that participated in the program billed the state health plan far more than hospitals that did not — almost 85 percent more for certain cancer drugs. In one example, hospitals bought a drug commonly used to treat melanoma for an average of \$8,000 but billed the state \$21,512.

In some cases, costs are passed along to patients.

Mrs. King, the cancer patient in New Mexico, refused to pay her \$2,500 bill, and the hospital, Christus St. Vincent, sent it to collections in July.

After The Times asked about the bill last month, a spokeswoman for Christus St. Vincent said the charge was “a misunderstanding and has been resolved,” adding that the drug program helped the hospital provide charity care and reinvest in cancer treatment and primary care.

Mrs. King switched to a free-standing oncology clinic that does not qualify for the federal drug program. That clinic billed her insurance \$8,000 for the injection, about a third of what Christus St. Vincent had charged. Her responsibility was nothing.

## **An Ever-Growing Portfolio**

Ms. Simon, who helped draft the legislation creating 340B, said the government chose an outside contractor like Apexus in order to negotiate with distributors and drugmakers on behalf of small hospitals and clinics without a lot of buying power.

But regulators and Apexus have expanded that role, allowing the company to build a highly profitable business off the program and the loosely written statute that authorized it. The company has been “aggressive” in helping health care facilities maximize their revenue from the program, said Shawn Gremminger, chief executive of the National Alliance of Healthcare Purchaser Coalitions, which represents employers who buy health insurance for more than 45 million people in the United States.

“This is a government contractor, and the goal of the government should not be, ‘How do we make more money for 340B providers?’” said Mr. Gremminger, whose organization has pushed for the program to be overhauled.

Over the past two decades, Apexus has adapted its business model to harness 340B’s tremendous growth. A 2022 PowerPoint presentation obtained by The Times showed that Apexus employees received bonuses if the company increased its revenue each year.

With exclusive access to sales data, Apexus’ “purchasing optimization team” will analyze a hospital system’s drug-buying habits and compare them with those of their competitors, according to four current and former employees. In some cases, Apexus will suggest that a hospital buy more 340B drugs or tweak its inventory in ways that can churn more cash.

Apexus declined to answer detailed questions about its optimization team, but said in a statement that the company “only provides technical assistance” in keeping with regulations.

Image



Apexus holds “340B University” events to help industry employees understand the federal discount program. Credit...Kathleen Flynn for The New York Times

Apexus also holds “340B University” events to help providers and others in the health care industry understand the program, and it fields questions through a national call center. But the rules governing the program are ambiguous, and Apexus offers broad interpretations, according to four current and former employees.

For instance, one of the thorniest issues is which patients can be claimed by hospitals for discounted drugs. The further a hospital casts its net, the more patients and drugs it can include under the program, and the more money it can make. Apexus has advised hospitals that they can mine records as far back as 36 months for eligible patients they may have missed, two of those employees said.

Similarly, Apexus employees have shown hospitals how to maximize the number of pharmacies they work with, boosting the number of prescriptions that can qualify for discounts, those employees said.

In its statement, Apexus said those examples were inaccurate but would not say how. It added that the company encouraged “conservative and responsible stewardship” of the 340B program, and that all information it provided was approved by regulators.

A spokeswoman for H.R.S.A. said it reviewed materials prepared by Apexus but declined to comment on that specific advice.



The company has developed other ventures that have brought in revenue:

- About eight years ago, Apexus began selling a \$750 course for people to become “certified experts” in 340B.
- It started a business to give hospitals better access to specialty drugs — for conditions like cancer, H.I.V. and autoimmune diseases — which are major drivers of 340B’s growth. That company, Acentrus, helped hospitals and clinics provide data to manufacturers in exchange for deeper discounts and access to those drugs. It [was sold](#) last year.
- The company charges 3 percent in fees for a line of generic drugs that are managed and provided by drug distributors, according to former employees. Apexus simply provides access to the health systems.

For the last decade, Apexus has earned millions of dollars on drug purchases made outside the 340B program: Because not all outpatient drugs qualify for 340B discounts, hospitals must stock their pharmacies with medication purchased through different channels. Apexus acts as a middleman, making fees off those transactions.

That has frustrated drugmakers and competitors. In 2021, the drug manufacturer Baxter wanted to sell non-340B drugs to hospitals without going through Apexus, according to emails obtained under public-records laws. But government regulators would not allow it, a spokeswoman for Baxter said.

In early November, Premier, the main competitor to Apexus’s parent company, Vizient, sued the federal government over these sales. The setup, the suit argued, forces hospitals to pay higher prices for those non-340B drugs and drives revenue to drug manufacturers and Apexus.

In its statement, Apexus said its federal contract did not preclude it from developing other businesses, as long as they were not in conflict with the terms of the agreement.

Regulators were aware of these ventures, the company said, noting that its specialty drug business, Acentrus, was in “no way associated with” the 340B program. The 2022 company memo, however, said Acentrus “resulted in an additional \$20 million” in revenue within the 340B program.

H.R.S.A. declined to comment on the scope of its authority over Apexus and whether it knew about all the company’s revenue-generating arms.

## **Criticized, but Pushing Ahead**

About six years ago, Krista Pedley, then the director of the H.H.S. office in charge of 340B, reprimanded Apexus leaders in a Skype meeting, saying it was acting more like a sales-driven business than a program administrator. She reminded them that Apexus’ role was not to help 340B grow, according to five former or current employees familiar with the meeting.

For about a month afterward, regulators reviewed any communication Apexus had with health care facilities to make sure the company didn't overstep, the employees said.

But that did not seem to dampen the company's pursuits. (In an email, Ms. Pedley said she did not recall that meeting, and noted that her former office met regularly with Apexus.)

In 2021, an unnamed Apexus employee filed a complaint with H.H.S.'s Office of Inspector General, an internal watchdog, saying the company was "always trying to grow the program." The company, the employee wrote, had hired "sales-type" staff to influence hospitals' drug-purchasing decisions.

The complaint said that regulators did not understand Apexus' business, and that employees had been told by company leaders to describe its work as "education."

Another anonymous complaint, filed in 2022, echoed the allegation that Apexus had hired staff to help shape hospitals' purchasing decisions, and said it was using "data in ways to drive revenue for itself, without asking (or asking and disregarding) the government's opinion."

Apexus declined to answer specific questions about the meeting with Ms. Pedley, but said The Times's account was a "mischaracterization of our day-to-day, collaborative discussions" with the agency.

Apexus rejected the allegations in the anonymous complaints and said it had been unaware of them until The Times provided it with copies. The spokeswoman for H.R.S.A. said that it, too, had been unaware of the complaints.

In interviews, four current and former employees said that for years, Mr. Hatwig, Apexus' president, acknowledged that regulators did not want the company to develop sales-focused arms of the business but encouraged his staff to do so anyway, saying that the government would not know.

Apexus denied that, saying that "everyone at Apexus understands the expectation that they conduct themselves and perform their work in an ethical and compliant manner."