ASPE Report: 340B Payment Cuts Needed To Align Hospital Incentives

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HHS' planning office is backing major cuts to hospitals' 340B reimbursement rates, arguing lower payments would better reflect acquisition costs and discourage hospitals from profiting from the program meant to benefit low-income and uninsured patients. The Office of Health Policy within the HHS Assistant Secretary for Planning and Evaluation supports CMS' proposed outpatient rule that would implement the cuts, which hospitals strongly oppose, in a new report.

ASPE's report on what it says are misaligned incentives in the 340B program, released Oct. 8, supports finalizing a CMS Hospital Outpatient Prospective Payment System (OPPS) 2027 draft rule pending at the White House that would reduce payments for Medicare Part B drugs acquired through the 340B program. The proposal would cut the rate from the average sales price (ASP) plus 6% to ASP minus 33.4%, aiming to combat 340B hospital practices like consolidation and spread pricing that CMS says have driven up costs.

The report says CMS' proposed rule may help redirect resources to address issues in the 340B program like duplicate or diverted discounts and the growing number of contract pharmacies safety-net hospitals are using to dispense 340B drugs.

"With the current reimbursement rate of ASP plus 6%, hospitals are incentivized to increase their spread by overusing high-cost drugs, seeking Medicare insured patients to increase reimbursement, and drive consolidation through take-up of child sites," the ASPE report says. "In addition to mitigating spread-chasing behaviors that ultimately inflate premiums, reducing the reimbursement rate would also have a direct effect on lowering out-of-pocket costs for Medicare beneficiaries, who under Medicare Part B, typically pay 20 percent of the OPPS reimbursement amount as their coinsurance."

A key finding supporting the proposed payment cut is that patient and government spending on 340B drugs was significantly lower when reimbursement rates were previously reduced than in the years after the current rate was reinstated.

From 2018 through 2022, the Medicare reimbursement for 340B Part B drugs was dropped from ASP plus 6% to ASP minus 22.5%. The change was later ruled unlawful by the Supreme Court, and the ASPE report found that inflation-adjusted payments for 340B drugs furnished by non-exempt providers increased by $3.6 billion from 2021 to 2023, which drove overall payments to rise from $14. 3 billion in 2021 to $17.6 billion in 2023.

CMS has said that it expects adopting the 340B drug payment cut, which would be offset by raising the conversion factor for payments to all OPPS hospitals for non-drug services by 8.14%, to result in significant savings for the government. The proposed rule estimates the policy could reduce traditional Medicare drug payments by $4.55 billion and beneficiary drug payments by $1.15 billion in the first year.

Casey Mulligan, chief economist and chief regulatory officer at HHS, says the pay cut could be key to cracking down on the unintended consequences of the 340B program exploding in size, with total 340B drug purchases having risen from $12 billion in 2015 to $81 billion in 2024.

Mulligan wrote in a recent *STAT News* op-ed that the incentive of earning “spread,” meaning the margin between the 340B discounted price and the reimbursement rate the covered entity receives, rewards hospitals especially for relying on more and costlier drugs. The incentive also increases the value of formerly independent infusion clinics and provider practices once they’ve consolidated with a larger 340B hospital.

Mulligan wrote that restoring the ASP plus 6% reimbursement rate meant paying hospitals more for the 340B drugs that were impacted by the 2018-2022 pay cut period, resulting in a massive revenue increase that would also go on to benefit off-campus hospital locations, or child sites. The report found that off-campus hospital outpatient departments gained $800 million in 340B drug reimbursements from 2021 to 2023 even as claims fell and the number of beneficiaries that were served remained the same.

Mulligan says the draft pay cut proposal would help to reduce the spread hospitals can earn off 340B drug payments and break down the incentives spread pricing presents for

hospitals to push patients to use more expensive drugs, acquire smaller provider practices or engage in any other behaviors that contribute to higher healthcare costs.

“There’s an important lesson here. A small, well-intended discount for safety net hospitals became a large institutional subsidy with expensive unintended consequences. Under the proposed rule, hospitals would still receive their 340B drug discounts,” Mulligan said in the op-ed. “What would change is Medicare’s payment for those drugs at affected hospitals.”

Mulligan added, “Medicare patients should not pay coinsurance as though the discount did not exist.”

Hospitals slammed the proposal when the draft OPPS rule was released this summer, arguing 340B savings are intended to help hospitals provide adequate care and services for the communities they serve. They said the proposed policy would add to safety net hospitals’ administrative and financial pressures. -- *Gabrielle Wanneh* (gwanneh@iwpnews.com)