Safety Net Hospitals for Pharmaceutical Access

Why the 340B Program Will Continue to be Important and Necessary after Health Care Reform is Fully Implemented

Since 1992, the 340B drug discount program has enabled safety-net providers serving a large volume of low-income and uninsured patients to access significant discounts on pharmaceuticals dispensed or administered to their patients in the outpatient setting.
As health care reform implementation moves forward, it is important to remember the role the 340B program plays in treating our nations' most vulnerable patient populations. Because of their unique experience in meeting the demands of indigent patients and other vulnerable populations, 340B providers are best equipped to treat individuals who will be receiving coverage through programs established by health care reform. Even after health care reform is fully implemented, there will still be patients who are uninsured, underinsured, or otherwise need continued access to affordable medications and comprehensive pharmacy services from their safety-net providers.

- **Hospitals enrolled in the 340B program will continue to treat the uninsured and underinsured.**
  - According to the Congressional Budget Office, an estimated 21 million people will be uninsured even after health care reform is fully implemented. Despite the Affordable Care Act's (ACA) individual mandate, many people will forego purchasing health insurance. The monetary penalty imposed upon such individuals, capped at $695 a year, falls well below the average person's medical expenses in a year and is unlikely to induce everyone to buy health insurance. As they did before health care reform, 340B hospitals will continue to treat a disproportionate share of uninsured and underinsured patients.
  - Many insured patients are unable to pay their health care bills due to their plans' high deductibles and copayments, restrictive formularies, and lifetime caps. Savings from the 340B program helps hospitals absorb the costs of uncollectable bills of both underinsured and uninsured patients.
  - Health care reform did not extend insurance coverage to unauthorized immigrants. The Pew Hispanic Center estimates that, as of March 2009, there were 11.1 million unauthorized immigrants in the United States. Lacking health insurance, many such people do not have established relationships with primary care physicians and instead turn to 340B providers for their health care needs.
- **340B hospitals will play a key role in providing health care to the newly insured.**
  - Health care reform, coupled with the economic downtown, has state Medicaid administrators worried about their states' fiscal, administrative, and provider capacities. ACA relies heavily upon Medicaid to expand insurance coverage. While the federal government will cover the overwhelming majority of the cost of the expansion, states still must contribute a portion of the cost and have funds left for implementation and administration. In addition, for reform to be truly successful, a state must have an adequate number of physicians and other health care professionals to serve new Medicaid beneficiaries. Given 340B hospitals' proficiency at making the most of limited resources and the fact that they will

continue to treat a disproportionate share of Medicaid beneficiaries, 340B hospitals will be instrumental to the future success of health care reform. In addition, 340B providers have the expertise and experience to address the unique circumstances and challenges associated with treating indigent patient populations.

  - Massachusetts' effort to increase insurance coverage offers a cautionary tale. As more citizens of Massachusetts became insured, the demand for health care outstripped the supply of primary care physicians. Those who were unable to see primary care physicians often went instead to hospital emergency rooms (ER), resulting in a rise in the total of number of ER visits. While ACA seeks to boost the availability of primary care, it is unlikely that it will be able to meet fully the health care needs of the newly insured. As in Massachusetts, many newly insured people will turn to hospitals' emergency services for their acute-care needs.
  - As stated above, ACA relies heavily upon Medicaid to expand insurance coverage. Medicaid has lower reimbursement rates than most private payers. In the case of 340B drugs, this reimbursement gap is exacerbated because, in most instances, providers are required to bill their 340B drugs to Medicaid at acquisition cost plus a small dispensing fee, which does not come close to covering the costs of comprehensive pharmacy services, including drug preparation, counseling, and administrative overhead. The Medicaid reimbursement gap poses a significant financial challenge to 340B providers since they treat a disproportionate share of Medicaid enrollees. The challenge will only grow as the hospitals begin to serve a disproportionate share of newly eligible Medicaid beneficiaries under health care reform. The number of Medicaid enrollees will likely increase further as more employers decide not to offer health insurance to their employees due to the quickly rising cost of health care. Faced with this reality, safety net providers will continue to be dependent on reduced drug costs to offset the losses incurred in treating the uninsured, the underinsured, and the Medicaid population.

- **340B hospitals have used their program savings to provide, improve, and expand services in innovative and cost-effective ways and will continue to do so post-health care reform.**
  - **Home care.** 340B providers use their 340B savings to deliver care to certain populations in their homes. These models ensure ER resources are not used unnecessarily on patients needing routine care and help providers better promote healthy lifestyles with high risk patients to prevent further illness.
  - **Visiting professionals.** 340B providers partner with state and local governments to provide professional health care to patients for whom travel to the providers facility is deemed difficult or risky. Nursing home residents, mental health patients, and correctional populations are just a few examples. By partnering with 340B providers, state and local governments can offer high quality and affordable treatment for patients whose care is historically both logisitically difficult and costly, at no additional expense to taxpayers.

- **Without the 340B program, it very likely many safety-net hospitals will have to limit services and perhaps close their pharmacy doors. As a result, patients will lose access to health care, and communities will suffer.**
    - 340B hospitals are the only institutional health care providers in many underserved areas.
    - 340B hospitals treat patients who have been turned away by other providers. An increasing number of physicians and pharmacies do not accept Medicare and Medicaid because the programs' reimbursement rates are significantly lower than those of most commercial payers and often do not even cover costs. In addition, many providers and pharmacists will not provide free or reduced costs care to the uninsured. The 340B program helps safety-net hospitals and clinics fill the reimbursement gap and enables them to treat all patients, regardless of payer type.
    - 340B hospitals treat a disproportionate share of Medicaid, Medicare, underinsured, and uninsured patients. Without the 340B program, these hospitals would be unable to maintain their current levels of uncompensated and undercompensated care. Recent developments such as newly reduced Medicare payments for inpatient services make the 340B program all the more necessary.
    - Many academic medical centers are enrolled in the 340B program. Losing their 340B savings could be detrimental to the centers' ability to train future generations of physicians, pharmacists, and other clinicians at a time when certain medical fields are already experiencing a shortage of professionals.

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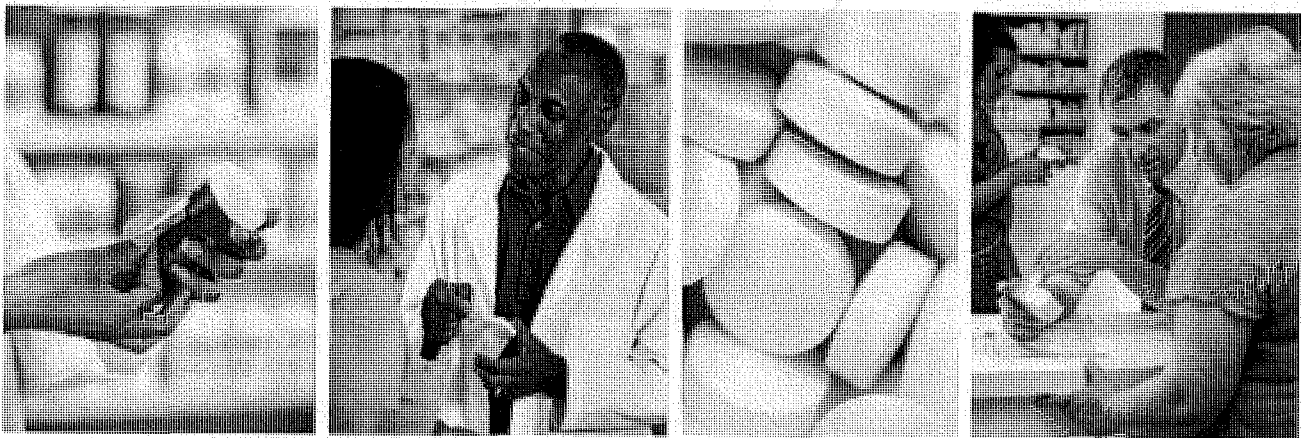
DEMONSTRATING THE VALUE OF THE 340B PROGRAM TO SAFETY NET HOSPITALS AND THE VULNERABLE PATIENTS THEY SERVE



3/31/2011 Perspectives from SNHPA Members

EXECUTIVE SUMMARY

Background

The 340B Drug Pricing Program (340B program) is a federal program designed to reduce the amount that safety net providers spend on outpatient drugs. Safety Net Hospitals for Pharmaceutical Access (SNHPA) has commissioned this report to obtain information on how 340B participating hospitals are utilizing 340B savings. SNHPA is an organization that advocates for approximately 650 public and private non-profit hospitals and health systems throughout the country that participate in the 340B program.

An electronic survey was administered to the universe of SNHPA membership as of February 1, 2011, which consisted of 632 members. Due to the urgency of this report, data collection was expedited to three weeks; despite this abbreviated timeframe, the survey received 381 responses, for a response rate of 60 percent.

Key Findings

I. Program Savings Are Critical to Safety Net Hospital Operations

- Respondents reported spending 27 percent less than they would have spent on outpatient drugs as a result of the 340B program, resulting in an average annual savings of $5.2 million in 2010.
- 100 percent of respondents reported that the savings stemming from 340B participation are important to the operation of their institution, with 85 percent characterizing the savings as *critical.*
- 83 percent credit the cost reductions afforded through 340B to the maintenance of broader hospital operations, including the provision of necessary, non-pharmacy services for patients.
- 98 percent of respondents reported that an elimination of 340B savings would adversely impact the organization and its patients.

II. Program Savings Reduce the Cost of Pharmaceuticals to Vulnerable Patients

- 74 percent of respondents with an outpatient pharmacy use 340B savings to reduce the price of drugs paid by patients.
- More than two-thirds (68 percent) of survey respondents rely on the 340B program to offset low pharmacy reimbursement from public and private sources of insurance.

III. Program Savings Increase Access to and Quality of Pharmaceutical Services for Vulnerable Patients

- 75 percent of respondents use 340B savings to increase patient access to prescription drugs, of which 93 percent use savings to enhance service for the uninsured or underinsured.
- Over half of respondents reported using 340B savings to support cost-effective and patient-focused pharmacy services such as medication therapy management, disease management and patient assistance programs.

IV. Other Issues Facing Participants

- 40 percent of survey respondents reported difficulty obtaining covered outpatient drugs at the 340B price.

- Support for an extension of 340B to inpatient drugs remains strong.
- The orphan drug exclusion is a challenge for newly-eligible hospitals wishing to participate in 340B.

Summary

This report demonstrates the value of the 340B program to hospital systems in meeting the needs of their low-income, uninsured and underinsured patient populations, while stretching tax dollars. Safety net hospitals have been using their program savings to provide, improve and expand services in innovative and cost-effective ways and will continue to rely on the program post-health care reform.

As indicated by the survey respondents, without the 340B program, many safety net hospitals would have to limit services or even close their pharmacy doors. As a result, patients would lose access to health care and communities would suffer.