



## **GAO Recommends Congress Reduce Incentives for Prescribing 340B Drugs**

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The United States Government Accountability Office (GAO) recently released a report entitled “Medicare Part B Drugs: Action Needed to Reduce Financial Incentives to Prescribe 340B Drugs at Participating Hospitals” (“the “Report”). The 340B Drug Pricing Program requires Medicare participating drug manufacturers to sell certain outpatient drugs at discounted prices to qualifying health care providers, including the 40 percent of all U.S hospitals that serve a disproportionate share of low-income patients or fall under other specified criteria. Medicare reimburses these hospitals (“340B Hospitals”) for the drugs using a statutorily defined formula that is unaffected by their actual purchase price, which GAO indicated could incentivize overprescribing of 340B drugs to “maximize the revenue generated by the difference between the actual cost of the drugs and their reimbursement.” The GAO was particularly concerned with those 340B Hospitals that serve a disproportionate number of low-income patients (“340B DSH Hospitals”), as they account for 80 percent of all 340B drug purchases.

The GAO issued the Report in response to concerns raised by Congress and other stakeholders that 340B Hospitals are not using the program and program revenues to help vulnerable patients but rather to maximize revenue. In conducting the study, the GAO researchers examined financial and other data of 340B Hospitals and such data of non-340B hospitals. In particular, the researchers compared Medicare Part B drug spending at 340B Hospitals, for all drugs and for oncology drugs, with that of non-340B hospitals. To obtain its findings, the GAO analyzed 2008 and 2012 spending data and compared Medicare Part B drug spending by 340B DSH Hospitals with that of non-340B DSH Hospitals and all other non-340B hospitals. The GAO also interviewed stakeholders, including representatives from drug manufacturers and 340B Hospitals.

The GAO found substantially higher per-beneficiary Medicare spending for Part B drugs at 340B DSH Hospitals than at non-340B hospitals, and the agency determined that the discrepancy was most likely not explained by hospital characteristics or patient health status. The spending difference remained even after the researchers accounted for teaching status, ownership type, and location. The Report concluded that 340B DSH Hospitals, and thus all 340B Hospitals, may be responding to the financial incentive to maximize Medicare revenues through the prescribing of more drugs or more expensive drugs than they would otherwise. The Report also suggested that hospitals are buying oncology practices in order to take further financial advantage of the 340B Program. Independent oncology practices are not eligible for 340B Program pricing, but oncology practices owned by hospitals can buy drugs at 340B Program prices.

In the Report, the GAO noted several issues with over-prescribing, including the increased burden to both taxpayers and beneficiaries caused by excess spending on Medicare Part B drugs and the appropriateness of health care being provided to Medicare Part B beneficiaries in light of this incentive. In the Report, the GAO also noted that having hospitals financially benefit from the 340B Program is not necessarily inconsistent with the legislative intent of the program, but the agency placed more emphasis on the potential problems with the overspending.

Accordingly, the GAO recommended the following:

To help ensure the financial sustainability of the Medicare program, protect beneficiaries from unwarranted financial burden, and address potential concerns about the

appropriateness of the health care provided to Part B beneficiaries, Congress should consider eliminating the incentive to prescribe more drugs or more expensive drugs than necessary to treat Medicare Part B beneficiaries at 340B [H]ospitals.

In the Report, however, the GAO did not specify how Congress could potentially reduce these incentives. This is obviously an area in which 340B stakeholders will want to monitor future developments.

A copy of the GAO Report is available at <http://www.gao.gov/assets/680/670676.pdf>.

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