

# Maryland Prescription Drug Affordability Board

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*The Federal 340B Drug Discount Program & Pharmacy Benefit Managers (PBMs) in the Context of Drug Prices/Costs*

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# Presentation Summary

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- The Community Oncology Alliance is a nonprofit (501.c.6) organization representing independent community oncology practices and their patients
  - 55% of cancer care in the U.S. provided by independent community oncology practices
    - Before fundamental changes to Medicare reimbursement in 2003 was 84%
- Let me be very clear: **Drug companies have a fundamental role in pricing prescription drugs!**
- However, what Americans (patients) pay for drugs is more often based on the “list” price – or some multiple of the “list” price
  - Also holds true for state governments, employers, and other payers
- There is a growing (exploding) gap between drug “list” prices and “net” prices
- And when Americans balk at high drug “prices” they are referring to their drug “costs”
  - Costs are a function of “list” price, benefit plan design, what providers charge, what middlemen charge, etc.
- 340B hospitals and PBMs have a clear role in fueling drug costs for Americans

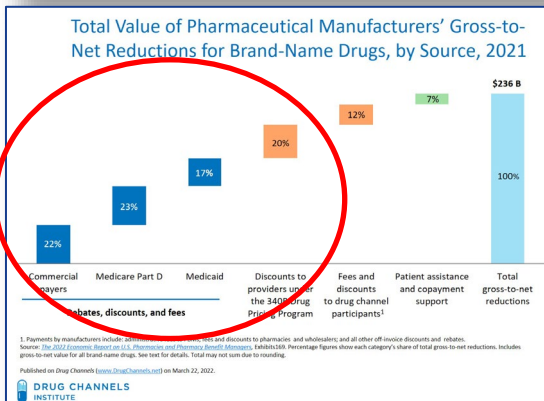
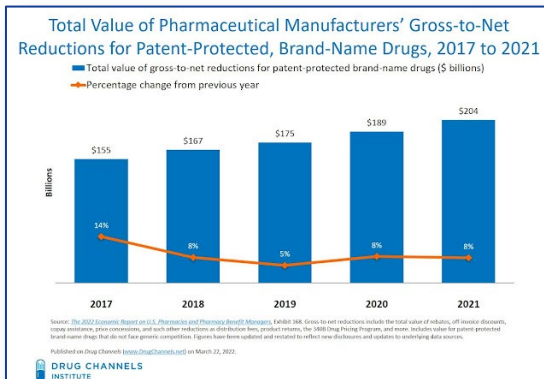
# Reality of Drug Price (List vs. Net) Dynamics

## Brand-Name Drugs, Change in List vs. Net Price, by Company, 2020

Company	[A] Average list price change	[B] Average net price change	[A] - [B] Gross-to-net difference	Average reduction from list price
Eli Lilly and Company	+3.4%	-5.3%	-8.7%	-60.0%
Janssen	+3.8%	-5.7%	-9.5%	-53.0%
GlaxoSmithKline	+3.2%	-0.7%	-3.9%	n.a.
Merck & Co	+3.1%	+0.9%	-2.2%	-45.5%
Novartis	+3.7%	-0.2%	-3.9%	-46.8%
Sanofi	+0.2%	-7.8%	-8.0%	-54.0%
<b>Unweighted average</b>	<b>+2.9%</b>	<b>-3.1%</b>	<b>-6.0%</b>	<b>-51.9%</b>

Source: Drug Channels Institute analysis of company reports

Published on Drug Channels ([www.DrugChannels.net](http://www.DrugChannels.net)) on April 14, 2021.

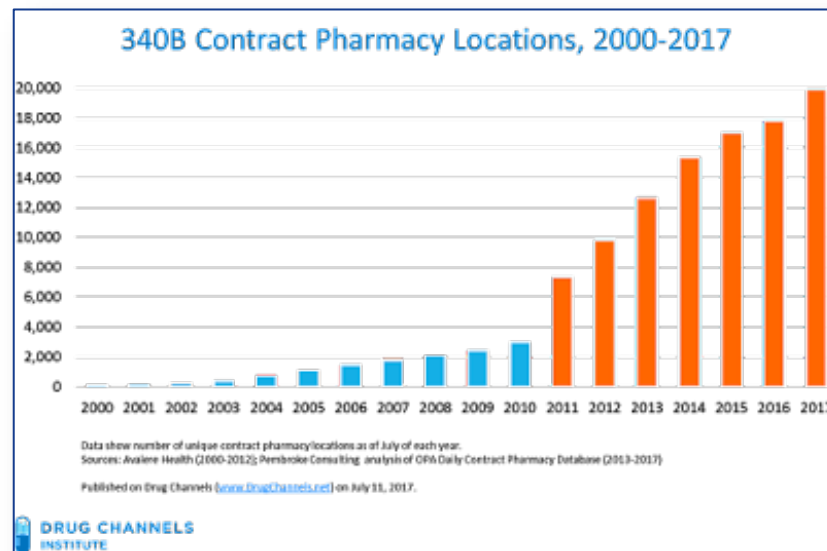
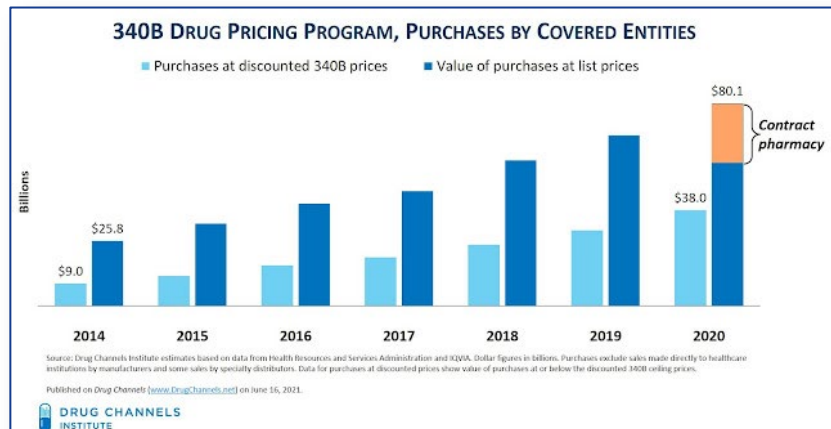


# Background on the 340B Drug Pricing Program

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- **340B is a CRITICAL safety net program, especially for patients with cancer who are uninsured or underinsured**
- However, the program has expanded from a handful of safety net providers to 50+% of all U.S. hospitals (Source: [Berkeley Research Group](#))
  - Discounted 340B drug purchases reached \$38 billion in 2020, 27% higher than in 2019 (Source: [Drug Channels](#))
  - WAC list price value of 340B drug purchases was \$80.1 billion in 2020 (Source: [IQVIA](#))
- 340B generated \$40 billion in profits for participants (Source: [Masia/Columbia University & SSR Health](#))
- One estimate is that by 2026 340B will be the largest federal drug program, surpassing both Medicare and Medicaid drug programs (Source: [Berkeley Research Group](#))

# 340B Growth in Pictures



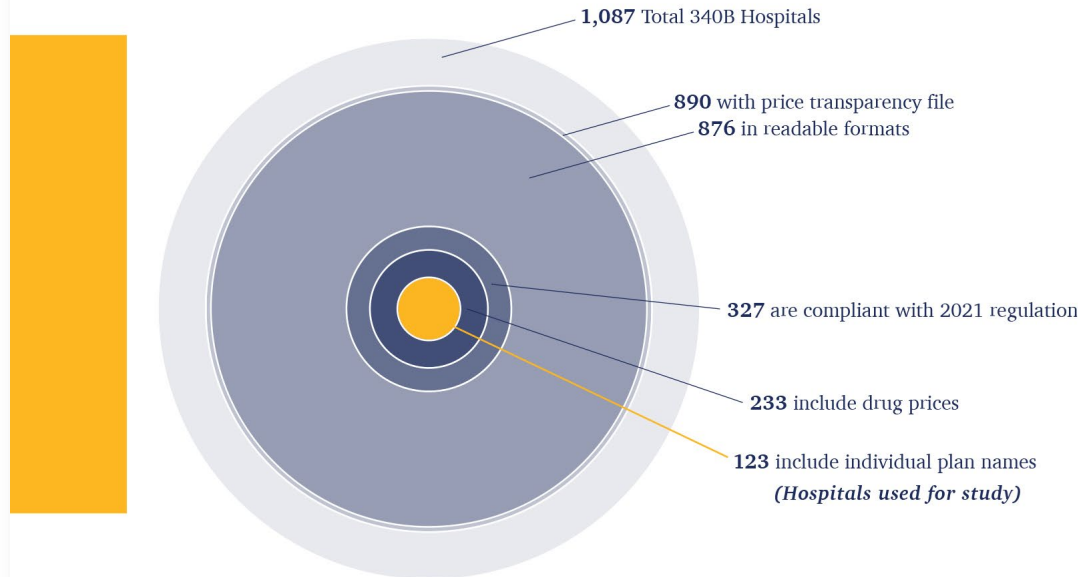
# Hospital Drug Profits

NEW YORK-PRESBYTERIAN HOSPITAL	NEW YORK	NY	\$327,878,090
NEW YORK UNIVERSITY LANGONE MEDICAL CENTER	NEW YORK	NY	\$268,111,977
VANDERBILT UNIVERSITY MEDICAL CENTER	NASHVILLE	TN	\$240,575,553
STANFORD HEALTH CARE	STANFORD	CA	\$234,550,736
UCSF MEDICAL CENTER	SAN FRANCISCO	CA	\$233,318,210
MONTEFIORE MEDICAL CENTER	BRONX	NY	\$212,145,952
UNIVERSITY OF MICHIGAN HEALTH SYSTEM	ANN ARBOR	MI	\$196,958,563
INDIANA UNIVERSITY HEALTH	INDIANAPOLIS	IN	\$193,118,769
ADVENTHEALTH ORLANDO	ORLANDO	FL	\$184,588,530
CEDARS-SINAI MEDICAL CENTER	LOS ANGELES	CA	\$175,817,631
LONG ISLAND JEWISH MEDICAL CENTER	NEW HYDE PARK	NY	\$165,980,967
YALE-NEW HAVEN HOSPITAL	NEW HAVEN	CT	\$154,708,681
MOUNT SINAI HOSPITAL	NEW YORK	NY	\$152,416,981
HOSPITAL OF UNIV OF PENNSYLVANIA	PHILADELPHIA	PA	\$145,885,787
JOHNS HOPKINS HOSPITAL, THE	BALTIMORE	MD	\$135,132,404
UNIVERSITY OF KANSAS HOSPITAL	KANSAS CITY	KS	\$133,844,885
UNIVERSITY OF CALIFORNIA DAVIS MEDICAL CENTER	SACRAMENTO	CA	\$131,360,041
DUKE UNIVERSITY HOSPITAL	DURHAM	NC	\$128,540,534
UC SAN DIEGO HEALTH HILLCREST - HILLCREST MED CTR	SAN DIEGO	CA	\$122,253,100
CAROLINAS MEDICAL CENTER/BEHAV HEALTH	CHARLOTTE	NC	\$121,721,342
RUSH UNIVERSITY MEDICAL CENTER	CHICAGO	IL	\$121,260,569
SPECTRUM HEALTH	GRAND RAPIDS	MI	\$118,889,146
HENRY FORD HOSPITAL	DETROIT	MI	\$117,621,056
NORTHSIDE HOSPITAL	ATLANTA	GA	\$117,374,143
RONALD REAGAN UCLA MEDICAL CENTER	LOS ANGELES	CA	\$117,364,370
OHIO STATE UNIVERSITY STATE HEALTH SYSTEM	COLUMBUS	OH	\$117,148,443
MEMORIAL REGIONAL HOSPITAL	HOLLYWOOD	FL	\$115,975,873
STRONG MEMORIAL HOSPITAL	ROCHESTER	NY	\$115,950,806
BARNES JEWISH HOSPITAL	SAINT LOUIS	MO	\$113,654,587
JACKSON HEALTH SYSTEM	MIAMI	FL	\$111,310,582
THE UNIVERSITY OF CHICAGO MEDICAL CENTER	CHICAGO	IL	\$107,292,557
CHRISTIANA HOSPITAL	NEWARK	DE	\$106,929,809
METHODIST HEALTHCARE MEMPHIS HOSPITALS	MEMPHIS	TN	\$106,246,893
SANTA CLARA VALLEY MEDICAL CENTER	SAN JOSE	CA	\$106,108,509
PARKLAND HEALTH & HOSPITAL SYSTEM	DALLAS	TX	\$104,245,044
UNIVERSITY HEALTH SYSTEM	SAN ANTONIO	TX	\$103,222,438
UNIVERSITY OF MARYLAND MEDICAL CENTER	BALTIMORE	MD	\$102,643,952
UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	AURORA	CO	\$100,889,957
THOMAS JEFFERSON UNIVERSITY HOSPITAL	PHILADELPHIA	PA	\$100,768,149

Source: Avalere Health analysis for COA

# Analysis of 340B Hospitals' Reported Data

**EXHIBIT 1. Waterfall of 340B Hospital Compliance With Transparency Regulations**



Only 123 of the 1,087 acute care 340B hospitals reached the finish line publishing individual negotiated payer price data for drugs.

**These 123 hospitals formed the basis of our analysis.**

# 340B Hospital Drug Markups

**EXHIBIT 3. Median 340B Hospital Markup vs. 340B Hospital Discounted Acquisition Cost**



**EXHIBIT 10. Comparison of Cash Price Markup to Median Negotiated Insurance Price**

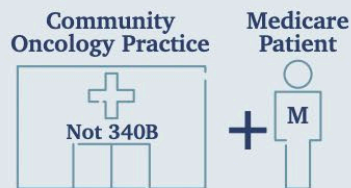


340B hospitals charge virtually the same median price for cash paying or uninsured patients as they do for insurers



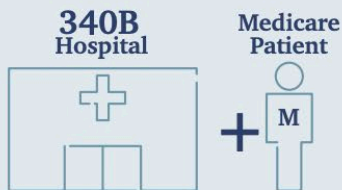
# Example of 340B Profitability

EXHIBIT 5. Price Breakdown of Darzalex Markups and Profit Across Care Settings and Payers



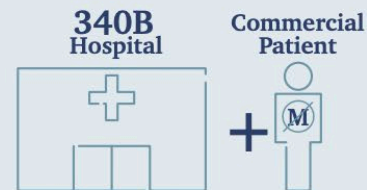
**+\$7,013**

Gains from treating a single patient for a year



**+\$14,259**

Gains from treating a single patient for a year

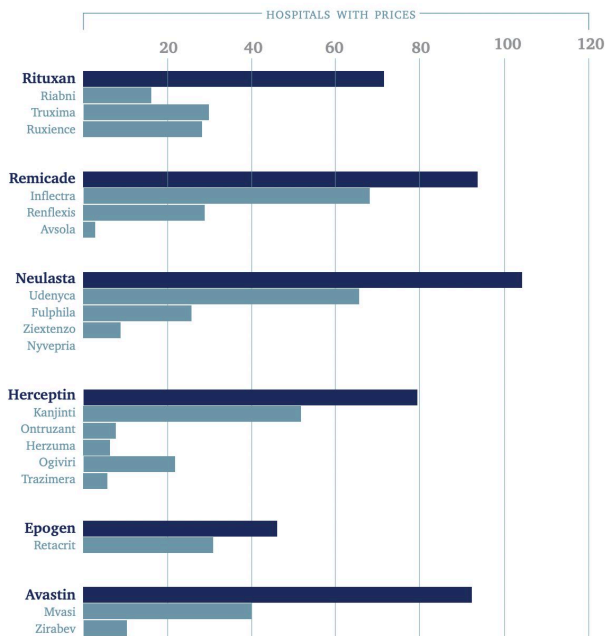


**+\$213,696**

Gains from treating a single patient for a year

# 340B Hospitals Use Less Biosimilars

EXHIBIT 9. Number of Hospitals with List Prices of Innovator and Biosimilar Drugs



25-56% of hospitals studied only list prices for innovator drugs, not biosimilars

# Where Are 340B Profits Going?

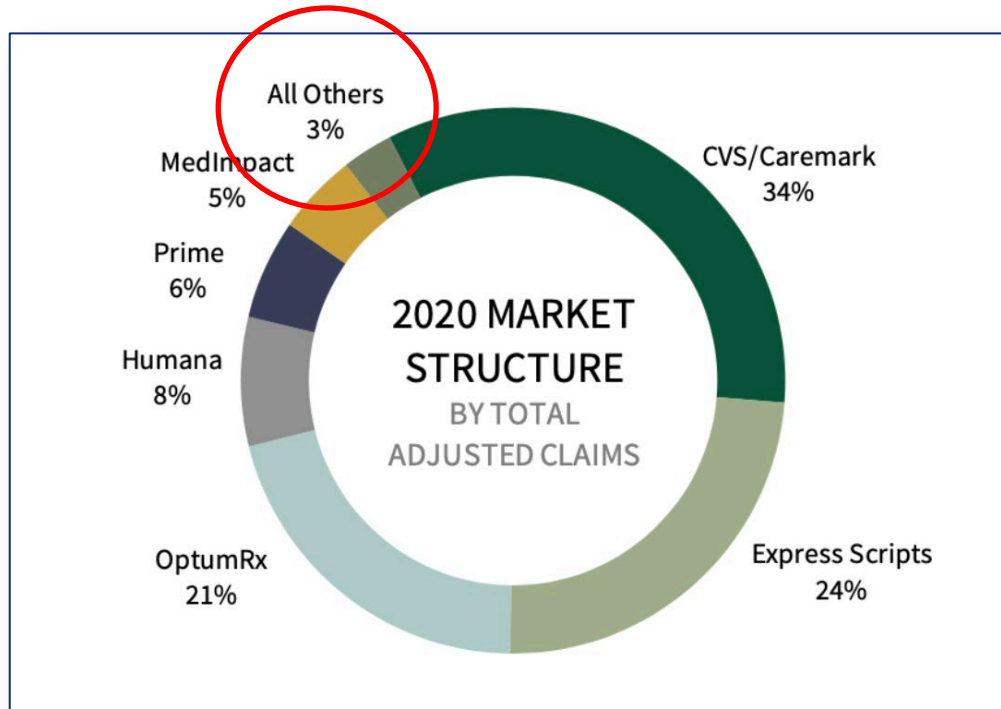


## Takeaway Points

Participation in the 340B Drug Pricing Program has not been associated with increases in hospital-reported uncompensated care provision, bringing into question whether the program is achieving its stated goal of freeing up resources that are devoted to the care of low-income populations.

- Our results add to a body of work that questions the extent to which program discounts are being used by general acute care and critical access hospitals to invest in care for low-income patients.
- Our findings suggest that relying on hospitals to invest surplus in care for the underserved without marginal incentives to do so or strong oversight is not a consistently effective strategy.

# PBM Consolidation



Source: [Health Industries Research](#)

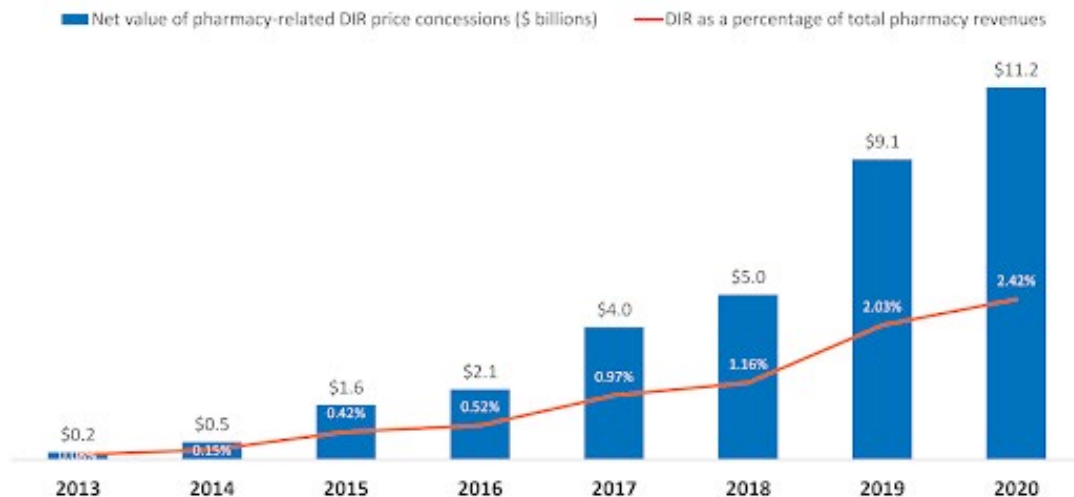
# What Consolidation Means

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- The BIG 3 + other 3 have HUGE leverage in the prescription drug market
- PBMs have a vested interest in drug "list" prices being as high as possible
  - Increased rebates from higher "list" prices
  - Pharmacy DIR fees as a percent of "list" prices – the higher the list price, the higher the DIR fees
- PBMs fuel drug prices
  - One study found that a "\$1 increase in rebates is associated with a \$1.17 increase in list price"  
(Source: [Leonard D. Schaeffer Center for Health Policy & Economics](#))
  - CMS [proposing a rule](#) that would eliminate post-sale pharmacy DIR fees so patients pay off of the "net" point-of-sale price versus the higher "list" price
- PBMs have now discovered the profit potential in 340B

# Explosion of DIR Fees

## Net Value of Pharmacy DIR Fees in Medicare Part D, 2013 to 2020

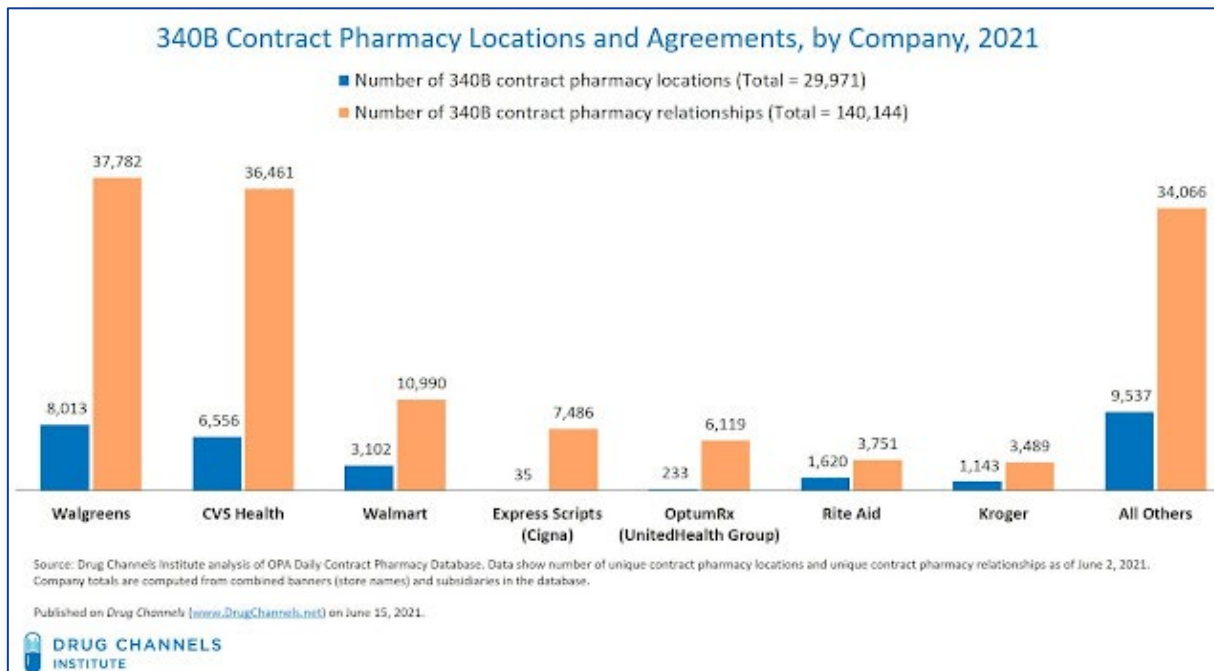


DIR = Direct and Indirect Remuneration

Source: Drug Channels Institute analysis of data reported by the Centers for Medicare & Medicaid Services and U.S. Government Accountability Office (2013 to 2017); Drug Channels Institute estimates based on Inmar Intelligence data on DIR as percentage of pharmacy revenues (2018 to 2020). Figures in billions.

This chart appears at Exhibit 193 in *The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Drug Channels Institute, 2021. Available at <https://drugch.in/Pharmacy>

# PBM Have Discovered 340B



Top 3 PBM non-retail pharmacies now account for 18% of 340B pharmacy relationships (Source: [Drug Channels](#))

# 340B Very Lucrative to PBMs & Corporate Pharmacies

**340B Drug Pricing Program** – The 340B Drug Pricing Program allows eligible Covered Entities to purchase prescription drugs from manufacturers at a steep discount, and is overseen by the HHS and the Health Resources and Services Administration (“HRSA”). In 2020, a number of pharmaceutical manufacturers began programs that limited Covered Entities’ participation in the program through contract pharmacies arrangements. In May 2021, HRSA sent enforcement letters to

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multiple manufacturers to curb these practices. In September 2021, HRSA forwarded the enforcement actions to the OIG for potential imposition of civil monetary penalties. Those enforcement actions are currently subject to ongoing litigation. A reduction in Covered Entities’ participation in contract pharmacy arrangements, as a result of the pending enforcement actions or otherwise, a reduction in the use of the Company’s administrative services by Covered Entities, or a reduction in drug manufacturers’ participation in the program could materially and adversely affect the Company.



# Thank You

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