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MedPAC Votes to Recommend Changes to 340B Drug Payment Under Medicare Part B

+Insights

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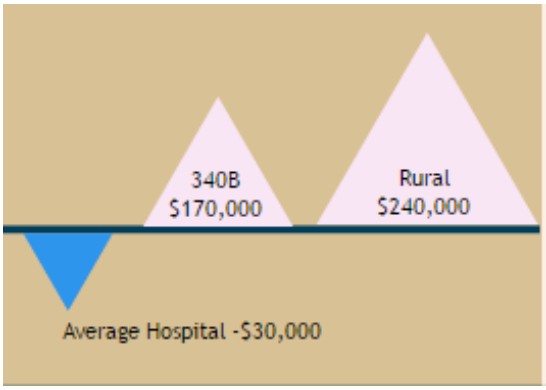
MedPAC proposes changes that would reduce Medicare Part B spending on 340B drugs by 10 percent, reallocating almost $300 million to pay for uncompensated care.

For most of the past year, the Medicare Payment Advisory Commission (MedPAC) has been examining Medicare Part B payments to hospitals that participate in the 340B drug purchasing discount program in an effort to better align program payments with drug acquisition costs while enhancing funds available to reimburse hospitals for uncompensated care.

In July 2015, MedPAC evaluated two policy alternatives intended to address these goals: changing Medicare payment to 100 percent of the drug's average sales price (ASP) + $24, or to 102 percent of ASP + $14 per administration day. Both options would have the effect of increasing the payment for very low priced drugs and decreasing the payment for higher cost drugs, which MedPAC believes would incentivize use of lower priced drugs.

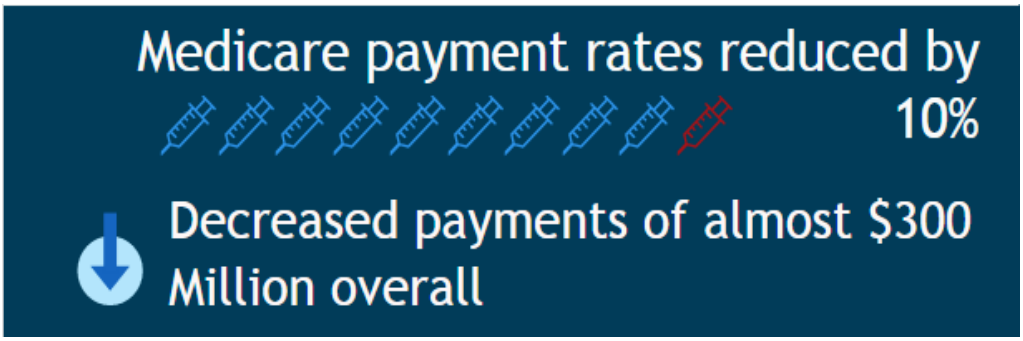
In November and December 2015, MedPAC refined its recommendations to allow certain hospitals to share in a portion of the savings that would result from lowering Medicare Part B payments for drugs purchased under the 340B program. Under this revised proposal, MedPAC recommended that Medicare payment rates be reduced by 10



Redistribution of Funds

MedPac's proposal to redistribute funds would decrease payments to avergae hospitals by $30,000, while increasing payments to 340B and rural hospitals by $170,000 and $240,000.

percent, resulting in decreased payments of almost $300 million overall, and that the reduced spending be redistributed to hospitals through increases to Medicare's uncompensated care fund. MedPAC also recommended changing the way the money in the uncompensated care fund is distributed by apportioning funds based on a hospital's audited uncompensated care costs instead of a hospital's proportion of Medicaid inpatient days. While MedPAC did not release specific details about the redistribution of funds, the panel estimated that this change would decrease payments to the average hospital by $30,000, while increasing payments to 340B and rural hospitals by an average of $170,000 and $240,000, respectively.



MedPAC also suggests that beneficiaries could benefit from this proposal through reduced co-insurance amounts. According to MedPAC, beneficiaries without Medigap plans would realize lower out-of-pocket costs, while those with Medigap plans would realize lower claims costs. MedPAC also noted that lower Medigap costs could translate into lower premiums for beneficiaries.

Public commenters generally objected to the proposal. Comments disagreed with MedPAC's assertion that beneficiary out-of-pocket costs would meaningfully decrease, citing an estimated savings of only $6 per year and stating that the proposal ignores the overall trend of increasing drug prices. Hospitals that rely on savings from the 340B program to fund ongoing operations also objected to the potential loss of money and the impact on their ability to continue to provide uncompensated care to patients.

Despite the objections, MedPAC in January 2016 overwhelmingly voted to send this recommendation to Congress. Whether the proposal, if adopted by Congress, would ultimately result in significant changes to Medicare spending would depend on continued participation of hospitals in the 340B program following implementation of the payment reduction. Increasing costs associated with 340B program administration and compliance, coupled with decreased payments from Medicare, could discourage hospital participation in the 340B program if the costs associated with participation outweigh the benefits. Although MedPAC acknowledged during the December 2015 meeting that reductions in payments to 340B hospitals would likely result in decreased participation in the 340B program, it is unclear the extent to which decreased participation was incorporated into the redistributed Medicare spending expected to result from the proposal.

Any changes to the 340B program would require a change to legislation that sets the Medicare payment rate for the vast majority of Part B drugs at 106 percent of the ASP as

reported by manufacturers. Because the MedPAC proposal would not result in any program savings and is likely to face bitter resistance from hospitals and other stakeholders, it remains unclear whether Congress will be interested in advancing this proposal this year.

If Congress does not embrace the MedPAC proposal, there are other similar options that could advance. In November 2015, the Inspector General for the US Department of Health and Human Services proposed similar cuts to Medicare Part B reimbursement for drugs purchased under the 340B program, and last summer the chairman of the Energy and Commerce Committee of the US House of Representatives proposed changes to the 340B program that would have significantly revamped the program. Regardless, the MedPAC proposal is likely to be one of many alternatives under evaluation as the 340B program attracts growing congressional interest and scrutiny, and as multiple stakeholders attempt to capitalize on or curtail the large revenues that the 340B program generates for participating entities.

Full details on the MedPAC meeting are available here.

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