

The 340B Program Helps Children's Hospitals Provide Essential Services to Kids

- The 340B Drug Pricing Program supports safety net providers, such as children's hospitals, in their mission to serve low-income, uninsured and under-insured patients. Under the 340B program, hospitals that treat a large number of low-income patients can purchase expensive, high-cost drugs at lower prices, freeing up resources to support hospital operations and provide services to their patients. There are currently 56 freestanding children's hospitals that participate in the program.
- On average, more than half of all patients treated at children's hospitals are covered by Medicaid, which pays less than Medicare or private insurance. Medicaid, for instance, pays on average 72% of what Medicare pays for the same items and services. Children's hospitals need the 340B program to help offset losses from low Medicaid reimbursement.
- The 340B program savings give children's hospitals the flexibility to provide tailored services their communities need. Children's hospitals around the country use 340B program savings to support diverse services. For example, some hospitals have used the savings to partially subsidize the cost of providing behavioral health services, annual flu vaccinations, affordable prescription drugs or hemophilia treatment centers.
- The COVID-19 pandemic severely threatens the sustainability of children's hospitals. The pandemic drastically reduced the number of hospital visits leading to significant loss of clinical revenue. Estimates show that children's hospitals will likely incur \$3 billion in 2021 revenue losses, in addition to the \$5 billion suffered in 2020. Actions that limit the 340B program will exacerbate the already precarious financial conditions of children's hospitals.
- Children's hospitals became eligible for the program in 2006 and officially started participating in 2009. Children's hospitals remain fully committed to improving program integrity and support the administration's ongoing audits and annual recertification process.
- Pharmaceutical manufacturers often claim the size of the 340B program is unsustainable, but the size of the program is affected by the actions of pharmaceutical manufacturers themselves. The size of the 340B program is the sum of all the 340B discounts provided to 340B entities. The 340B discount, however, consists of a fixed percentage set by the statute and a manufacturer penalty for rapid drug price increases. Therefore, the size of the 340B program grows when the pharmaceutical manufacturers set a high drug price or increase the price of a drug quickly.

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Children's Hospitals Support:

- **Measures that promote program integrity for both manufacturers and covered entities.** Children's hospitals support efforts to enhance 340B program integrity. Any proposal should take into consideration existing hospital reporting requirements, as children's hospitals are already subject to oversight by multiple government entities. In addition to the annual recertification and ongoing audits by the Health Resources and Services Administration, children's hospitals also annually submit cost reports to Medicaid agencies and report financial assistance and community benefits to the Internal Revenue Service.
- **Measures that allow for flexibility in the use of program savings.** The current program gives children's hospitals the flexibility to stretch scarce resources and respond to the varying needs of local communities. This flexibility should remain. Children's hospitals treat children regardless of their ability to pay and provide critical services children need. This includes services that may not be fully reimbursed by payers, but nevertheless help our patients and the surrounding community.

Children's Hospitals Oppose:

- **Proposals that tie the mission of the 340B program exclusively to charity care.** Due to programs like Medicaid and the Children's Health Insurance Program (CHIP), the vast majority of children in the nation are insured. Proposals that require charity care—particularly charity care for only the uninsured versus the underinsured—unfairly punish children's hospitals. Charity care requirements do not fully capture the benefits children's hospitals provide to the communities they serve or account for the significant shortfall between the cost of care and Medicaid payments.
- **Proposals that do not account for new payment models.** Not all outpatient drugs have separately identifiable reimbursement amounts. As payers move away from fee-for-service, reimbursement models like bundled payments provide one inclusive payment that encompasses all necessary services and drugs, and no longer accounts for each individual item. Requiring gross reimbursement reporting for drugs when payers do not pay for drugs separately would only lead to inaccurate estimates that do not reflect actual hospital operations or the trend towards value-based payments.
- **Proposals that indiscriminately impose Medicare requirements.** On average, more than half of all patients treated at children's hospitals are covered by Medicaid, while only a tiny percentage is covered by Medicare. Proposals should not impose Medicare requirements without considering their applicability to children's hospitals and their patients.