EVALUATING THE IMPACT OF RAISING THE DSH ADJUSTMENT PERCENTAGE THRESHOLD FOR 340B PROGRAM ELIGIBILITY ON DSH HOSPITALS AND THEIR LOW-INCOME PATIENTS

A 340B Health Analysis

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EXECUTIVE SUMMARY

A recently released Congressional proposal seeks to raise the minimum Medicare disproportionate share (DSH) adjustment percentage required for DSH hospitals to participate in the 340B program from 11.75 percent to 18 percent – a 53 percent increase in the DSH adjustment percentage. Such a change would lead to the termination of 573 DSH hospitals or 51% of all DSH hospitals currently enrolled in the program. These hospitals provided roughly $10.8 billion in uncompensated and unreimbursed care in 2016. Losing access to 340B savings would affect the ability of these hospitals to continue providing this high level of care to low-income patients. Nearly 75 percent of states would see 50 percent or more of their DSH hospitals cut from the program, with five states having all of their DSH hospitals cut from the program.

BACKGROUND

The 340B drug pricing program was signed into law in 1992 to ensure healthcare providers that serve large numbers of low-income, Medicaid, uninsured and under-insured populations could continue their mission to provide care to all regardless of ability to pay. Rural hospitals serving patients in remote locations also qualify for the 340B program. In order to participate in the Medicaid and Medicare Part B markets, pharmaceutical companies must agree to provide outpatient pharmaceuticals to safety-net providers at a discounted rate. 340B program participants use their savings to provide critical services to their low-income and rural patients.

Under the 340B statute, disproportionate share hospitals (herein referred to as "DSH hospitals") are eligible to participate in the 340B drug pricing program based on the amount of care they provide to low-income patients. The provision of care to low-income patients is measured through the Medicare disproportionate share (DSH) adjustment percentage metric, which reflects a hospital's provision of care to Medicaid patients and Medicare patients who receive supplemental security income (SSI) support (i.e., low-income Medicare patients). In order to participate in the 340B program, DSH hospitals must have a DSH adjustment percentage greater than 11.75 percent.[1]

A recent proposal put forward for discussion in Congress seeks to amend this eligibility criterion by increasing the minimum DSH adjustment percentage necessary for participation in the 340B program to 18 percent. This represents a 53 percent increase in the eligibility threshold for DSH hospitals. The analysis below details the impact this proposal would have on DSH hospitals currently participating in the program and their ability to care for their low-income patients.

[1] The DSH adjustment percentage is a metric taken from the Medicare prospective payment system (PPS) which qualifies certain hospitals that treat high levels of indigent patients to receive an add-on PPS payment from Medicare based on this percentage.

IMPACT OF PROPOSAL ON 340B DSH HOSPITALS AND THEIR LOW-INCOME PATIENTS

According to 340B Health's review of FY 2016 Medicare cost report data and 340B DSH hospital participants listed in the HRSA Office of Pharmacy Affairs Information System (OPAIS), of the 1,115 DSH hospitals currently enrolled in the program, 573 hospitals or 51 percent would no longer be eligible to participate as a result of this proposal.

Increasing the DSH adjustment percentage eligibility threshold would affect the ability of hospitals to care for their low-income patients. The 573 hospitals that would lose eligibility under the legislative proposal treat high volumes of low-income patients and provide considerable levels of care to vulnerable populations. For example, the 573 hospitals that would lose eligibility provided roughly $10.8 billion in uncompensated and unreimbursed care in 2016. Losing access to 340B savings would affect their ability to continue providing this level of care to low-income populations.

IMPACT OF PROPOSAL ON 340B DSH HOSPITAL PARTICIPATION BY STATE

This proposal would impact 340B DSH hospitals in 47 of the 48 states that currently have DSH hospitals, along with the District of Columbia and Puerto Rico. As shown in Figure 1 below, states with the largest number of DSH hospitals that would be eliminated include California with 39 hospitals, Texas with 35 hospitals, North Carolina with 33 hospitals, Georgia with 31 hospitals, and Ohio with 29 hospitals. In five states (Idaho, North Dakota, South Dakota, Utah and Vermont), all of the DSH hospitals currently participating in 340B would no longer be eligible for the program. Further, nearly 75 percent of the states affected by this proposal (including the District of Columbia and Puerto Rico) would see 50 percent or more of their 340B DSH hospitals dropped as a result of this proposal.

STATE	# of DSH Hospitals that would lose eligibility	# of 340B DSH hospitals in state	% of DSH hospitals in state that would lose eligibility
AK	0	3	0%
AL	19	24	79%
AR	6	17	35%
AZ	5	17	29%
CA	39	141	28%
CO	13	22	59%

CT	8	9	89%
DC	1	3	33%
DE	3	4	75%
FL	15	30	50%
GA	31	46	67%
HI	5	7	71%
IA	7	14	50%
ID	5	5	100%
IL	19	45	42%
IN	17	25	68%
KS	5	6	83%
KY	14	40	35%
LA	15	41	37%
MA	9	23	39%
MD	12	24	50%
ME	5	7	71%
MI	23	36	64%
MN	17	24	71%
MO	16	23	70%
MS	12	21	57%
MT	2	3	67%
NC	33	45	73%
ND	2	2	100%
NE	1	3	33%
NH	0	0	Not Applicable
NJ	6	22	27%
NM	8	11	73%
NV	1	2	50%
NY	21	80	26%
OH	29	48	60%
OK	10	12	83%
OR	10	20	50%
PA	18	32	56%
PR	6	7	86%
RI	1	3	33%
SC	6	13	46%

SD	4	4	100%
TN	8	16	50%
TX	35	56	63%
UT	6	6	100%
VA	11	13	85%
VT	3	3	100%
WA	14	28	50%
WI	9	16	56%
WV	8	13	62%
WY	0	0	Not Applicable

Figure 1: 340B Health Analysis of DSH hospitals that would be eliminated in each state and the proportion of all hospitals in that state that would be affected by the proposal.

CONCLUSION

Our analysis demonstrates that the proposal to change the DSH hospital eligibility criteria would remove from the 340B program approximately half of the DSH hospitals currently enrolled in the program, decreasing the total amount of discounts that manufactures would need to provide. However, data shows the 340B discounts represent less than 2 percent of the total U.S. drug market and, therefore, cannot be driving their pricing behavior. This finding was echoed by a commentary published by The Pew Charitable Trusts in the Journal of the American Medical Association (JAMA), which calculated that the 340B program represented a mere 1.9 percent of net pharmaceutical manufacturer revenues in 2015 and cautioned that policy changes would "transfer Medicare spending from the 340B hospital to the pharmaceutical manufacturer." Pew also noted that "any narrowing of 340B eligibility to a smaller set of qualifying institutions would transfer the corresponding share of government payment for drugs from the hospital or the clinic to the manufacturer." Such dramatic changes in the 340B drug pricing program are bound to have serious impacts on disadvantaged patients who rely on current 340B hospitals for care. While these hospitals are likely to do all that they can to preserve access to care, they would face difficult choices to maintain such access while coping with a sharp increase in drug costs and decline in revenue. As a recent report by S&P Global states, "[…] cuts to the 340B Drug Pricing Program on not-for-profit hospitals that rely on 340B drug savings will likely weaken their operating performance at a time of already tightening margins.