

4 Things to Know About 340B and Contract Pharmacies

Congress created the 340B drug discount program in 1992 to help vulnerable and uninsured patients access prescription medicines at safety-net facilities. In 2010, a misguided policy enabled all 340B covered entities to contract with an unlimited number of for-profit retail pharmacies without practically any guardrails or rules. Over time, these pharmacies have found ways to financially benefit from the 340B program with little to no benefit to patients.

Contract pharmacies are often not helping patients access their medicines, especially patients in socioeconomically disadvantaged areas. Rather, contract pharmacies and hospitals generate profits sometimes by charging vulnerable patients the full non-340B price for their prescriptions. Discounted 340B purchases reached nearly [\\$44 billion in 2021](#), 16% higher than in 2020, but GAO found that more than half of 340B hospitals surveyed reported that they did not share discounts with patients at their contract pharmacies.

1 Evidence continues to show that 340B hospitals and their contract pharmacies are also not helping communities in socioeconomically disadvantaged areas. The location of these contract pharmacies is important when considering the 340B program's original intention: to help vulnerable patients access medicines at certain safety-net hospitals and clinics. The [Journal of the American Medical Association](#) published a study that found contract pharmacy growth from 2011 to 2019 was concentrated in affluent and predominately white communities. The study also found that “the share of 340B pharmacies in socioeconomically disadvantaged and primarily non-Hispanic Black and Hispanic/Latino neighborhoods declined” over the same time period. This builds on [a mountain of evidence](#) that covered entities – big hospitals and pharmacy chains – have taken advantage of every opportunity under the 340B program to increase profits, not serving the patients who need help most.

2 **The majority (75%) of 340B contract pharmacy arrangements are with for-profit chain pharmacies.** Additionally, [GAO found](#) that “the five biggest pharmacy chains – CVS, Walgreens, Walmart, Rite-Aid and Kroger – represent a combined 60% of 340B contract pharmacies, yet they only account for 35% of all pharmacies nationwide. CVS and Walgreens have both mentioned in conversations with investors that any change in the role of contract pharmacies could [impact their profits significantly](#). The Berkeley Research Group found that over half of the 340B profits retained by contract pharmacies are concentrated in [four for-profit corporations](#): Walgreens, Walmart, CVS Health and Cigna's Accredo specialty pharmacy. This is exacerbated by the fact that the number of [contract pharmacy arrangements has grown by more than 5,000%](#) since 2010.

3 **These for-profit pharmacies are diverting profits from a program meant for non-profit entities and needy patients.** Contract pharmacies are incentivized to partner with hospitals to fill prescriptions with [certain types of medicines to increase revenue](#). [Evidence](#) suggests these profit incentives have driven up the amount covered entities are retaining on the sale of brand medicines purchased through the 340B program, which have [increased 9-fold since 2013](#). 340B profits now account for 63% of gross provider and pharmacy margin – up from just 14% in 2013. The Berkeley Research Group found 340B covered entities and their contract pharmacies generated an [estimated \\$13 billion in gross profits](#) on 340B-purchased retail medicines in 2018. That same analysis found that the average profit margin for 340B covered entities and their contract pharmacies on typical 340B medicines picked up at contract pharmacies is an estimated 72% compared with 22% for non-340B medicines dispensed through independent pharmacies.

4 **Pharmacy benefit managers (PBMs) and specialty pharmacies are also generating revenue from 340B.** Due to the large potential profit margins on medicines dispensed at specialty pharmacies, a growing number of PBM-owned specialty pharmacies are participating in the 340B program. Both specialty pharmacies and 340B hospitals can each earn revenue on prescriptions dispensed, without any guaranteed benefit to patients. According to [Drug Channels](#), more than 20% of contract pharmacy arrangements are between 340B covered entities and the five largest specialty pharmacies.