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Vice Chair Javadi, Vice Chair Nelson, and members of the House Committee on Behavioral Health & Health Care,

My name is Wayne Winegarden, I am a Sr. Fellow and Director of the Center for Medical Economics and Innovation at the Pacific Research Institute.

The 340B drug discount program requires pharmaceutical companies to sell drugs to 340B qualified institutions at steep discounts – often up to 50 percent off or more. The disproportionate share hospitals (DSH) that qualify for the program are then reimbursed by payers (including Medicare) at the drug's full negotiated value. The difference between the value of the reimbursements and the discounted prices are supposed to help these hospitals better serve lower-income and uninsured patients.

While the program has existed since 1992, the size of the program has exploded over the past decade. Total sales measured at the discounted prices have grown from $12 billion in 2015 to $66 billion in 2023 – a 20 percent average annual growth rate.

Not only is its growth out of control, but there is also a developing consensus that – while well intentioned – the 340B program has become rife with fraud, abuse, and no longer efficiently serves its intended population. These problems exist not only in Oregon but across the U.S.

The explosion of contract pharmacy arrangements is one of the drivers of the program's growth and misuse. Pharmacies are incentivized to participate in 340B because they earn higher margins on medicines dispensed through the program. Unfortunately, as I documented in my 2022 analysis "the 340B contract pharmacy program has a poor track record of ensuring program integrity." This means that many of the prescriptions filled at contract pharmacies are erroneously categorized as 340B eligible.

Adding to the problem, most of the expansion in contract pharmacies has not occurred in the neighborhoods where the targeted low-income populations live. Instead, contract pharmacies are growing in wealthier areas where there are larger numbers of well-insured patients. Wealthier well-insured patients generate large revenues for the pharmacies and qualified hospitals but serving these patients is not part of the program's mission.

The well-intentioned program has also become subject to abuse by large disproportionate share hospitals due to insufficient oversight. Since there is no statutory requirement that hospitals use 340B dollars for the intended purposes, the resources are often used to inflate hospital revenues.

Arguably more troubling, as I documented, 340B hospitals provide less charity care relative to non-340B hospitals. As I noted in an October 2024 piece I co-authored in the *Daily Bulletin* with Dr. Anthony DiGiorgio,

> *Hospitals argue that they need the funds generated by gaming 340B to maintain normal clinical operations. However, much of the growth in operational costs are due to growth in their administrative bloat, which has been long outpacing growth in clinical care. These tax-exempt institutions already receive numerous subsidies. If they need another one, they should make that argument to legislators by opening their books and proving that the funds aren't just going to administrator salaries or other frivolous spending (such as one 340B institution's recent acquisition of a film studio). Don't let these institutions exploit a drug benefit program that was meant to benefit patients.*

The abuse of 340B also harms the broader patient community. The discounts taken by the disproportionate share hospitals drive up broader pharmaceutical list prices. Patients out of pocket costs are not based on the low 340B prices, they are based on the overly inflated list prices. Consequently, patients pay higher out-of-pocket costs for their drugs because of the 340B program.

The pervasive misuse, fraud, and abuse are undermining the 340B program's stability to the detriment of its mission of helping vulnerable patients receive the healthcare they need. In recognition of this reality, the U.S. Government Accountability Office and the U.S. Department of Health and Human Services' Office of Inspector General have both called for greater oversight. The US Senate Committee on Health, Education, Labor, & Pensions is also investigating the program and exploring solutions.

Considering the existence of these problems, expanding the 340B program is unwise. Doing so will worsen the program's operations while failing to help the intended patient groups.

Thank you for the opportunity to submit these comments.

All the best,

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