



THE ROLE OF THE 340B DRUG PRICING PROGRAM AND SAFETY NET HOSPITALS

The 340B Drug Pricing Program enables health care providers like the University of South Alabama (USA) Health System to stretch limited resources and expand health services to those in need.

Background of the 340B Drug Pricing Program:

- In 1992, in a bipartisan fashion, Congress created the 340B Drug Pricing Program to lower outpatient drug costs for hospitals that care for a disproportionate share of low-income patients.
- Under the program and as a condition of participating in Medicaid and Medicare Part B, drug makers opt to provide eligible health care providers with reduced pricing for outpatient drugs.
- The 340B Drug Pricing Program provides discounts to disproportionate share hospitals to further these hospitals' overarching public-service missions and does not limit the discounts to any specific subgroup of patients. For example, 340B savings enable USA Health System to provide certain health care services that are not otherwise available in the Alabama Gulf Coast region.
- Because 340B sales are less than 3 percent of the total U.S. drug market, the 340B program is not a significant driver of drug spending.

The role of the 340B Drug Pricing Program for vulnerable patients and safety net providers:

- Expenditures on prescription drugs are rising and projected to continue to rise faster than overall health care spending—making the 340B Drug Pricing Program increasingly important to the mission of safety net providers like USA Health System and the patients it serves.
- The Drug Pricing Program provided the Health System with **\$21.8 million in 340B discounts** over the previous year.
- In furtherance of its public service mission, USA Health System treats patients regardless of their ability to pay and, as a result, **receives no reimbursement for one out of every ten of its patients**. 340B discounts help to support the resulting **\$65.6 million in unreimbursed care**. In addition, because a disproportionate share of USA Health System's patients are covered by public payors like Medicaid and because reimbursement from these public payors is below the cost of providing care, **annual reimbursement from these public payors is \$64 million below USA Health System's cost**.

CMS's proposal to cut Medicare reimbursement for drugs purchased under the 340B program:

- CMS has proposed to deeply cut Medicare Part B payments for drugs provided under the 340B program, and these cuts are targeted at providers like USA Health System who already bear a disproportionate share of the cost for caring for the most vulnerable.
- Even though CMS's proposal is budget neutral, CMS plans to redistribute reimbursements away from 340B entities who serve vulnerable patient populations.
- CMS's proposal would directly reduce USA Health System's 340B discounts by **\$4 million** or more annually, which would have otherwise been available to benefit USA Health System's vulnerable patients. In addition, this proposal could encourage other health insurers to reduce their reimbursement for 340B drugs—further reducing the support available for underinsured and uninsured individuals.
- Unfortunately, the proposal fails to address the more significant issue of rising drug costs.



PAYMENTS TO DISPROPORTIONATE SHARE HOSPITALS

In states that have not expanded their Medicaid programs, payments to disproportionate share hospitals (DSH payments) allow providers like USA Health System to continue to provide access to care to Alabama's uninsured and underinsured patients.

Background of Medicaid DSH payments:

- DSH payments are statutorily required payments intended to offset hospitals' uncompensated care costs, improve access to health care for Medicaid and uninsured patients, and ensure the financial stability of safety-net hospitals.
- By expanding the Medicaid program, the ACA anticipated a decrease in uncompensated care costs for hospitals and, therefore, included reductions to these DSH payments.
- Consistent with the current Administration's policies, Alabama has chosen not to expand its Medicaid program as allowed under the ACA. Consequently, Alabama's hospitals have not experienced significant reductions in uncompensated care.
- Despite not expanding Medicaid and receiving the resulting continued responsibility of uncompensated care, Alabama will be subject to reductions in DSH payments beginning in 2018.

Impact:

- As a result of the ACA's reductions, Alabama will lose \$1.4 billion in DSH payments over the next eight years.
- The University of South Alabama Health System will experience a decrease of \$81.3 million over the next eight years.

Recommendation:

The ACA's DSH payment reductions should be repealed for states that have not expanded their Medicaid programs.



OPERATING MARGIN OF THE UNIVERSITY OF SOUTH ALABAMA HEALTH SYSTEM

If CMS's proposed rule on 340B drug reimbursement is implemented and the currently scheduled DSH cuts go into full effect, USA Health System will experience an annual operating loss of **\$9.5 million**.

USA Health System's current operating margin	2.3%
Annual reduction in 340B savings under CMS proposal	-\$4 million
Annual Reduction in DSH payments after full cuts are in effect	<u>-\$15.5 million</u>
USA Health System's operating margin after cuts	-3.3%

USA Health Fast Facts

250,000 Patient
Visits Annually



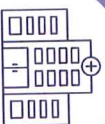
3,800 Employees



\$791 Million Economic
Impact



Region's Only Level 1
Trauma Center



One of 5 Freestanding
Children's and Women's
Hospitals Nationwide



Region's Only Academic
Cancer Institute



UNIVERSITY OF SOUTH ALABAMA
USA MEDICAL CENTER

www.usahealthsystem.com



About USA Health

With more than 3,800 employees, the University of South Alabama's health system is unlike any other on the Gulf Coast. It includes an acute care academic medical center, a hospital for children and women, an academic research and cancer treatment center and an academic physician practice. More than one-third of local physicians received training at USA Medical Center. USA Health has an annual economic impact of \$791 million.

USA Medical Center (1,400 employees)

- The region's only Level I Trauma Center offering 24/7 care
- Arnold Luterman Regional Burn Center cares for 500 patients a year
- Centers of Excellence in Stroke, Cardiovascular Diseases, Sickle Cell, Epilepsy, GI Services, Surgical Oncology

USA Children's & Women's Hospital

(1,200 employees)

- Region's only Neonatal Intensive Care Unit, with up to 100 newborns each day
- Region's only Pediatric Intensive Care Unit caring for critically ill children
- Mobile's leader in births with 2,800 babies delivered annually

USA Mitchell Cancer Institute (230 employees)

- Only academic-based cancer research and treatment facility on upper Gulf Coast
- Multidisciplinary oncology teams provide treatment for patients
- More than 30 clinical trials open to patients
- \$5 million in annual research funding

USA Physicians Group (1,100 employees)

- Comprised of 180 academic physicians on faculty at the USA College of Medicine
- The region's largest multi-specialty practice
- 24 USA physicians were named regional Top Doctors in 2015. Regional Top Doctors rank in the top 10 percent of primary and specialty care physicians within a given area.