DSH Hospitals’ 340B Profit Often Exceeds Charity Care Spending

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Under the 340B Drug Pricing Program ("340B Program"), certain types of healthcare facilities and providers ("covered entities") can purchase medications at a discounted price. Covered entities include qualifying hospitals and clinics receiving certain types of Federal grants. Total purchases at the discounted 340B price were $54 billion in 2022, 87 percent of which were made by hospitals. Disproportionate Share Hospitals (DSHs) specifically accounted for $42 billion (78 percent) of program sales.[1] 340B DSH hospitals include short-term acute-care private nonprofit and governmental hospitals that exceed a certain threshold of inpatients who are low-income Medicare and Medicaid beneficiaries.[2]

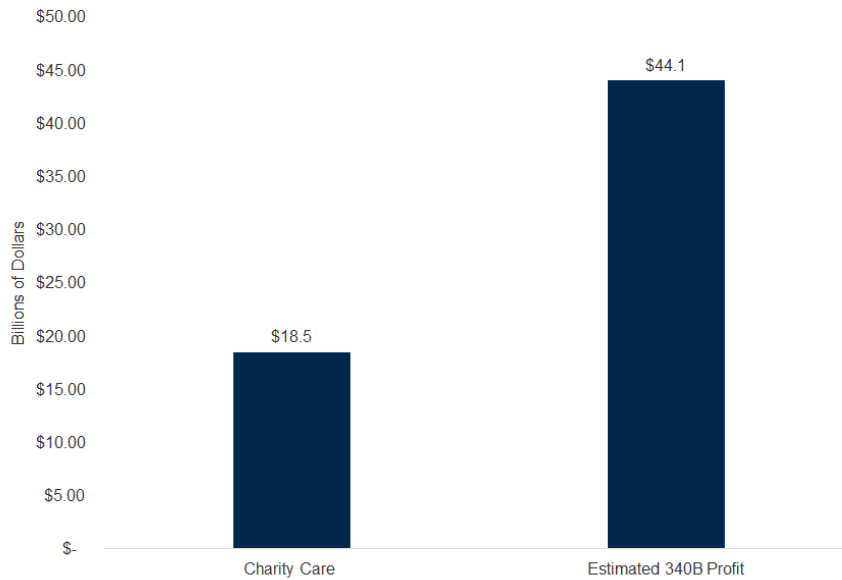
DSH hospitals often receive reimbursement from patients and their insurers that exceeds the discounted 340B price, with hospitals keeping this "340B profit". The 340B statute allows hospitals to obtain 340B discounts for patients regardless of insurance status[3] and does not dictate how DSH hospitals use their 340B profit nor does it require DSH hospitals (or any other covered entities) to provide 340B discounts directly to patients. In fact, many 340B DSH hospitals do not extend their Financial Assistance Policies to include free or low-cost drugs, despite receiving significant discounts for prescriptions filled by their patients.[4] Additionally, DSH hospitals do not have to report 340B profit or how it is used.

DSH hospitals do report the costs that they incur to provide free or reduced-cost health care— including hospitalizations, diagnostics, and other health care products and services— to qualifying low-income and uninsured patients ("charity care"). Funding charity care is one potential use of 340B profit that would align with the way Congress envisioned this safety-net program. By permitting covered entities to purchase medicines at a steep discount, the premise behind the 340B program was for covered entities to either pass the discounts on to patients or utilize the savings to provide increased levels of charity care.[5]

DSH hospitals earned an estimated $44.1 billion in 340B profit in 2022 (see Methodology section for details on estimation). This compares to $18.5 billion in charity care costs reported by DSH hospitals in their most recent fiscal year (Figure 1).

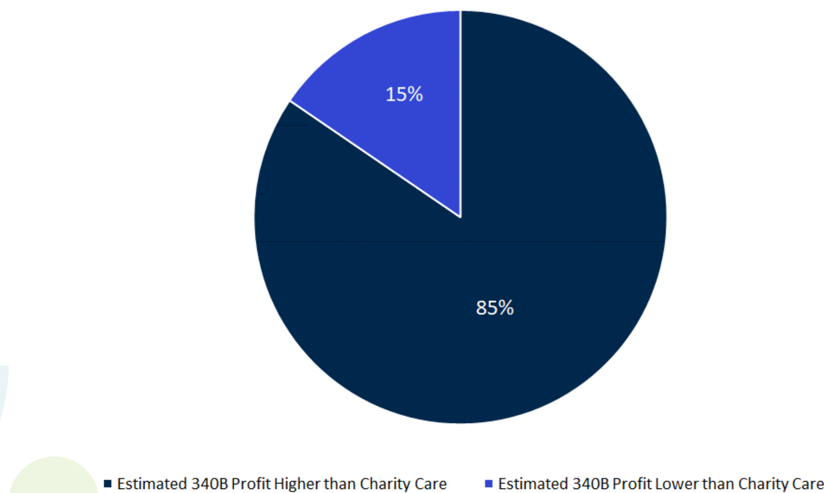
1. https://www.hrsa.gov/opa/updates/2022-340b-covered-entity-purchases
2. Health Resources and Services Administration (HRSA), "How Hospitals Register for the 340B Program" (September 2022). https://www.hrsa.gov/opa/registration/hospital-registration-instructions. Governmental hospitals are owned/operated by a state or local government or public or private nonprofit corporations formally granted governmental powers by a state or local government. Private nonprofit hospitals may qualify for the program by having a specified contract with a state or local government; Centers for Medicare and Medicaid Services (CMS) and Medicare Learning Network (MLN), *MLN Fact Sheet: Medicare Disproportionate Share Hospital (January 2023)*. https://www.cms.gov/outreach-and-education/medicare-learning-network-mln/mlnproducts/downloads/disproportionate_share_hospital.pdf
3. Hospitals are subject to a statutory "duplicate discount" ban for Medicaid beneficiaries, which prohibits hospitals and other covered entities from purchasing a drug at a 340B discount that also generates a Medicaid rebate claim. 42 U.S.C. § 256b(a)(5)(A).
4. https://phlr.org/news/2022/5/many-hospitals-receiving-discounted-medicines-under-340b-program-may-not-offer-low
5. See 61 Fed. Reg. 43,549, 43,551 (Aug. 23, 1996) (noting that "some [covered entities] may pass all or a significant part of the discount to their patients, [while] others may set the price slightly higher than the actual acquisition cost" and use the "savings realized from the discounts . . . only for purposes of the federal program (including certain [DSHs]) which provides its section 340B eligibility"); see also H.R. Rep. No. 102-384(II), at 14 (1992) ("The Committee does not intend to extend "covered entity" status to a private nonprofit hospital that has a minor contract to provide indigent care which represents an insignificant portion of its operating revenues.").

Figure 1: DSH Hospitals' 340B Profit Compared to Charity Care Costs



As mentioned above, individual DSH hospitals are not required to report their 340B profit. It is possible, however, to allocate the estimated $44.1 billion in 340B profit across each DSH hospital that was enrolled in the 340B program in 2022, using patient revenue as a proxy for the relative size of each hospital's 340B program.[6] Using this approach, an estimated 85 percent of DSH hospitals earned more in 340B profit in 2022 than they incurred in charity care costs (Figure 2).

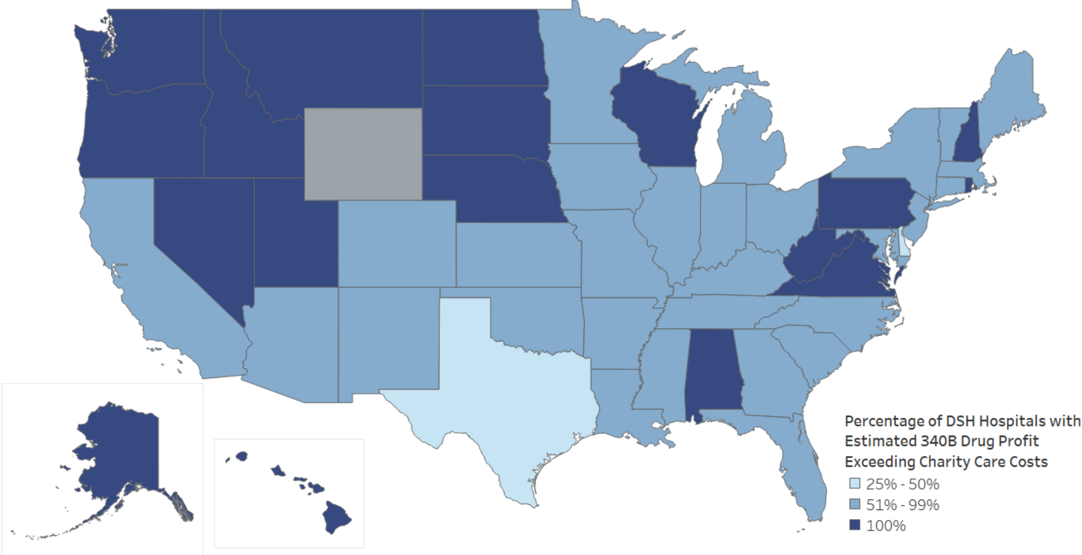
Figure 2: Percent of DSH Hospitals with Estimated 340B Profit Exceeding Charity Care Costs



6. Analysis relies on total patient revenue as reported in each hospital's most recent annual cost report.

In 47 states and the District of Columbia, more than half of DSH hospitals earn more in estimated 340B profit than they spend on charity care (Figure 3). In 18 states and the District of Columbia, every DSH hospital earns more from 340B profit than it spends on charity care.

Figure 3: Share of DSH Hospitals with Estimated 340B Profit Exceeding Charity Care Cost [7]



The fact that charity care costs account for only 42 percent of DSH hospitals' 340B profit, on average, implies that DSH hospitals primarily use 340B profit for other purposes, including funding payroll, equipment, and other operating costs. Additionally, it should be noted that DSH hospitals benefit from tax-free status and receive other safety net funding to support their charity care activities. As the 340B program continues to grow and the lack of accountability becomes more pronounced, more questions may arise about whether covered entities are using their 340B profit to fulfill the original safety-net focus of the program.

Methodology

The estimate presented here of DSH hospital 340B profit is based on data reported by HRSA on total sales at the 340B price to DSH hospitals. This amount is converted to list price assuming a 340B discount of 40 percent for HCP-administered drugs and 69 percent for self-administered drugs. The reimbursement received by the DSH hospitals is then estimated based on typical reimbursement rates across payers that factor in the higher average reimbursement rates from private insurance.

Charity care cost for DSH hospitals was sourced from each hospital's most recent Medicare Cost Report, accessed via the Healthcare Provider Cost Reporting Information System (HCRIS).[8] For hospitals that did not report charity care in their most recent cost report, the analysis references the most recent prior annual report in which charity care was reported.

7. Wyoming has no 340B DSH Hospitals.
8. Fiscal years vary across hospitals; analysis relies on the most recent report for each individual hospital.