340B Rebate Model: A Shield Against Program Abuse and Rising Costs

Big, tax-exempt hospitals abuse the federal 340B program to generate massive profits at the expense of patients, employers and taxpayers. The current system allows hospitals to purchase medicines at steep discounts and mark them up by as much as 1000% or more.

A rebate model would improve program integrity and prevent unauthorized duplicate discounts.

A rebate model would require hospitals and clinics to demonstrate program compliance prior to manufacturers providing rebates on medicines. Rebates are a common form of discount used in many other federal health care programs to facilitate discounts on medicines. This model would improve integrity and transparency within the 340B program by preventing unauthorized duplicate discounts and other abuses.

Rebates are explicitly mentioned in the 340B statute as a mechanism for offering reduced pricing to covered entities.

Rebates are standard practice for providing manufacturer price concessions to federal drug programs.

Rebates are used in Medicare Parts B and D, the Medicare Drug Price Negotiation Program, the Medicaid Drug Rebate Program and the TRICARE Retail Refund Program.

A lack of safeguards allows big hospitals to exploit the 340B program through duplicate discounts.

Manufacturers are being forced to pay Medicaid rebates and 340B discounts on the same prescriptions, despite these duplicate discounts being illegal. This is driving program growth and resulting in higher health care costs.

Hospitals are often already purchasing 340B medicines at the list price.

Although 340B hospitals and clinics raise concerns about upfront medicine costs under a rebate model, most now use a "replenishment model" in which they initially purchase a drug at the list price and benefit from 340B pricing post-dispensing, only after there are sufficient purchases to "replenish" at the 340B price. This approach lacks transparency and may involve longer delays than rebates.

In fact, a **recent study from IQVIA** found that a rebate model under which the rebate is paid within 10 days of submission of a valid rebate claim would not hurt covered entities cash flows. Furthermore, the study finds a rebate system would maintain existing cash flows while adding accountability and preventing 340B abuses, while imposing minimal administrative burdens.

A rebate model puts the 340B program back on track.

- **Creates transparency.** Rebates improve integrity because they require data to confirm a purchaser's compliance with program requirements before receiving a reduction in the purchase price. By implementing rebates in the 340B program, manufacturers will have the necessary data to ensure that hospitals are complying with certain program rules.

- **Addresses the current lack of oversight in the 340B program.** In 2024, only 0.33% of the 60,000 entities covered in the 340B program were audited by the federal government. That's just 200 covered entities, the same number of audits conducted in 2015 when the number of covered entities was half of what it is today. Even worse – the majority of audits that were conducted found adverse findings, including duplicate Medicaid/340B discounts or evidence of other program abuses.

Tax-exempt hospitals use 340B as a profit center, driving up costs for everyone.

700%

The 340B hospital markup program is a key driver of high drug costs in the U.S. — 340B hospital markups alone can exceed international medicine prices by as much as 700%.

Nearly Zero

Patients aren't benefiting because the program has nearly zero oversight and no guardrails for how profits from the program are used.

Studies Show

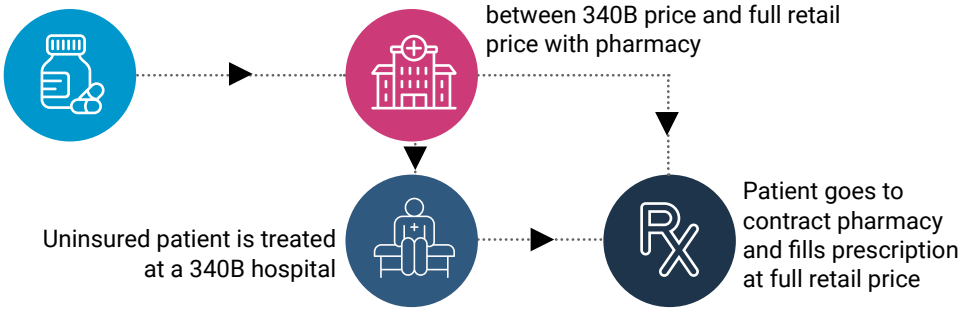
that 340B entities mark up medicines by thousands of dollars, prescribe more expensive medicines, are less likely to prescribe biosimilars and drive patients towards more expensive facilities.

Pay More

Rather than passing on savings to patients, 340B hospitals often leverage the savings as a revenue source, while patients, employers and taxpayers pay more.

See it in practice: Here's an example of how hospitals are siphoning off 340B profit

When 340B discounted medicines are shipped to contract pharmacies, the hospital and pharmacy profit while the patient may see no direct benefit from the 340B discount.



Example assuming $100 medicine with 50% discount:

-$50	Discounted 340B purchase price paid by hospital
+$100	Full retail price paid by uninsured patient
$50	Profit for 340B hospital which is shared with contract pharmacy

How are profits used?

The rebate model would help put patients, taxpayers and employers ahead of hospital profits. It's time to fix the 340B Hospital Markup Program.

Learn more at PhRMA.org/340B