Rebate Model: Addressing Long-term Fraud and Abuse in the 340B Program

What is the 340B hospital markup program and where did it all go wrong?

Congress created the 340B program in 1992 to initially help qualifying clinics and about 50 safety net hospitals focused on care for low-income and uninsured patients. Today, it's the second-largest federal drug program in the U.S., reaching $81.4 billion in purchases in 2024. 340B allows hospitals to buy medicines at steeply discounted prices and mark them up by thousands of dollars. Although the program was intended to help qualifying patients afford the care they need, it's now exploited by large tax-exempt hospitals, PBMs, private equity firms and chain pharmacies to pad profits. The Congressional Budget Office (CBO) also confirmed what many have been saying for years—the 340B hospital markup program is costing taxpayers and that there is no evidence that patients are benefiting.

Leveraging a rebate model would address fraud and abuse

The Health Resources and Services Administration (HRSA) can implement a rebate model to address concerns about insufficient claims data and ensure program requirements are met. A rebate model would require hospitals and clinics to provide claims-level data to demonstrate program compliance prior to manufacturers providing rebates on medicines. Rebates are a common approach used in many other federal health care programs to facilitate price concessions on medicines. This model would improve integrity and transparency within the 340B program by preventing unlawful abuses without impacting covered entities' cash flow.

Rebates are explicitly mentioned in the 340B statute as a mechanism for offering reduced pricing to covered entities. Instituting this model in the federal program will:

Create transparency.

Rebates improve integrity because they require data confirming a purchaser's compliance with certain basic program requirements before receiving a reduction in the purchase price.

Address 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.

By the numbers:

1,000%
Hospitals may mark up medicines by as much as 1,000% or more.

200%
The average cost per prescription for commercially insured patients is nearly 200% higher at 340B hospitals than at non-340B hospitals.

$36 billion
The 340B program results in roughly $36 billion a year in extra hospital spending by employers, inflating prices for working families.

$14 billion
As much as $14 billion lost federal tax revenue in 2023 as estimated by former CBO Director Dan Crippen.

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

Learn more at PhRMA.org/340B

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