

Memorandum

To: Interested parties
From: Christopher Hogan, Direct Research, LL
Subject: Update of 4/15/2008 memo on 340B hospitals and Medicare OPPS mean drug costs.
Date: 7/27/2008

This analysis uses the OPPS 2009 Proposed Rule file to estimate the impact of the Section 340B drug price discounts. It is an update of a prior analysis using last year's file. Results using the most recent file (2007 claims) are essentially identical to results from last year's file.

- The 340B hospitals' share of drug cost increased from 34 percent to 35 percent.
- The 340B hospitals' drug costs averaged 8 to 9 percent below other hospitals' costs.
- The 340B discounts reduce OPPS drug costs, on average, by about 3.5 percentage points (prior analysis) or 3.6 percentage points (current analysis).

Summary of Background and Methods

- The Section 340B program is a federally-administered program that allows certain health care providers to obtain access to Medicaid-level drug discounts.
- To estimate the effect of these discounts, I extracted a list of the current 340B hospitals from the DHHS HRSA website, <http://opanet.hrsa.gov/opa/CE/CEExtract.aspx>. Most hospitals were readily identified based on the CMS hospital ID embedded within HRSA's identifier. Others were matched to the CMS provider-of-services listing to obtain the hospital identifier necessary for use in analyzing the claims data. I identified a total of 802 Section 340B hospitals. These hospitals tended to be large, urban public hospitals.
- I processed the 2009 Proposed Rule file using CMS's methods to calculate mean cost per drug unit for each OPPS-paid drug. I calculated these separately for the 340B and non-340B hospitals. These mean unit costs were then used in the calculation of the markup of cost over ASP, that is, the X in the equation $\text{Cost} = \text{ASP} + X\%$, again using the same methods as CMS.
- My overall estimate of $\text{ASP} + X$ from the claims is slightly different from the CMS 2008 OPPS Final Rule calculation or 2009 Proposed Rule calculation. I re-based mine to match the CMS calculation when I included all hospitals in the calculation.

Summary of Prior and Current Results

The 340B share of all drug costs rose slightly, from 34 percent to 35 percent of OPPS file drug costs (Table 1).

Table 1: Cost Share and Average Cost Index, OPPS Drugs, by Hospital 340B Status			
	All	Non-340B	340B
2008 File Analysis (2006 claims)			
Total cost (\$billions)	\$ 2.8	\$ 1.8	\$ 0.9
Percent of total cost	100%	66%	34%
2009 File Analysis (2007 claims)			
Total cost (\$billions)	\$ 3.1	\$ 2.0	\$ 1.1
Percent of total cost	100%	65%	35%
Source: Analysis of OPPS 2008 proposed rule file (CY 2006 claims) and OPPS 2009 Proposed Rule File (2007 claims)			

The overall impact of 340B discounts on OPPS average drug costs increased from a 3.5 percentage point reduction to a 3.6 percentage point reduction (Table 2). That is the difference in costs that occurs when the 340B hospitals are excluded from the calculation of average costs. On this table, the first column replicates CMS's results, showing that cost is ASP plus 3.4 percent (last year) or ASP plus 4 percent (this year), for separately paid drugs. The second and third columns show the impact of separating the 340B hospitals from others. The difference between those two columns shows the net 340B discount. It appears to average between 8 and 9 percentage points. That is true whether the analysis looks at all drugs or only at the separately-paid drugs.

Table 2: Markup of Cost Over ASP (the X in Cost = ASP + X%), by Hospital 340B Status			
	All hospitals	non-340B	340B
2008 File Analysis (2006 claims)			
All Identified Drugs	13.0%	16.1%	8.8%
Separately-Paid Drugs Only	3.4%	6.9%	-1.7%
Memo: 340B impact on average cost	-3.5%		
2009 File Analysis (2007 claims)			
All Identified Drugs	12.5%	16.0%	7.4%
Separately-Paid Drugs Only	4.0%	7.6%	-1.1%
Memo: 340B impact on average cost	-3.6%		
Source: Analysis of OPPS 2008 proposed rule file (2006 claims) and CMS 2008 Final Rule drug medians, and October 2007 ASP files (prior year analysis); and OPPS 2009 Proposed rule, CMS 2009 proposed rule drug medians, and April 2008 ASP file (current year analysis).			

As was the case last year, the apparent drug discounts were far from uniform. The ratio of 340B to non-340B average cost varied across drugs. The table above captures only the weighted average effect of the discounts.