

Dear Members of the Michigan State Legislature,

The undersigned organizations represent businesses and unions deeply rooted in the state of Michigan and national allies concerned about the unchecked growth and lack of transparency in the 340B drug pricing program. We are writing to share our concerns about HB 5350 and SB 1179. We recognize and support the 340B program's original intent from 1992: to increase access to affordable medicines for low-income patients through health centers and core safety-net hospitals.

However, we are concerned about the program's distortive effects that drive up costs for employers and working families without passing these savings on to patients. As it stands, 340B allows covered entities to buy prescription medicines at steep discounts and sell them to employers at much higher prices, encouraging provider consolidation and the use of high-cost medicines. Without meaningful reform to the program and more transparency, we cannot support this legislation and urge you to avoid codifying elements of 340B that exacerbate these flaws.

Background

At its core, 340B allows qualifying health systems to purchase prescription medications at significant discounts, sell them at much higher prices, and pocket the proceeds rather than passing the discount onto patients. Originally designed to target fewer than 100 safety-net hospitals and specialized clinics, the program has grown exponentially. While there are federal requirements around the use of 340B funds that ensure affordability for patients at Federally Qualified Health Centers and other "grantees," these make up a small portion of the program. Unfortunately, the program has no guardrails on how 340B hospital systems should use the proceeds or any requirements to benefit low-income or uninsured patients,¹ and patients and their employers can be charged the full price at the pharmacy counter. As a result, hospital systems have capitalized to make 340B the second-largest federal drug program, with nearly \$66 billion in discounted purchases in 2023 alone.² **Today, over half of all hospitals in Michigan participate in 340B.**³

340B contributes to cost increases for employers and working families

340B has increasingly raised concerns among employers, as evidence suggests it contributes to rising healthcare costs that burden businesses and working families – without any tangible benefits for patients who receive care and medicine from 340B hospitals.

Prescription drug mark-ups

Despite its frequent reference as a "costless" program to taxpayers, 340B continues to raise costs and leave employers on the hook for higher prices. North Carolina's State Treasurer recently

¹ <https://jamanetwork.com/journals/jama-health-forum/fullarticle/2821579>

² <https://www.hrsa.gov/opa/updates/2023-340b-covered-entity-purchases>

³ <https://www.kff.org/other/state-indicator/total-hospitals/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>

found that 340B hospitals in the state had billed the state employee health plan an average markup of 5.4 times their acquisition cost for oncology drugs.⁴

Impact on consolidation

340B provides strong incentives for hospitals to acquire independent outpatient physician offices in wealthier and better-insured areas than the parent hospital, designate them as 340B “child sites,” and maximize profits by tapping into employers and working families they insure. For instance, West Bloomfield, a wealthy suburb in Michigan with high insurance rates, has 14 registered 340B sites, while a similar-sized area in eastern Detroit with three federally designated medically underserved areas has none.⁵ Such consolidation has been overwhelmingly shown to increase costs for patients without improving care.⁶

Opportunities for chain pharmacy and PBM profit

340B encourages hospitals to establish networks of external retail chain and mail-order pharmacies – a practice not grounded in statute. These networks are expanding in increasingly wealthy, predominantly white, and better-insured areas, with no obligation to serve low-income communities or offer affordable prices. In doing so, health systems can further augment the number of prescriptions they purchase at 340B discounts and profit from. **Over half of Michigan’s contract pharmacies are located in high-income districts, with some even out of state,**⁷ highlighting a focus on profit rather than patient access.

Incentives for prescribing higher-cost medicines

The profit potential from 340B leads to a preference by participating hospitals to use more expensive, brand-name drugs, which generate a larger ‘spread’ but limit the adoption of lower-cost biosimilar alternatives,^{8,9} raising costs for employers and their employees. It has been found that the average cost per prescription for a commercially insured patient was more than 150% higher at a 340B hospital than a non 340B hospital.¹⁰

The Impact of HB 5350 and SB 1179

Employers and lawmakers in Michigan have made strides toward greater transparency in healthcare to help lower costs. **However, the proposed legislation represents a step backward and would exacerbate 340B’s upward pressure on costs without improving access or affordability for low-income patients.**

The bill hinders necessary transparency, undermines efforts to eliminate waste in the system, and harms employers’ bottom line. HB 5350 and SB 1179 would simply enshrine the status quo in law, locking in 340B’s expansion via provider consolidation, distorted prescribing patterns,

⁴ <https://www.nctreasurer.com/news/press-releases/2024/05/08/state-treasurer-folwell-releases-report-finding-north-carolina-340b-hospitals-overcharged-state>

⁵ <https://www.wsj.com/articles/340b-drug-discounts-hospitals-low-income-federal-program-11671553899>

⁶ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6170097/>

⁷ <https://pioneerinstitute.org/wp-content/uploads/Michigan-2024.pdf>

⁸ <https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.2022.00812>

⁹ <https://communityoncology.org/hospital-340b-drug-profits-report-feb-2021/>

¹⁰ https://www.milliman.com/-/media/milliman/pdfs/2022-articles/9-13-22_pharma-340b-commercial-analysis.ashx

and profit-maximizing pharmacy networks. We cannot support HB 5350 and SB 1173, as they would raise costs for employers and working families while benefiting the corporate health systems' chain pharmacy and pharmacy benefit manager partners rather than the patients and safety-net facilities it was intended to serve.

Conclusion

While 340B has played a crucial role in improving access to care, especially among community health centers and other federal grantees, we believe the program has significantly outgrown its original intent. As healthcare premiums continue to rise, supporting legislation that increases costs is untenable. We urge the Committees to oppose HB5350 and SB 1179 and instead seek reforms that promote transparency and accountability, ensure affordability for patients, and limit 340B's inflationary effects on healthcare spending for working families.

Sincerely,

Michigan Health Purchasers Coalition
Economic Alliance for Michigan
Michigan Manufacturers Association
American Benefits Council
American Free Enterprise Chamber of Commerce
National Alliance of Healthcare Purchaser Coalitions