CARAVANHEALTH.

October 30, 2020

Senator Lamar Alexander, Chairman
Committee on Health, Education,
Labor and Pensions
428 Senate Dirksen Office Building
Washington, DC 20510

Representative Greg Walden, Ranking Member
Committee on Energy and Commerce
2322 Rayburn House Office Building
Washington, D.C. 20515

Re: Improving the 340B Drug Pricing Program

Dear Chairman Alexander and Ranking Member Walden,

We appreciate the opportunity to respond to your request for input about improving the 340B drug pricing program. For more than 25 years, the 340B program has enabled safety net hospitals and other providers serving vulnerable communities to stretch scarce federal resources by offering significantly reduced prices for prescription drugs. By participating in 340B, safety net providers can reach more eligible patients and provide more comprehensive population health services. Caravan Health clients have found that 340B participation can provide a financial lifeline for rural providers and help them participate in value-based payment programs. Many of our safety net and critical access hospital clients rely on these discounted prescription drug prices to keep their doors open. Simply put, 340B must be protected for the benefit of rural providers and patients.

Caravan Health was created by nine 340B covered entities to lead safety net providers into value-based care. We formed the first National Rural Accountable Care Organization (ACO) in 2014, led 160 rural hospitals and federally qualified health centers (FQHCs) in the ACO Investment Model (AIM). AIM is the Center for Medicare and Medicaid Innovation's (CMMI's) most successful model to date[1], with net savings to Medicare of nearly $400 million. We currently support 190 disproportional share hospital (DSH), critical access hospital (CAH), sole community hospital (SCH), rural referral center (RRC), and FQHC covered entities in the Medicare Shared Savings Program. This year, our providers saved Medicare more than $130 million across 600,000 beneficiaries and brought $50 million in shared savings back to the providers doing the work of care transformation. They achieved these savings while earning aggregate quality scores greater than 95%.

As such, the 340B program is an essential pillar of support for rural and safety net providers. In spite of America's concerted effort to reduce drug prices, the pharmaceutical industry has resisted or defeated almost every reform. Study after report after study shows that America pays the highest prices for drugs, most of which are based on taxpayer-subsidized research, yet the pharmaceutical industry is almost twice as profitable as the rest of the S&P 500.[2]

[1] CMS Perspective: ACO Investment Model (AIM) Final Evaluation Report. September 2020. Available at https://innovation.cms.gov/data-and-reports/2020/aim-finalannrpt-perspective

[2] Ledley, F.D, Shonka McCoy, S., Vaughan, G. "Profitability of Large Pharmaceutical Companies Compared with Other Large Public Companies" Journal of the American Medical Association March 3, 2020. *JAMA.* 2020;323(9):834-843. doi:10.1001/jama.2020.0442

Comparison of profits of 35 large pharmaceutical companies with those of 357 large, nonpharmaceutical companies from 2000 to 2018

	Gross Profit % of Revenue	EBIDTA % of Revenue	Net Income % of Revenue
Pharma	76.5%	29.4%	13.8%
S&P 500	37.4%	19.0%	7.7%

With the passage of the Affordable Care Act (ACA), rural hospitals were able to participate in the 340B program for the first time, offsetting their ACA reduction in reimbursement for uncompensated care. Community pharmacies located outside of the covered entity, formally called Contract Pharmacies, were expanded to further help these safety net providers survive a series of cuts and expanding penalties. Amidst those incredible profit percentages for the pharmaceutical industry, the 340B program stands, as a small contribution to the support of the underserved. We believe that participating in 340B is the very least the pharmaceutical industry can do, and that participation must either be preserved or reformed. To that end, we have several suggestions on how this program can continue to stretch scarce federal resources to support our most vulnerable patients.

1) Preserve the Community Pharmacy Program

Many rural hospitals do not have in-house pharmacies or pharmacists; therefore, their only option to participate in the 340B program is through pharmacies in the community, such as retail pharmacies. Whether covered entities have internal capacity or not, a community-based pharmacy can be much more convenient for patients and families. For instance, in rural areas, patients can avoid hours of driving each month by simply refilling the prescription at a nearby grocery store rather than returning to the clinic. This also allows for increased access and adherence as many elderly and disabled Medicare beneficiaries lack adequate transportation. Limiting access to these community pharmacies creates a significant burden on elderly patients.

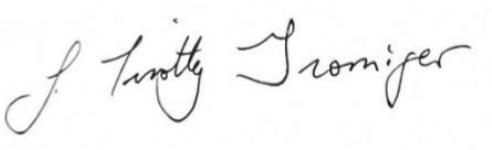
2) Stop Medicare from Taking Discounts Away from Covered Entities

Recent actions related to Part B drugs reveal a trend of the federal government taking 340B discounts away from providers altogether. Furthermore, despite the record profit realized by the pharmaceutical industry, they complain about *any* and *all* rebates to Medicare, not merely discounts under the 340B program. The 340B program has been in place for almost three decades and has precedent. While Medicare may wish to negotiate additional discounts on top of 340B, those discounts should never affect the payment to the 340B covered entity.

In closing, rural and safety net providers have returned hundreds of millions of dollars for Medicare by participating in value-based arrangements. Restricting access to the 340B program could be devastating for vulnerable providers serving rural communities. Conversely, improving patient-centered access to 340B drug pricing creates great opportunities to lower costs and improve care, including driving participation in ACOs. During this time of extreme stress on our health care system, covered entities

should have every tool available to maintain revenue streams and preserve rural and underserved patients' access to quality care. We appreciate your leadership in protecting this important safety net program and are happy to serve as a resource as you continue to consider 340B policy.

Sincerely,



Tim Gronniger
CEO and President, Caravan Health