

Federal Drug Discount and Compliance Monitor

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...**BREAKING NEWS...**

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President's Budget Requests Funding for 340B Program Improvements

Budget Also Calls for Elimination of Best Price, New Medicaid Pharmacy Cuts

Despite proposals to reduce spending in public health programs such as Medicare and Medicaid, the President's budget for 2007 calls for new targeted funding for the Office of Pharmacy Affairs (OPA) to help design and implement improvements to the 340B program.

The budget, introduced earlier today, proposes that OPA receive \$3 million from the federal government during Fiscal Year 2007 "to improve the collection and analysis of manufacturer drug pricing information to ensure that 340B participants are charged accurate prices for drugs and for other program improvements."

This line item represents the first time in the 340B program's history that a President's budget has specifically designated funding for OPA. The agency's proposed funding is especially noteworthy considering the President called for an overall cut of \$255 million to the budget of the Health Resources and Services Administration (HRSA).

Meanwhile, for the second straight year, President Bush included in his annual budget proposal a call for the elimination of best price from the Medicaid drug rebate program and the introduction of further cuts to Medicaid pharmacy reimbursement.

The President's budget would eliminate best price from the Medicaid rebate calculation and replace the formula with a flat rebate percentage off of Average Manufacturer Price (AMP). This would allow manufacturers to offer prices to customers in the private market that are below their "best price" without being required to offer the same price to the Medicaid and 340B programs.

"Best price effectively acts as a price floor, interfering with the competitive marketplace and preventing manufacturers from negotiating better discounts with large purchasers," the budget states.

According to the Administration, the proposal would have no impact on the Medicaid budget. "Replacing the current rebate with a budget neutral flat rebate will allow private purchasers to negotiate lower drug prices, while creating neither savings nor costs for the Federal Government," the budget states.

While the budget summary does not specifically discuss changes to the 340B program, it appears likely that this reform would impact the program because the 340B ceiling price for brand name drugs is equal to the lesser of either best price or AMP minus 15.1 percent. As a result, if Congress were to enact the President's proposal, 340B entities would no longer have access to best price and the new flat rebate would also likely apply to the 340B program.

The President included the best price proposal in his budget for 2006, as well, though it attracted strong opposition from state governors and provider groups (*The Monitor*, July 2005). The proposal was not included in any of the budget legislation considered by Congress.

In addition to the best price proposal, the President's budget also includes a number of other reforms to the Medicaid pharmacy system aimed at lowering costs and creating savings. For instance, the President's budget calls for further cuts to Medicaid pharmacy reimbursement to prevent what the Administration refers to as "substantial overpayment for pharmacy services."

Any new cuts would supplement the reforms made in the Deficit Reduction Act (DRA), which was officially approved by Congress last week.

Under the DRA, the federal upper limit for payments on multiple source drugs will be redefined in 2007 as 250% of AMP, an amount that has been criticized by retail and community pharmacists, as well as by 340B pharmacies that "carve out" their Medicaid drugs from their 340B purchases.

"The 2007 Budget proposes building on the Federal upper payment limit calculation changes in the DRA to further reduce these overpayments," the budget states.

The budget also proposes that states be permitted to use managed formularies in order to exert tighter control over drug costs and negotiate better discounts with pharmaceutical manufacturers.

In addition to these changes to the Medicaid program, the President also seeks to cut \$35.9 billion in spending from Medicare, including \$20 billion in reductions in the annual payment increases received by hospitals.

More details on the President's budget and its impact on the 340B program will be available in the February issue of *The Monitor*.