AMERICAN ECONOMIC LIBERTIES PROJECT

# The Penny Price Pharmacy One-Pager:

## How local Government Can Leverage the Federal 340B Program to Lower Out-of-Pocket Prescription Drug Costs

**Are you a city or county executive who wants to slash your constituents' out-of-pocket prescription drug costs, shore up your local safety net in preparation for historic Medicaid cuts, and prevent potentially fatal medication rationing?** The "Penny Price Pharmacy" model is a turnkey solution that uses an existing federal program to help un- and underinsured patients afford their life-saving medications — at no cost to taxpayers.

**Here's how:**

## THE PROGRAM

The federal 340B Drug Pricing Program requires manufacturers that participate in Medicaid to sell outpatient prescription drugs to safety-net providers at steeply discounted prices. In fact, a significant number of drugs are discounted to $0.01, in what is known as "penny pricing."

## THE PROBLEM

Participating providers should theoretically reinvest their savings into the safety net, either by providing more comprehensive services to un- and underinsured patients or by passing through these discounted prices to patients directly, lowering their out-of-pocket costs. Instead, some providers — especially hospitals — treat the 340B program as a revenue driver, buying drugs at a discount and then selling them to commercially insured patients at a markup.

## THE PROPOSAL

Local governments that already own and operate participating providers can adopt the Penny Price Pharmacy model, which would leverage the 340B program to make outpatient prescription drugs available to un- and underinsured patients at the discounted prices paid to acquire them, plus a modest dispensing fee to cover overhead. Because the local government would simply extend its discount to patients who would otherwise fall through the social safety net, this model is free to implement and does not require any legislative or regulatory reform.