

# The Penny Price Pharmacy Toolkit:

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

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# Introduction

What if cities and counties could provide life-saving prescription drugs — from cancer treatments and injectable epinephrine to insulin and weight-loss drugs — to un- and underinsured residents for a low cash price? What if, in doing so, they could help reinforce the social safety net in the wake of historic Medicaid cuts and prevent potentially fatal medication rationing due to cost?<sup>1</sup>

Surprisingly, most of them can. All they need is a local leader willing to leverage an obscure federal drug-pricing program, called 340B, that allows safety-net health care providers — often publicly owned — to purchase prescription drugs at special low prices.

This toolkit explains how, including the underlying legal authority. The bottom line? Cheaper drugs for patients are possible for the public official who is willing to be bold.

## THE PROBLEM

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The U.S. drug-pricing system is extremely complicated, with a host of rebates, kickbacks, and other arbitrary concessions that keep prices opaque, variable, and high.

But there is an outlier. The federal 340B Drug Pricing Program requires manufacturers that participate in Medicaid to sell outpatient prescription drugs to federally qualified health centers (FQHCs) and other safety-net providers, called “covered entities,” at a significant discount — typically around 50%.<sup>2</sup> Often the discounted prices fall as low as \$0.01, in what is known as “penny pricing.”<sup>3</sup> For instance, covered entities have been able to purchase Humira — the top-selling drug in

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1 Julie Zauzmer Weil, Yasmeen Abutaleb, and Jacob Bogage, “How Trump’s big bill will affect you, from Medicaid cuts to tax credits,” *The Washington Post*, July 3, 2025, <https://www.washingtonpost.com/business/2025/07/03/big-beautiful-bill-impacts-medicaid-taxes/>; Grace Sparks et al., “Public Opinion on Prescription Drugs and Their Prices,” KFF, Oct. 4, 2024, <https://www.kff.org/health-costs/poll-finding/public-opinion-on-prescription-drugs-and-their-prices/>.

2 FQHCs provide safety-net services in an outpatient clinic setting. They include community health centers, migrant health centers, homeless health centers, public housing primary care centers, health center program “look-alikes,” and outpatient health programs or facilities operated by a tribe, tribal organization, or urban Indian organization. In addition to FQHCs, covered entities include Ryan White HIV/AIDS Program grantees; certain hospitals, including children’s hospitals, critical access hospitals, disproportionate share hospitals, free-standing cancer hospitals, rural referral centers, and sole community hospitals; and specialized clinics, including black-lung clinics, comprehensive hemophilia diagnostic treatment centers, Title X family planning clinics, sexually transmitted disease clinics, and tuberculosis clinics. 42 U.S. Code § 256b; 42 USC § 256b(a)(4); “340B Drug Pricing Program,” Health Resources & Services Administration (HRSA), updated April 2025, <https://www.hrsa.gov/opa/340B-Drug-Discount-Program-Oversight-of-the-Intersection-with-the-Medicaid-Drug-Rebate-Program-Needs-Improvement>; U.S. Government Accountability Office, Jan. 21, 2020, <https://www.gao.gov/products/gao-20-212>; “340B Eligibility,” HRSA, updated June 2024, <https://www.hrsa.gov/opa/eligibility-and-registration/>; “Federally Qualified Health Center,” Centers for Medicare and Medicaid Services, April 2025, <https://www.cms.gov/files/document/mln006397-federally-qualified-health-center.pdf>.

3 Penny pricing stems from 340B program rules dictating manufacturer discounts. Generally, these discounts must be at least 23.1% of the average manufacturer price for most brand-name prescription drugs. However, they can be even higher if the manufacturer’s “best price” — or the lowest price available to any wholesaler, retailer, or provider — is less than 76.9% of the average manufacturer price or if the manufacturer’s list price has increased faster than the rate of inflation. The latter scenario is common; half of all drugs covered by Medicare qualified between 2019 and 2020. These higher statutory discounts often result in a drug price less than \$0.01, at which point program rules set it at a penny. “340B Drug Pricing Program Overview,” 340B Health, accessed June 27, 2025, <https://www.340bhealth.org/members/340b-program/overview/>; Karen Mulligan, “The 340B Drug Pricing Program: Background, Ongoing Challenges and Recent Developments,” University of Southern California Leonard D. Schaeffer Institute for Public Policy & Government Service, Oct. 14, 2021, <https://schaeffer.usc.edu/research/the-340b-drug-pricing-program-background-ongoing-challenges-and-recent-developments/>; Juliette Cubanski and Tricia Neuman, “Prices Increased Faster Than Inflation for Half of All Drugs Covered by Medicare in 2020,” KFF, Feb. 25, 2022, <https://www.kff.org/medicare/issue-brief/prices-increased-faster-than-inflation-for-half-of-all-drugs-covered-by-medicare-in-2020/>; “Senate Finance Committee Approves Major Drug Pricing Bill,” Ryan White Clinics for 340B Access, July 25, 2019, <https://rwc340b.org/senate-finance-committee-approves-major-drug-pricing-bill/>.



# Introduction

the world, with an annual list price of \$90,000 — for \$0.01 since 2016.<sup>4</sup>

Covered entities 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 program as a “slush fund,” diverting billions of dollars in discounts toward their own bottom lines.<sup>5</sup> According to one study, participating hospitals charge patients with commercial insurance, on average, five times more to dispense drugs than they pay manufacturers to acquire them.<sup>6</sup> In other words, net 340B revenue often subsidizes hospitals rather than their low-income patients.

As a result, the program is facing increasing scrutiny. The U.S. Senate Committee on Health, Education, Labor, and Pensions issued a report in April 2025 that recommended legislative reform to ensure the program directly benefits patients.<sup>7</sup> More recently, in response to an executive order issued by President Donald Trump, the U.S. Department of Health and Human Services announced in June 2025 that it will condition federal funding for covered entities on their making insulin and injectable epinephrine available to low-income patients at or below the discounted prices they pay to acquire them.<sup>8</sup> This policy change will be life-changing for low-income patients who depend on these two drugs to survive.

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4 Adam J. Fein, “New HRSA Data: 340B Program Reached \$29.9 Billion in 2019; Now Over 8% of Drug Sales,” Drug Channels, June 9, 2020, <https://www.drugchannels.net/2020/06/new-hrsa-data-340b-program-reached-299.html>; Richard A. Gonzalez, “Senate Committee on Finance Questions for the Record: Drug Pricing in America: A Prescription for Change, Part II,” Senate Finance Committee, Feb. 26, 2019, <https://www.finance.senate.gov/imo/media/doc/AbbVie%20Responses.pdf#page=18>; “Most Medicare Part D Plans’ Formularies Included Humira Biosimilars for 2025,” HHS Office of Inspector General, May 2, 2025, <https://oig.hhs.gov/reports/all/2025/most-medicare-part-d-plans-formularies-included-humira-biosimilars-for-2025/>.

5 Ted Okon, “Hospitals and for-profit PBMs are diverting billions in 340B savings from patients in need,” STAT, July 7, 2022, <https://www.statnews.com/2022/07/07/for-profit-pbms-diverting-billions-340b-savings/>.

6 “Hospital Charges and Reimbursement for Medicines: 2023 Update Analysis of Markups Relative to Acquisition Cost,” Pharmaceutical Research and Manufacturers of America, August 2023, <https://www.healthmanagement.com/wp-content/uploads/PhRMA-Hospital-Charges-Report-August-2023.pdf>.

7 “Congress Must Act to Bring Needed Reforms to the 340B Drug Pricing Program,” U.S. Senate Committee on Health, Education, Labor, and Pensions, April 2025, [https://www.help.senate.gov/imo/media/doc/final\\_340b\\_majority\\_staff\\_reportpdf1.pdf](https://www.help.senate.gov/imo/media/doc/final_340b_majority_staff_reportpdf1.pdf).

8 “Lowering Drug Prices by Once Again Putting Americans First,” The White House, April 15, 2025, <https://www.whitehouse.gov/presidential-actions/2025/04/lowering-drug-prices-by-once-again-putting-americans-first/>; “Fact Sheet: President Donald J. Trump Announces Actions to Lower Prescription Drug Prices,” The White House, April 15, 2025, <https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-announces-actions-to-lower-prescription-drug-prices/>; “HRSA Announces Action to Lower Out-of-Pocket Costs for Life-Saving Medications at Health Centers Nationwide,” Health Resources & Services Administration, June 24, 2025, <https://www.hrsa.gov/about/news/affordable-medications>.

# Starting a Penny Price Pharmacy

Local governments that own and operate a covered entity can build on this order by adopting the “Penny Price Pharmacy” model, which similarly leverages the 340B program to achieve its stated aim: “to stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services.”<sup>9</sup>

For example, New York City owns and operates 29 FQHCs.<sup>10</sup> The city government could require one or all of those health centers to provide outpatient prescription drugs to un- and underinsured patients at the discounted 340B price they pay to acquire them, plus a modest dispensing fee to cover overhead. This pricing structure mirrors the state’s fee-for-service Medicaid program, which reimburses pharmacies for their acquisition costs, plus a \$10.08 dispensing fee.<sup>11</sup>

Under this model, an FQHC would charge certain established patients low cash prices.<sup>12</sup> These prices would be available to patients who are uninsured or enrolled in employer- or exchange-based health plans, many of which have high deductibles. They would not be available to established patients enrolled in Medicaid, whose out-of-pocket drug costs are very low, or Medicare, whose annual out-of-pocket drug costs are capped at \$2,000.<sup>13</sup>

Many FQHCs already offer low cash prices to certain uninsured patients.<sup>14</sup> However, to maximize impact, an FQHC that adopts the Penny Price Pharmacy model would need to promote it aggressively, including by setting up an official penny process for un- and underinsured residents to become established patients so that they could benefit.<sup>15</sup>

Although federal statute requires that 340B discounted prices be kept secret, a recent report by the Minnesota Department of Health provides a glimpse at the possible patient savings.<sup>16</sup> In 2023, in-state covered entities generated, on average, \$3,405 in net 340B revenue per prescription of Humira —

9 The Health Resources & Services Administration maintains a list of covered entities. “Search Covered Entities,” HRSA 340B Office of Pharmacy Affairs Information System, accessed July 11, 2025, <https://340bopais.hrsa.gov/SearchCe. ibid. at 2>.

10 “Locations,” NYC Health + Hospitals, accessed June 27, 2025, <https://www.nychealthandhospitals.org/locations/>.

11 “Medicaid Covered Outpatient Prescription Drug Reimbursement Information by State,” Centers for Medicare & Medicaid Services, updated Nov. 16, 2022, <https://www.medicare.gov/medicaid-prescription-drugs/state-prescription-drug-resources/medicaid-covered-outpatient-prescription-drug-reimbursement-information-state>; “Prescription Drug Dispensing Fees in State Medicaid Programs,” New York State Department of Health Office of Health Insurance Programs, December 2021, [https://www.health.ny.gov/health\\_care/medicaid/redesign/mrt2/budget/docs/2021-12-30\\_pharm\\_fee\\_dispense\\_rpt.pdf](https://www.health.ny.gov/health_care/medicaid/redesign/mrt2/budget/docs/2021-12-30_pharm_fee_dispense_rpt.pdf).

12 An established patient is one who has received any health care service from any practitioner at any of the FQHC’s sites within the past three years. “Specific Payment Codes for the Federally Qualified Health Prospective Payment System,” Centers for Medicare & Medicaid Services, updated Dec. 6, 2017, <https://www.cms.gov/medicare/medicare-fee-for-service-payment/fqhcpps/downloads/fqhc-pps-specific-payment-codes.pdf>.

13 Rachel Dolan, “Understanding the Medicaid Prescription Drug Rebate Program,” KFF, <https://www.kff.org/medicaid/issue-brief/understanding-the-medicare-prescription-drug-rebate-program/>; “Inflation Reduction Act Research Series: Projecting the Impact of the \$2,000 Part D Out-Of-Pocket Cap for Medicare Part D Enrollees with High Prescription Drug Spending,” HHS Assistant Secretary for Planning and Evaluation, Jan. 13, 2025, <https://aspe.hhs.gov/reports/impact-ira-2000-cap>.

14 Lizheng Shi, M. Kristina Wharton, and Alisha Monnette, “Ensuring Access to Prescription Medications in the Post-ACA Healthcare Access Landscape: The Essential Role of FQHCs in the Safety Net for the Underinsured,” *The American Journal of Managed Care*, March 6, 2018, <https://www.ajmc.com/view/ensuring-access-to-prescription-medications-in-the-postaca-healthcare-access-landscape-the-essential-role-of-fqhc-in-the-safety-net-for-the-underinsured>; Rory Martin, William Sarraile, and Kepler Illich, “Do Patients Receive 340B Drug Discounts at the Pharmacy Counter?” IQVIA, July 2, 2025, <https://www.iqvia.com/-/media/iqvia/pdfs/us/white-paper/2025/iqvia-are-340b-discounts-being-shared-white-paper-2025.pdf>.

15 *An Arm and a Leg*, a podcast produced in partnership with KFF Health News, and its newsletter, *First Aid Kit*, have explored how FQHCs could extend 340B discounts to established patients. “The Prescription Drug Playbook, Part Two,” *An Arm and a Leg*, June 30, 2025, <https://armandalegshow.com/episode/drugs-playbook-2/>; Emily Pisacreta, Dan Weissman, and Claire Davenport, “A local clinic might have a line on affordable meds,” *First Aid Kit*, July 2, 2025, <https://firstaidkit.substack.com/p/a-local-clinic-might-have-a-line>.

16 Section 340B of the Public Health Services Act requires the U.S. Department of Health and Human Services to provide manufacturers and covered entities access to a private website listing the discounted prices for outpatient prescription drugs “in a manner ... that ... adequately assures security and protection of privileged pricing data from unauthorized re-disclosure.” 42 U.S. Code § 256b; “340B Covered Entity Report,” Minnesota Department of Health, Nov. 25, 2024, <https://www.health.state.mn.us/data/340b/docs/2024report.pdf>.



# Starting a Penny Price Pharmacy

which they purchased for \$0.01 — and \$569 per prescription of Ozempic, a brand-name anti-diabetic.<sup>17</sup> This means that patients who are uninsured or enrolled in high-deductible health plans could pay hundreds to thousands of dollars less per prescription at a Penny Price Pharmacy.

Because the FQHC would simply extend its discount to patients who would otherwise fall through the social safety net, this model is free for local governments to implement and does not require any legislative or regulatory reform.

In fact, Zohran Mamdani — the 2025 Democratic nominee for mayor of New York City — is running on a platform that includes expanding access to affordable health care and establishing another city-owned utility: grocery stores in food deserts.<sup>18</sup> If elected in November, he could adopt the Penny Price Pharmacy model at pharmacies inside those grocery stores, expanding access to affordable medication in what are likely also pharmacy deserts.<sup>19</sup>

The Penny Price Pharmacy model could also help local governments mitigate constituent harms stemming from the recently enacted One Big Beautiful Bill Act, which includes the largest cut to Medicaid funding in the program's 60-year history and is expected to result in 10 million people losing coverage.<sup>20</sup>

Importantly, the Penny Price Pharmacy model would not harm independent pharmacies, which are increasingly at risk of closure.<sup>21</sup> Under the 340B program, some covered entities contract with outside pharmacies — called contract pharmacies — to dispense drugs on their behalf, typically reimbursing them a flat fee.<sup>22</sup> Large retail pharmacy chains as well as mail-order and specialty pharmacies that are vertically integrated with pharmacy benefit managers have more leverage than independent pharmacies in reimbursement negotiations with covered entities.<sup>23</sup> As a result, independent pharmacies often break even or lose money on brand-name 340B prescriptions, while their larger competitors reap excess profits.<sup>24</sup> For this reason, independent pharmacies may prefer that covered entities handle such prescriptions in house.

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<sup>17</sup> Ibid.

<sup>18</sup> Mamdani has proposed to build five city-owned grocery stores — one in each borough — that would lower costs for customers by using tax-free city property, buying and selling food at wholesale prices, and not making a profit. “The Platform,” Zohran for New York City, accessed July 15, 2025, <https://www.zohranfornyc.com/platform>. Emma Fitzsimmons, “N.Y.C. Grocery Prices Are High. Could City-Owned Stores Help?,” *The New York Times*, Dec. 12, 2024, <https://www.nytimes.com/2024/12/12/nyregion/grocery-stores-city-owned.html>; Jaclyn Peiser, “New York might experiment with city-run grocery stores. How do they work?,” *The Washington Post*, July 15, 2025, <https://www.washingtonpost.com/business/2025/07/15/city-run-grocery-stores-new-york-zohran-mamdani/>.

<sup>19</sup> Lacey Satcher, “Multiply-deserted areas: environmental racism and food, pharmacy, and greenspace access in the Urban South,” *Environmental Sociology*, January 2022, [https://www.researchgate.net/publication/358207590\\_Multiply-deserted\\_areas\\_environmental\\_racism\\_and\\_food\\_pharmacy\\_and\\_greenspace\\_access\\_in\\_the\\_Urban\\_South](https://www.researchgate.net/publication/358207590_Multiply-deserted_areas_environmental_racism_and_food_pharmacy_and_greenspace_access_in_the_Urban_South).

<sup>20</sup> The law's Medicaid provisions will take effect on Dec. 31, 2026. Ibid. at 1; “Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline,” Congressional Budget Office, July 21, 2025, <https://www.cbo.gov/publication/61570>; Tony Romm et al., “Tax Cuts Now, Benefit Cuts Later: The Timeline in the Republican Megabill,” *The New York Times*, July 2, 2025, <https://www.nytimes.com/2025/07/02/us/politics/tax-cuts-benefit-cuts.html>.

<sup>21</sup> “326 Pharmacies Have Closed Since Elon Musk Tanked PBM Reform,” American Economic Liberties Project, March 10, 2025, <https://www.economicliberties.us/press-release/326-pharmacies-have-closed-since-elon-musk-tanked-pbm-reform/>.

<sup>22</sup> “DRUG DISCOUNT PROGRAM: Federal Oversight of Compliance at 340B Contract Pharmacies Needs Improvement,” Government Accountability Office, June 2018, <https://www.gao.gov/assets/gao-18-480.pdf>.

<sup>23</sup> “New Predatory PBM Game Uncovered: How PBMs Are Exploiting the 340B Program for Patients in Need,” PBM Accountability Project, accessed July 14, 2025, <https://www.pbmaccountability.org/340b>.

<sup>24</sup> Adam Fein, “EXCLUSIVE: For 2023, Five For-Profit Retailers and PBMs Dominate an Evolving 340B Contract Pharmacy Market,” Drug Channels, July 11, 2023, <https://www.drugchannels.net/2023/07/exclusive-for-2023-five-for-profit.html>.



# Conclusion

Although Trump's executive order will unwarp the 340B program's incentives for two types of drugs and one class of patients, his megabill — now law — will significantly increase the number of uninsured individuals. In contrast, any city or county executive who converts a publicly owned FQHC to the Penny Price model will go further than the executive order, making all outpatient prescription drugs available to any at-risk patient, regardless of income level, while reinforcing the social safety net to withstand additional pressure.

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