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The Financial Impact to Medicare from the 340B Drug Pricing Program

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Introduction

In July 2025, BRG researchers published a brief on the fiscal impact of the 340B Drug Pricing Program (“340B program”) on Medicaid.¹ That brief found that in 2024, rebates collected through the Medicaid Drug Rebate Program (MDRP) would have been an estimated \$6.5 billion higher in the absence of the 340B program. Of this amount, \$2.3 billion impacted state budgets directly. The impact of the 340B program on federal programs goes beyond Medicaid and affects Medicare, which we explore in detail in this brief.

Background: Fiscal Impact of the 340B Program in Medicare

Medicare is a federal health insurance program primarily for people ages sixty-five and older, as well as certain younger individuals with disabilities. Medicare Part B covers outpatient medical services, including physician-administered drugs, preventive care, and durable medical equipment. Medicare Part D provides prescription drug coverage primarily for self-administered drugs dispensed by pharmacies, offered through private plans approved by Medicare.

Like commercial insurance plans, Medicare Part D plans often work with pharmacy benefit managers (PBMs) to manage prescription drug benefits, negotiate rebates with manufacturers, and process pharmacy claims. Negotiated rebates in Medicare Part D are discounts that drug manufacturers provide to Part D plans (or their PBMs). Part D plan sponsors or their PBMs may negotiate rebates in exchange for access to a plan’s formulary or in exchange for lower beneficiary cost-sharing. These rebates are typically negotiated confidentially and applied after the point of sale, meaning they do not directly lower the price a beneficiary pays at the pharmacy counter. Instead, they reduce the total drug spending liability for the plan, which in turn lowers the amount Medicare pays to Part D plans and the premiums beneficiaries pay.

The Inflation Reduction Act (IRA) of 2022 introduced major reforms impacting how Medicare pays for prescription drugs. One significant change established new inflation rebates that manufacturers pay when they raise drug prices faster than inflation. For Medicare Part B, drugs subject to an inflation rebate have reduced beneficiary coinsurances. For Medicare Part D, there is no impact to beneficiary cost sharing.

The IRA includes duplicate discount prohibitions that prevent manufacturers from paying certain rebates on 340B-priced drugs. These prohibitions apply to both types of inflation rebates.² In addition, negotiated rebates in Part D typically include a prohibition on 340B duplicate discounts within the contracts between manufacturers and Part D plans or their PBMs.

Each rebate type discussed above lowers Medicare spending. Negotiated rebates reduce costs by lowering the net drug spending of plans, which in turn reduces Medicare’s payments to those plans. Inflation rebates in Part B and Part D are paid directly to Medicare and offset each program’s spending. When these rebates are *not* paid due to a statutory or contractual prohibition on duplicate discounts for 340B drugs, Medicare spending increases. As discussed in the conclusion to this brief, 340B may also create incentives that drive up costs for Medicare beyond the cost of these forgone rebates.

1 Blalock, Eleanor, and Carlee Launsbach, *The Financial Impact to Medicaid from the 340B Drug Pricing Program*, BRG issue brief (July 2025). https://media.thinkbrg.com/wp-content/uploads/2025/07/11131151/Financial-Impact-to-Medicaid-from-340B_July-2025.pdf

2 While 340B units have been excluded from Part B inflation rebate calculations since Q1 2023, exclusion of 340B units from Part D inflation rebate calculations will begin January 1, 2026, under the IRA.

Results

This brief estimates, for a twelve-month period, the total potential Medicare Part D and Part B inflation rebates and Part D plan negotiated rebates that Medicare did not receive due to the 340B status of the underlying prescriptions. We include the methods used for our calculations in the appendix.

Our analysis finds that for calendar year 2023, total estimated negotiated rebates in Medicare Part D would have been approximately \$81 billion (absent contractual exclusions for 340B units), but exclusions due to 340B status reduced this amount by an estimated \$13 billion (17 percent). This resulted in both higher costs for the Medicare program and higher premiums for beneficiaries. For Medicare Part B, estimated inflation rebates across the fifty-one Healthcare Common Procedure Coding Systems (HCPCS)-coded drugs that were subject to these rebates (absent the statutory exclusion of 340B units) would have totaled an estimated \$44 million for the period from Q2 2023 through Q1 2024. After accounting for the exclusion of 340B units, however, Medicare will forgo approximately 43 percent of these rebates, or \$19 million.

In total, we estimate that Medicare Part B inflation rebates and Part D negotiated rebates were more than \$13 billion lower in 2023 than they otherwise would have been as a result of the 340B program. This represents 17 percent of total potential rebates and accounts for 7 percent of Medicare Part B and Part D net drug spending for the year.³

MEDICARE REBATES BY 340B ELIGIBILITY STATUS IN 2023⁴ (IN MILLIONS)

	Forgone Due to 340B Status
Part D negotiated rebates	\$13,410
Federal spending	\$10,795
Beneficiary spending	\$2,615
Part B inflation rebates	\$19
Federal spending	\$14
Beneficiary spending	\$5
Total = \$13,429	

The IRA does not mandate exclusion of 340B units from Part D inflation rebates until January 1, 2026, so they are not estimated in the analysis for 2023 presented above. However, we estimate that, had 340B units been excluded from Part D inflation rebates during 2023, the Medicare program would have missed out on an additional \$38 million in inflation rebate payments.⁵ Specifically, we identify 216 brand drugs reimbursed in the twelve months ending in September 2023 that were likely subject to these rebates. Total potential Part D inflation rebates for these drugs are estimated at \$237 million during this period. Of this amount, 16 percent (\$38 million) would not have been owed due to 340B status had the 340B exclusion already been in effect.

3 Total Medicare Part B spending is calculated using a database published by the Centers for Medicare & Medicaid Services (CMS): <https://data.cms.gov/summary-statistics-on-use-and-payments/medicare-medicaid-spending-by-drug/medicare-part-b-spending-by-drug>. Net Medicare Part D spending is sourced to the 2024 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, US Government Publishing Office (2024) ["Medicare Trustees' Report"], Table IV.B10., "Aggregate Part D Reimbursement Amounts on an Incurred Basis," p. 152. <https://www.cms.gov/oact/tr/2024>

4 The exact time period measured varies slightly by rebate type (see appendix for methodology). The share of impact attributed to federal spending versus beneficiary premiums was calculated using the 2024 Medicare Trustees' Report, Table IV.B10., "Aggregate Part D Reimbursement Amounts on an Incurred Basis," p. 152, and Table III.C4., "Operations of the Part B Account in the SMI Trust Fund (Cash Basis) during Calendar Years 1970-2023," p. 89.

5 As explained in the methodology section of the appendix, the exclusion of 340B units from Part D inflation rebate liability will not take effect until 2026.

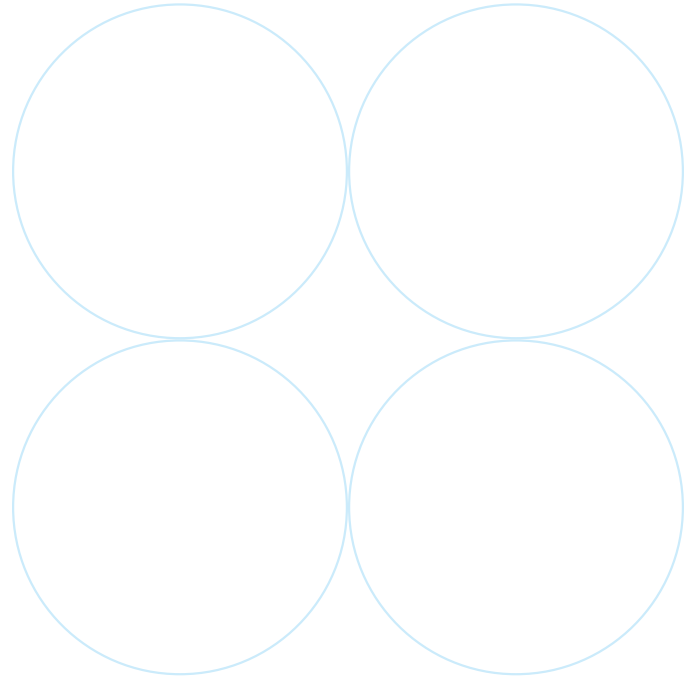
Conclusion

Because of the prohibitions on duplicate discounts that exist in statute and in contracts between manufacturers and Part D plans/PBMs, Medicare missed out on \$13 billion in rebates in 2023. Additionally, because Medicare Part B does not currently reduce reimbursement for 340B-purchased drugs,⁶ and reduction in reimbursement by Medicare Part D plans is uncommon (and, in fact, illegal in certain states),⁷ Medicare rebates that are not paid due to 340B status are generally not offset by reduced reimbursement and therefore result in a direct increase to Medicare spending.

Given historical trends, 340B sales are likely to grow absent significant reforms. Part D plan negotiated rebates may decline as more drugs become subject to the maximum fair price (MFP), though the growth in 340B will likely mean that Medicare will continue to forgo a higher percentage of total negotiated rebates.

Beyond the direct impact of lost rebate revenue, other analysis—including a recent Congressional Budget Office report—suggests that the 340B program imposes additional indirect costs on Medicare not captured in this analysis:⁸

- The program’s financial incentives can encourage the use of more expensive drugs over lower-cost alternatives, leading to higher overall Medicare spending.⁹
- The program may contribute to shifts in site of care toward more costly hospital outpatient departments.¹⁰
- The administrative burden of accurately identifying and excluding 340B units from inflation rebate invoices may increase CMS’ administrative costs.



6 In 2018, CMS reduced Medicare Part B reimbursement for drugs purchased by hospitals at the 340B price from average sales price (ASP) plus 6 percent to ASP minus 22.5 percent, acknowledging that hospital participation in the 340B program appeared to be correlated with “drug spending increases.” See “Medicare Program: Hospital Outpatient Prospective Payment and Ambulatory Surgical Center Payment Systems and Quality Reporting Programs,” 42 CFR 414.416, and 419, Fed. Reg. 82:239: 59216 (December 14, 2017). <https://www.govinfo.gov/content/pkg/FR-2017-12-14/pdf/FR-2017-12-14.pdf>

In June 2022, the US Supreme Court found this reimbursement reduction to be unlawful. In September 2022, the US District Court for the District of Columbia ordered CMS to revert immediately to reimbursing at ASP plus 6 percent for 340B-purchased drugs. See “Memorandum Opinion Granting Plaintiffs’ Motion to Vacate,” *American Hospital Association v. Becerra* (September 28, 2022). <https://www.aha.org/legal-documents/2022-09-28-judge-orders-hhs-immediately-halt-unlawful-reimbursement-cuts-remainder>

CMS made this change and, in its final Outpatient Prospective Payment System (OPPS) rule for 2023, specified it would pay ASP plus 6 percent for 340B drugs administered in hospital outpatient departments in 2023.

7 Ryan White Clinics for 340B Access, “State Laws Prohibiting Discriminatory Reimbursement” (June 2023). <https://rwc340b.org/wp-content/uploads/2023/07/Condensed-Chart-340B-Discriminatory-Reimbursement-Laws-D0848211-15.pdf>

8 Congressional Budget Office (CBO), *Growth in the 340B Drug Pricing Program* (September 10, 2025). <https://www.cbo.gov/publication/61730>

9 US Government Accountability Office, *Medicare Part B Drugs: Action Needed to Reduce Financial Incentives to Prescribe 340B Drugs at Participating Hospitals* (June 5, 2015). <https://www.gao.gov/products/gao-15-442>; Hunter, Michael T., Katie Holcomb, and Carol Kim, *Analysis of 2020 Commercial Outpatient Drug Spend at 340B Participating Hospitals*, Milliman (September 2022). https://edge.sitecorecloud.io/millimaninc5660-milliman6442-prod27d5-0001/media/Milliman/PDFs/2022-Articles/9-13-22_PhRMA-340B-commercial-analysis.pdf; Horn, Danea, “The incentive to treat: Physician agency and the expansion of the 340B drug pricing program,” *Journal of Health Economics* 101 (May 2025). <https://www.sciencedirect.com/science/article/abs/pii/S0167629625000050>

10 Jung, Jeah, Wendy Y. Xu, and Yamini Kalidindi, “Impact of the 340B Drug Pricing Program on Cancer Care Site and Spending in Medicare,” *Health Services Research* 53:5 (January 22, 2018). <https://onlinelibrary.wiley.com/doi/10.1111/1475-6773.12823>; Fitch, Kathryn, Pamela M. Pelizzari, and Bruce Pyenson, *Cost drivers of cancer care: A retrospective analysis of Medicare and commercially insured population claim data 2004-2014*, Milliman (April 2016). <https://www.milliman.com/en/insight/cost-drivers-of-cancer-care-a-retrospective-analysis-of-medicare-and-commercially-insured>

Appendix

Methodology

Part D Plan Negotiated Rebates

To estimate Part D plan negotiated rebates that Medicare did not receive due to 340B, we begin by identifying likely 340B-eligible brand drug prescriptions in Medicare Part D Prescription Drug Event data based on the 340B affiliation of the prescriber and pharmacy. We then use disclosures on direct and indirect remuneration (DIR) from the Medicare Trustees' Report to estimate and apply an average rebate percentage to these 340B prescriptions.¹¹ We then compared these forgone rebates for 340B prescriptions to total Part D plan negotiated rebates, also based on disclosures from CMS and the Medicare Trustees' Report.

Part B Inflation Rebates

CMS began publishing quarterly drug-specific, inflation-adjusted coinsurance percentages for Medicare Part B beneficiaries in Q2 2023.¹² This data allows us to identify the drugs (encompassing fifty-one HCPCS codes) subject to inflation rebates during this period and the rebate percentage applied. By combining this information with utilization volumes from Medicare Part B claims, we estimate total potential inflation rebate liability from Q2 2023 to Q1 2024.

To quantify the portion of potential rebates that are excluded from inflation rebates due to 340B, we identify 340B claims within the Part B claims data relying primarily on the presence of a 340B modifier ("JG" or "TB"). Certain providers and claim types were exempted from the requirement to add these modifiers until January 1, 2024.¹³ To account for these additional 340B claims, we also include Part B claims from 340B hospitals in Maryland, 340B critical access hospitals, and non-excepted, off-campus, provider-based departments at 340B hospitals.

Part D Inflation Rebates

Using list price data from the Elsevier Gold Standard Drug Database, we calculated the weighted average wholesale acquisition cost (WAC) during the appropriate benchmark period. For drugs launched prior to October 1, 2021, the benchmark period is January 1 through September 30, 2021. For products launched after October 1, 2021, the benchmark period is the first full calendar year that the product is on the market.¹⁴ We then converted WAC to average manufacturer price (AMP) using an average ratio published by the Congressional Budget Office.¹⁵

We then identified the appropriate benchmark CPI-U, again based on when the product was launched. To determine whether a drug's applicable-period AMP exceeded the inflation-adjusted AMP, we calculated an adjusted WAC using the following formula:

$$\text{Adjusted AMP} = \text{Benchmark AMP} \times \left(\frac{\text{CPI-U for Applicable Period}}{\text{CPI-U for Benchmark Period}} \right)$$

This formula accounts for allowable price growth in line with inflation. The inflation rebate per unit is calculated as the difference between the applicable-period AMP and the inflation-adjusted AMP where the applicable-period AMP exceeds the inflation-adjusted AMP.

11 2024 Medicare Trustees Report, Table IV.B8., "Key Factors for Part D Expenditure Estimates," p. 149. <https://www.cms.gov/oact/tr/2024>

12 CMS, "Reduced Coinsurance for Certain Part B Rebatable Drugs under the Medicare Prescription Drug Inflation Rebate Program" (September 2023). <https://www.cms.gov/files/document/reduced-coinsurance-part-b-rebatable-drugs-apr-1-june-30.pdf>

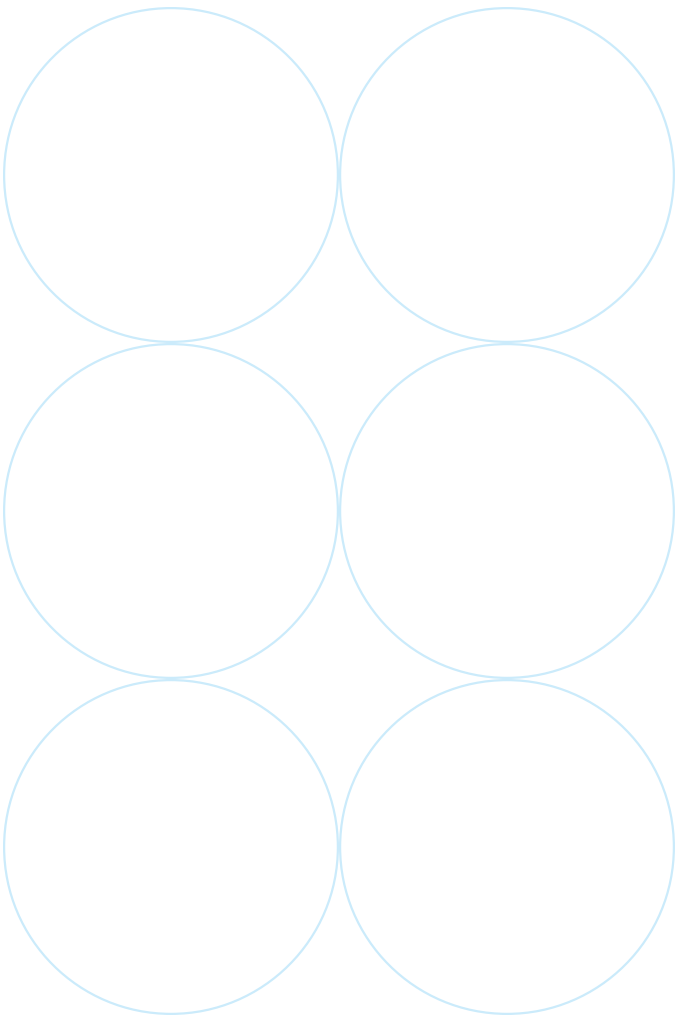
13 CMS, "Billing 340B Modifiers Under the Hospital Outpatient Prospective Payment System (OPPS) Frequently Asked Questions," Medicare-FFS Program (March 3, 2023). <https://www.cms.gov/medicare/medicare-fee-for-service-payment/hospitaloutpatientpps/downloads/billing-340b-modifiers-under-hospital-ops.pdf>

14 42 CFR 428.202(c).

15 CBO, "A Comparison of Brand-Name Drug Prices Among Selected Federal Programs" (February 2021). <https://www.cbo.gov/publication/57007>

This per-unit rebate is then multiplied by the number of units reimbursed by Medicare Part D, as reported in Medicare Prescription Drug Event (PDE) data. The result provides an estimate of the total inflation rebate liability for each drug. To understand the implications of the 340B program on rebate collections, we identify likely 340B eligible units within the PDE data based on the 340B affiliation of prescribers and dispensing pharmacies.

Per the IRA, the exclusion of 340B units from inflation rebate liability does not take effect until 2026. Therefore, our 2023 estimates reflect ineligible rebates had the exclusion been in place at the time.



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