CAPITOL STREET

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Hospital Site Neutral May Come to Fruition Lame Duck

PBM Likely with Drug Only Site Neutral & 340B As Maybes

Relevant Companies

Our Take & Next Up

Consolidation and vertical integration are hot healthcare topics and will continue to be under either a second Biden or Trump administration Yesterday's House Budget committee (Chair Arrington, R-TX) hearing (here) highlighted payer ownership of physician groups (UNH), site neutral payments, hospitals, drugs, and 340B issues. The hearing largely focused on the impact of provider integration under healthcare systems and the vertical integration of PBMs into payers. The hearing addressed topics that we believe are likely to reemerge in the lame duck session of Congress.

Our take on an end of the year healthcare package can be found below.

- On site neutral reforms ($150 B in savings over 10), lawmakers have been teeing up site neutral for months, however, most site neutral reforms are likely to move in 2025 or later. Part B payment reform potentially could be included in the lame duck package.
- Some anti-PBM reform is likely to pass at the end of the year. Our most recent take here. These reforms include:
  - Medicare Part D reporting and transparency requirements (pricing, formulary, financial disclosures, written agreements)
  - Part D de-linking (restrictions on compensation)
  - Medicaid spread pricing ban
  - Commercial transparency requirements (pharmacy ownership, pricing info by dispensing sites, compensation disclosure)
- 340 B transparency & reform is a possibility with momentum building

Key Points

The House Budget (Chair Arrington, R-TX) hearing was focused on physician consolidation with some discussion of PBM vertical integration. UNH was named & shamed as a key player in consolidating physician offices and other sectors. Other companies that were named for having significant government related revenue were HUM and Elevance Health. Key factors incentivizing consolidation include declining reimbursement for physicians, increasing costs of operations, increasing administrative requirements, and the

need to gain leverage in negotiations with payers. Solutions include (1) PBM transparency and rebating bills, (2) Medicare physician reimbursement fix, (3) site neutral reform, and (4) 340B oversight.

Dr. Chapin White (Director of Health Analysis, CBO) noted (testimony here) that consolidation presents a cost to the government in 2 major ways. Consolidation leads to growth in intensity of services provided or by shifting services to more costly settings (Medicare and Medicaid). On the commercial side, consolidation gives providers more bargaining power, allowing them to negotiate higher prices with private insurers, which leads to shifts in employee compensation away from taxable wages to tax favored health benefits.

The CBO witness recommends establishing more site-neutral payments and expanding antitrust capacity for federal agencies. Other witnesses agree on the need for site-neutral reform. CBO also emphasizes that proposed policy solutions would have a limited effect on decreasing federal costs as healthcare markets are already highly consolidated and financial incentives are expected to continue to drive provider consolidation.

We think if pay-fors are needed, Part B site neutral payment reform ($3.7 B) may come into play.

- The Chair focuses on site neutral reform. We do not expect site neutral reforms to move in 2024 despite having bipartisan support in the House as Senate has not completely vetted the issue.
- However, Part B drug reimbursement changes could make it across the finish line in lame duck. As a reminder, Part B site neutral reform requires Medicare to pay the same rates for physician-administered drugs in off-campus hospital outpatient departments as physician offices (saves $3.7 B over 10). This provision and some anti-PBM commercial transparency reforms are included in the House passed *Lower Costs, More Transparency Act* (saves $715 M over 10).

Is 340 B reform in the cards? Hospitals and Pharma are pitted against one another, with momentum building. The advantages of 340B pricing for healthcare systems and the lack of program oversight was mentioned as another major incentive driving hospital consolidation, particularly of specialty clinics. In February, the Senate proposed 340B reforms that include registration requirements for contract pharmacies, ownership and financial restrictions on child sites, transparency and auditing requirements, and user fees for the program. While this is a proposed draft bill, the types of reforms seen are likely to reemerge as both chambers consider increased oversight over the 340B program and with increased lobbying pressure from the biopharmaceutical industry.

We have said that anti-PBM reform is extremely likely in 4Q24 (lame duck).

- The noise continues around PBM reforms with PBM vertical consolidation and the lack of rebate transparency pointed out as a major cost driver for federal programs. PBM provisions are likely to be included in the lame duck package and are expected to be largely Medicare & Medicaid reforms (transparency, spread pricing ban, de-linking). Some commercial transparency requirements are also likely to pass compared to more onerous reforms (like a commercial spread pricing ban)
- Meanwhile, the FTC 6(B) study results are expected this summer. Initial results will likely focus on rebating practices and the details/costs around insulin. More detailed analyses on GPOs, contracting and other topics are expected sometime after the initial report.

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