



THE BUCKEYE INSTITUTE

The 340B Fix

Federal Bipartisan Effort Best Path to Reform

Interested Party Testimony
Ohio Senate Health Committee
Ohio Senate Bill 198

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As Prepared for Delivery

Chair Huffman, Vice Chair Johnson, Ranking Member Liston, and members of the Committee, thank you for the opportunity to testify regarding **Ohio Senate Bill 198**.

My name is Rea S. Hederman Jr. I am a vice president of policy at **The Buckeye Institute**, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

Senate Bill 198 makes a noble effort to help Ohio’s **community health centers**, many of which have become collateral damage in a policy battle over reforming a flawed federal health program. Preferably, Congress should fix the problem, and Congress is wisely moving forward with federal reforms. But if Senate Bill 198 advances, it should be tailored narrowly and make an opaque program more transparent by building on earlier transparency efforts.

Congress created the **340B Drug Pricing Program** in **1992** to help safety-net providers serve more vulnerable, low-income, and uninsured patients by requiring drug manufacturers to discount essential medicines. Ohio’s community health centers rely on this program to offer care in some of the most medically underserved parts of our state, and 340B savings help fund expanded services to those in need. Unfortunately, beginning with the Affordable Care Act in 2010, the 340B program began to exceed its original scope. And as pharmacies transitioned from local brick-and-mortar storefronts to online chain stores, pharmaceutical spending and program eligibility **expanded dramatically**. In the last decade, 340B program spending has seen a **five-fold** increase and shows no sign of slowing down as many large hospital systems and huge care providers use the program to pad their bottom lines and further consolidate the health industry.

According to the U.S. Senate Committee on Health, Education, Labor, and Pensions, some hospitals now generate hundreds of millions of dollars annually through 340B discounts, often without any apparent connection between those savings and direct benefits for low-income patients. Contract pharmacies have driven up program costs to the detriment of independent and smaller pharmacies, and major pharmaceutical manufacturers have lost significant revenues due to large-scale healthcare providers now using 340B. Drug manufacturers have taken understandable steps to curb programmatic abuses that hurt profits and hinder new pharmaceutical development. And these 340B program incentives have encouraged some hospitals to move resources from underserved areas with low-income patients to more affluent areas to boost hospital revenue even more. Thus, the very patients and health centers that 340B intended to help are now suffering under the program’s abuse and expansion.

Although Senate Bill 198 is carefully narrow in scope and wisely excludes hospitals, it may still inadvertently encourage more healthcare consolidation, which the Congressional Budget Office **believes** has contributed to rising 340B program costs. Mandating that drug manufacturers offer discounts to too many different providers could perversely incentivize larger hospital systems to acquire covered entities to increase their own revenue streams.

The bill’s authors have rightly made great efforts to make the program more transparent. The program’s opacity has two main sources. First, Congress failed to write a clear statute authorizing program oversight. The General Accounting Office has **recommended** more oversight by the

Health Resources and Services Administration (HRSA), but HRSA asserts that it lacks the statutory authority needed to oversee the program properly. Second, patient benefits are amorphous, and it remains unclear to what extent they actually benefit patients in our healthcare system. A better system would tie the discount drugs directly to the amount paid by the actual patient for whom the drugs are prescribed. Thus, The Buckeye Institute looks forward to seeing the results of Ohio's increased reporting and transparency requirements.

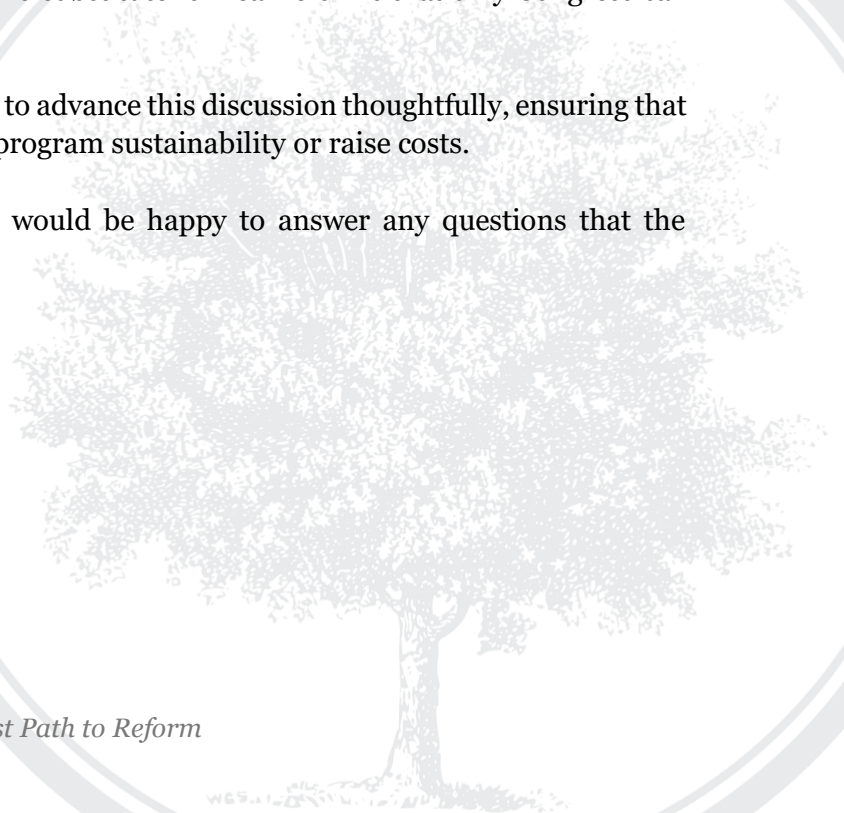
The federal problem requires a federal solution. **Several reform bills** have been introduced in Congress, and the Trump administration has already **created a voluntary program** that changes how the 340B program works for certain drugs. Such scrutiny and reform efforts are sorely needed.

Prudence ways in favor of allowing federal reforms to take shape but given the dire circumstances facing some community health centers, some version of Senate Bill 198 may move forward. If it does, robust transparency requirements, including some vetoed by Governor DeWine in the budget, should be included and community health centers should have to disclose claims-level data to offset the HRSA limitations. Additionally, the bill should exclude several other care provider types, including those dealing with family planning and community health centers in which hospitals have an ownership stake. The bill should be careful to ensure that 340B does not subsidize controversial procedures or extend its benefits beyond the neediest patients and care providers.

In closing, Senate Bill 198 should either be paused or amended to address only the most acute challenges facing Ohio's most exposed community health centers. The problems with the 340B program are rooted in an opaque federal program that exceeds its original purpose and lacks clear statutory oversight. Limited state-level action may provide temporary relief to community health centers, but it may also unintentionally exacerbate programmatic flaws that distort the discount drug market. Ultimately, state reforms are no substitute for real reforms that only Congress can deliver.

The Buckeye Institute urges this Committee to advance this discussion thoughtfully, ensuring that any action Ohio takes does not undermine program sustainability or raise costs.

Thank you for your time and attention. I would be happy to answer any questions that the Committee might have.



About The Buckeye Institute

Founded in 1989, The Buckeye Institute is an independent research and educational institution – a think tank – whose mission is to advance free-market public policy in the states.

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