

# New California drug pricing initiative could significantly impact 340B providers

February 26, 2019

California Governor Gavin Newsom recently issued an executive order directing state agencies to consolidate their purchasing of drugs in an effort to increase the state's bargaining power and lower its drug spend. The order includes a mandate that the state change the way it provides drug coverage to many California Medicaid beneficiaries. The state's Medicaid program, known as Medi-Cal, currently provides drug coverage directly for beneficiaries that receive services on a fee-for-service (FFS) basis. Managed care organizations (MCOs) are responsible for providing drug coverage for those beneficiaries enrolled in managed care. To consolidate drug purchasing in accordance with the executive order, by January 2021 Medi-Cal must provide drug coverage for all Medi-Cal beneficiaries (including those enrolled with MCOs) directly through its FFS plan, and may not continue to rely on MCOs for drug coverage. If this consolidation occurs, it could have a significant financial impact on 340B providers.

FFS Medi-Cal reimburses 340B-purchased drugs based on their actual acquisition cost (AAC), which effectively requires a covered entity to pass along its 340B discounts to the state. Medi-Cal MCOs, however, are free to negotiate reimbursement rates for 340B drugs with covered entities. This creates the opportunity for covered entities to be paid at rates that allow them to retain the financial benefit of their 340B discounts. If all Medi-Cal drug purchasing is consolidated under the FFS plan, covered entities in California could see a substantial reduction in their overall reimbursement for 340B drugs, as the state's AAC-based reimbursement requirement would then apply to all 340B drugs dispensed to Medi-Cal beneficiaries. Unless the state were to change Medi-Cal rules governing 340B drug reimbursement, covered entities would have no choice but to accept the lower FFS Medi-Cal payment rate, as the state requires entities to use 340B drugs for FFS Medi-Cal beneficiaries.

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We will monitor this and other drug pricing proposals that could affect the 340B program. In the meantime, please reach out to any one of us with questions.

To sign up for 340B @ Dentons, please contact Erin Whittaker at [erin.whittaker@dentons.com](mailto:erin.whittaker@dentons.com).

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