

Statement of Matthew J. Perry
President and CEO, Genesis HealthCare System
Before the House Committee on Energy and Commerce
Subcommittee on Oversight and Investigations

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Chairman Griffith, Ranking Member Castor, and members of the subcommittee, I am Matthew Perry, president and CEO of Genesis HealthCare System based in Zanesville, Ohio. It is my honor to appear before you today to discuss the 340B drug pricing program.

How Genesis HealthCare System Qualifies for 340B

Genesis HealthCare System is an integrated health care delivery system that is the largest provider of care to the 235,000 people living in our rural, six-county region in southeastern Ohio. The patient population we serve faces significant economic disadvantages, with about one in five of our residents living below the poverty line and fully one-third relying on Medicaid for their health coverage. These patients also face significant health challenges, with rates of diabetes, heart disease, stroke, cancer, and substance use disorders all well above the median rates for Ohio. Our eligibility for the 340B drug pricing program is directly tied to our Mission and commitment to serving these patients.

Congress designed 340B with strict eligibility criteria that target safety-net providers, such as Genesis, that treat a high volume of individuals living with low incomes. As a result, hospitals enrolled in 340B as disproportionate share (DSH) hospitals are responsible for 77% of the

hospital care provided to patients enrolled in Medicaid across the nation¹ and most of the uncompensated and unreimbursed hospital care in the U.S.² Genesis qualifies for 340B as a private, nonprofit hospital that meets 340B's rigorous standards for entry by demonstrating that we serve a disproportionate number of Medicaid or low-income Medicare patients. Our Medicare DSH percentage is 17.05%, and we recertify with the Health Resources & Services Administration (HRSA) every year to demonstrate that we continue to meet 340B eligibility standards.

What We Can Provide Because of 340B

340B is an integral component of our reimbursement system and is a lifeline for Genesis HealthCare System. The Medicare, Medicaid, and Veterans care programs chronically under-reimburse hospital and physician services relative to the cost of providing care. As a result, DSH hospitals such as Genesis rely on 340B savings to fill the financial gap left by these government programs. We save about \$56 million a year through 340B discounts on drugs we provide to our hospital outpatients through our hospital, our clinics, our in-house retail pharmacy, and our contracts with community and specialty pharmacy partners who dispense drugs to our patients. More than three-quarters of our patients are covered by government programs or are uninsured. Our total patient services revenue last year was about \$786 million, and our operating margin was only a positive \$1.5 million. Without one-time, COVID-19 federal grant assistance, we would have been more than \$13 million in the red for the year. That makes our 340B savings a critical factor in determining whether we operate a razor-thin positive margin or an unsustainable

¹ 340B DSH Hospitals Serve Higher Share of Patients with Low Incomes. Dobson DaVanzo. September 2022. https://www.340bhealth.org/files/340B_and_Low_Income_Populations_Report_2022_FINAL.pdf

² 340B DSH Hospitals Increased Uncompensated Care in 2020 Despite Significant Financial Stress. Dobson DaVanzo. July 2022. https://www.340bhealth.org/files/Dobson_DaVanzo_Op_Margins_and_UC_FINAL.pdf

negative margin. In fact, without our 340B savings Genesis would not be able to continue operating.

Like all 340B hospitals, we generate benefit when we use 340B drugs for our insured patients. We invest the 340B financial benefit right back into patient care and support, much of which we would not be able to provide without those dollars. Regardless of the hospital, clinic, retail pharmacy, or contract pharmacy in which we generate the 340B savings, we direct those savings toward the areas where our communities' needs are most acute.

Some of our 340B savings go directly toward reducing health care bills for patients who cannot afford them. For example, we provide more than \$3.5 million in free or discounted prescription drugs through our copay assistance program. We also provide more than \$34 million in uncompensated care, a figure that includes our charity care, bad debt, and underpayment from public programs, not including Medicare. We also use 340B savings to provide care for our veterans, as there is no local veterans hospital.

In addition to improving patient care by helping to subsidize uncompensated care levels, 340B enables us to improve care by providing needed specialized services in our low-income communities. Many rural and low-income areas struggle to attract and retain specialists, in part due to low payment rates from government payers and higher uninsured and underinsured populations. In fact, Genesis loses millions each year supporting our 325-plus employed medical group, and we recruit 95% of the physicians who come to our community to practice. Without 340B savings, this would be impossible.

Because of 340B, Genesis is our region's only provider of high-acuity health care services in such areas as cancer care, trauma, neurosurgery, open-heart surgery, advanced electrophysiology,

and behavioral health. Through our hospital and physician clinics, we provide specialized services in areas such as endocrinology, rheumatology, pain management, and anticoagulation. 340B savings help us sustain these offerings that are available nowhere else in the communities we serve and keep us financially viable. This allows us to provide more types of services to our patients with low incomes, improving health care for the community.

Although we generate 340B savings on the outpatient side, we use those resources to bolster care where needed, even if that need pertains to inpatient services. The U.S. is suffering from a significant shortage of inpatient beds for treatment of behavioral health issues, a service that is well known for being financially difficult to sustain. With 340B funding, we can support our inpatient behavioral health center, providing those critical services to both adult and pediatric patients. Also, Genesis provides the region's only trauma center — again, only possible through the savings created by 340B.

Our use of 340B for such services is not unusual, as research consistently demonstrates that 340B hospitals are more likely to provide specialized yet unprofitable services for their community.³

The level of care we provide requires significant investments in facilities and staff, and 340B savings help us there, too. These resources are the reason we can stand up and operate our centers and physician clinics that offer our patients comprehensive care close to home. They also are why we can hire and retain top specialists and other key health professionals who otherwise would relocate elsewhere in Ohio or move out of the state. As we continue to experience spikes

³ 340B DSH Hospitals Serve Higher Share of Patients with Low Incomes. Dobson DaVanzo. September 2022. https://www.340bhealth.org/files/340B_and_Low_Income_Populations_Report_2022_FINAL.pdf

in prices for labor, supplies, and drugs, 340B savings are more crucial than ever to our ability to have the right infrastructure and people in place.

Why Our 340B Program Has Grown

Since 340B was enacted more than 30 years ago, there have been tremendous advances in outpatient care. Surgery that would have required a patient to spend at least a week in the hospital now can be done in a day, allowing the patient to go home. We use new prescription medications in place of surgery altogether. Those medications sometimes come at a significantly higher price. Thus, it is no surprise that as outpatient care services and the number of expensive lifesaving medications have grown in recent years, 340B savings also have grown. So too have grown the medical needs of our patients and the level of services we must have in place to ensure they get healthy and stay healthy. Without 340B, Genesis never would have been able to develop, let alone sustain, the broad scope of high-quality health services we offer today. Again, 340B savings are the only reason we are even viable as a health system in the first place.

Without 340B, we would not have been able to hire and retain the 4,000-plus Genesis team members who work in our rural communities and support our local economy. We would not have been able to serve the many veterans living in our area whose costs of care are significantly higher than the reimbursements we receive. We would not have been able to offer specialized care that nobody else in our region can provide.

We have seen the harmful effects of recent restrictions on 340B. Since 2020, many drug companies have restricted access to discounted drugs dispensed through our contract community and specialty pharmacies, blocking access to crucial 340B savings, and limiting the ability to provide our patients the drugs and other care they need.

Due to the restrictions, we have lost \$5.7 million in 340B savings from our historically contracted pharmacies and have had to make difficult choices about the level of care we can provide for our patients in need. This loss of contract pharmacy revenue, on top of all the other economic challenges we face, contributed to making 2022 and 2023 the most difficult financial years in the history of Genesis. After losing access to many 340B drugs through our contract pharmacy partners, we have done our best to continue to meet our patients' pharmaceutical needs through our own retail pharmacies. But those pharmacies cannot fill all those prescriptions due to limited distribution networks for specialty drugs, pharmacy benefit manager network restrictions, and PBM prohibitions on our retail pharmacies providing mail-order services.

A key reason why 340B works so well for us is because it does not impose restrictions on how we use our savings from drug discounts to care for patients. Rather, it grants us the flexibility to direct resources toward the areas where our patients need them the most. That is the way Congress designed 340B. It is critical that 340B continues to provide this level of flexibility so we can continue addressing our communities' greatest needs.

I am aware of proposals to redefine 340B so discounts would be available only for drugs furnished to low-income uninsured patients, or to limit 340B access to providers based on their levels of charity care. This would dramatically shrink the scope of 340B, significantly limiting hospitals' ability to provide basic services to individuals and communities with low incomes. Such proposals would have a devastating impact on our hospital and the surrounding communities. In fact, it would likely put us out of business altogether.

Without robust 340B support for such comprehensive care, Genesis simply would not be financially viable, and taxpayers would be approached to cover the shortfalls to retain locally

provided care. Patient care would be irreparably damaged, and some patients would fall through the cracks if this situation occurred. If patients in southeastern Ohio lost access to the services and support Genesis provides, they would need to travel significant distances to receive that care. Many would not be able to make that trip.

Where 340B Goes From Here

As Congress debates the future of 340B, I urge lawmakers to carefully consider how much critical patient care 340B makes possible. I am proud to be part of this patient care mission and to share our story on the importance of 340B for our nation's safety-net health care.

Thank you for the opportunity to be here today on behalf of Genesis HealthCare System and the patients we serve.