tistics regarding what was happening for each generic product identified with the manufacturer. Establishment of the Maximum Allowable Cost has met with good acceptance by medical and pharmaceutical progressional personnel.

It is Department's feeling that establishing the Maximum Allowable Generic Cost to be that price which is the lowest generic price available would not be acceptable.

The present drug program establishes a Maximum Allowable Cost for 36 categories of drugs available generically.

A study was conducted to determine what effect establishment of a "Maximum Allowable Cost" regarding generic drugs in the area of "cost effectiveness" resulted. Statistics reflected a reduction in expenditures for the expensive generic drugs of some $461,900 based on statistics for the period of January 1, 1972, through June 30, 1972, compared with the period July 1, 1972, through December 31, 1972.

Further, a reduction in the amount reimbursed per recipient demonstrated a decrease from $53.72 to $46.44 per recipient annually. Roughly, this amounted to a savings of approximately $1,092,000, based on an average recipient population of 150,000 recipients.

This reduction in drug costs could not be entirely allocated to the Maximum Allowable Cost Colorado policy. Factors that should be considered were not identifiable in dollar amounts, ie., what effect did the MAC policy have on other drugs being prescribed, were in fact lesser expensive generic drugs being prescribed, were there other policies such as "Drug Utilization Review" lowering drug costs?

In summary, it was quite appropriate to assume the bulk of the drugs' cost reduction was due to adoption of the Colorado Maximum Allowable Cost policy.

HEW-SRS PROPOSED REIMBURSEMENT OF DRUG COST

Recent proposals to adopt the Maximum Allowable Cost on a national basis for the title XIX medical program solicited a response from our Department, which I wish to share with this committee.

The Department does not take exception to adoption of a Maximum Allowable Cost for certain specific generic drugs, but feels that at this point in time, it would be more acceptable if the Federal Government would recommend to each individual State establishment of its own Pharmaceutical Reimbursement Boards, and its own Maximum Allowable Costs, rather than to have the Federal Government, from a national standpoint dictate to States what the upper limits of the Maximum Allowable Cost should be. Drug manufacturing, marketing, and distribution policies vary from one area of the United States to another, and therefore the Maximum Allowable Cost established for one State many times may be impractical in another State.

The Department takes issue with the requirement that cost of drugs should be acquisition cost or actual cost paid for the drug. Such a policy is not practical, and would be extremely difficult to monitor. Information received from those third-party drug programs which utilize acquisition cost is that the administrative expense of having field auditors monitor the acquisition cost of each pharmacy is quite significant. A few years ago, a professor from the University of Colorado School of Pharmacy, who conducted a study ot determine what professional fee should be allowed for the community pharma-