State $13 million per year, as I understand it. I think you stated that.

Before they were shut down, what was the annual savings of both programs together?

Mr. MICHELOTTI. OK. As I started to say, the volume refund program did get started, however we had a total of 11 months' experience, and by and large, they were not cost effective. The volume refunds, although these companies were real vanguards in coming forward with these kinds of proposals, did not extend the length and breadth of the manufacturing firms that were represented with the drugs available in our formulary. So just about one-quarter of a millions dollars in gross refunds were received in that 11-month period of time, and in net savings that represented a significantly smaller—about 10 percent of that—net savings after administrative costs and so forth.

There was a significant difference in administrative costs for volume refunds than for ceiling prices. The ceiling prices were extremely easy to administer, extremely easy to establish with a minimum of administrative overhead. However, the volume refunds required hundreds of hours of analytical time and constant perusal of usage data, et cetera, and they did not prove as cost effective as we had anticipated in the past.

Mr. GORDON. You found the administrative costs fairly reasonable, or less than $40,000?

Mr. MICHELOTTI. That is correct.

Mr. GORDON. Secretary Weinberger stated before this subcommittee that the principal administrative machinery is already in place and functioning at the State level, and that its estimated costs would not exceed 5 to 7 percent of projected savings or between $4 and $6 million.

Does the experience of California indicate this estimate is a reasonable one?

Mr. MICHELOTTI. I think it is very reasonable. I think it is conservative.

Mr. GORDON. Now, at the bottom of page 5, the MAIC program is limited in that only 125 generic drug types and only 5 medical supply categories currently are subjected to price ceilings. What do you mean by that? Do you mean 125 different drugs?

Mr. MICHELOTTI. No, again, those are line items.

The 125 lines represent—which represents again about a third that number of generic entities. But the way our programs works, each different—I keep calling them line items, to explain what that is: It is a drug indicated by its dosage form, strength and sometimes package size. Those things go together to establish a different line item for each drug, different catalogization in our master file.

Mr. GORDON. So how many actually different drugs were there, different dosage forms?

Mr. MICHELOTTI. Again, about a third of this number, 44, I believe it was.

Mr. GORDON. Forty-four. I see.

Now, on page 7, you say you save more than $2 million. Are you saying here that the $2 billion savings resulted from the purchase of only 40-odd drugs?

Mr. MICHELOTTI. Again, just because there are that limited number of drugs you have to consider these by the line item. The rational for