large as possible. The pharmacist should be permitted to keep 100 percent of the cost difference for the following reasons. Staff does not know what an adequate incentive is, what the short-term cost to HEW is (depending upon which is selected), or what the costs to pharmacists of searching out low-cost sellers and switching suppliers may be. Thus, understanding that selection of any incentive is arbitrary, we recommend erring on the side of creating more rather than less incentive. It is true that HEW would then forego some savings in the short-run. However, the resultant savings in the long-run are likely to be much greater, and the simplicity of letting pharmacists keep the entire cost difference would eliminate some administrative burden. Staff stresses that this greater reimbursement will bring savings to non-insured consumers through lower prices much more rapidly than under a weaker incentive plan.

However, this section of the MAC proposal has some problems, as enumerated below.

(1) It seems crucial that the mechanism for downward revision of the MAC price be kept simple and speedy. The proposed rule seems to leave open the possibility of lengthy and complicated hearings even on this question. Surely, for example, if the producer of the designated MAC-level drug merely lowers his price, this new price should be designated as the new MAC price as soon as possible. Staff therefore believes that some expeditious method be designed for recognizing a lowered MAC price, bypassing any complex administrative hearings. The only controversial issue in setting a new MAC price appears to be a determination as to whether a regional distributor has changed his area of distribution to a large enough extent to be considered for designation as a MAC drug producer elsewhere. Again, some relatively simple procedure for determining this seems feasible.

A speedy downward readjustment of the MAC price is not without problems, however. If a pharmacist has a previously-designated MAC-price drug in stock when a new lower MAC price is established, he may not be reimbursed fully for the higher acquisition cost of the previously-designated MAC drug if he uses it in filling Medicaid prescriptions. He could of course use it in filling non-Medicaid, generally written prescriptions, but he is nevertheless put into an awkward position by the structure of the MAC system. There may be ways to minimize the undesired effects of a change in a MAC price. For example, it may be sufficient to permit pharmacists 90 days to avoid problems of this type before a new published price becomes the operative maximum. Another possibility is to reimburse pharmacists at an old, higher MAC level if they can document, by invoice copy, that their most recent restocking of the drug was before the announced change and was at the old MAC price.

The latter possibility leads us to suggest that the proposal include a document retention requirement. Presumably this and other provisions could be enforced by a sample audit of drugstore records in conjunction with reimbursement claims. Although documentation need not be filed with such claims, pharmacists may be held responsible for proving the claims when audited. The implementation of several other sections of the whole MAC regulation, such as that dealing with actual acquisition cost, require the same mechanism of enforcement and thus the same type of record-keeping requirements.

(2) It seems important also to devise a monitoring system so that changes in MAC drug prices can be identified and incorporated into the system as quickly as possible. Perhaps the pharmacist can be required to state the source and price of the drug actually dispensed. In addition, HEW could require the known producers of a given drug to report periodically their actual (transactions) prices and area of distribution, and check internal HEW materials for any firms newly producing the drug. HEW could also circulate widely and publicly the established MAC prices so as to encourage more companies to enter into competitive production.

(3) The proposal states that the maximum allowable cost will be based on "the lowest unit price at which the drug is widely and consistently available to providers throughout the nation." Staff understands that this may be interpreted as meaning the lowest price at which a drug is sold *by a single producer or source* who sells throughout the *entire continental* United States. Although the language seems to admit of different interpretations, if this construction is correct, the following situation could occur. Assume that drug X is manufactured by two companies each of which can service the entire United States and by an additional ten companies each of which serves only a single region. Assume further that the two national companies charge a unit price of $.15 and $.10 respectively, and that the remaining ten regional companies each charge