

COMPETITIVE PROBLEMS IN THE DRUG INDUSTRY 12077

addresses itself to five percent of recipient abuse and penalizes the 95 percent of recipients who are in direct need of a drug benefit.

GENERIC DRUGS:

In July of 1972, the Colorado Medicaid Drug Program adopted a new policy concerning reimbursement whenever a drug was available generically. Prior to July 1, 1972, the State of Colorado was reimbursing participating pharmacy vendors based on Average Wholesale Cost of the drug, plus a professional fee of \$1.85 or usual general price, whichever was lower. In the case of generics, the profit realized by pharmacists was exorbitant in some specific instances. For example, one drug manufacturer at that date listed the Average Wholesale Cost of Ampicillin 250 MG Capsules at \$22.34 per hundred capsules. Actually, the pharmacist was paying \$9.60 per one hundred capsules in the majority of the time by buying direct from the manufacturer. Pharmacists were realizing a profit of \$12.74, in addition to the \$1.85 professional fee. The same principle could be applied to a number of drugs which were generically available. This policy encouraged pharmacists to dispense the more expensive generic drug in order to realize a greater mark-up, and thus a larger profit.

The policy implemented on July 1, 1972, established a Maximum Allowable Cost whenever the drug was available generically. This Maximum Allowable Cost was based upon the professional