An alternative approach was provided through which the pharmaceutical manufacturer would rebate to the Medi-Cal program a percentage of the program's costs of all the manufacturer's drugs. These refund programs were the basis for the second phase of the drug cost reduction efforts.

The second phase consisted of reviewing any and all volume refund proposals voluntarily submitted to the State by various pharmaceutical manufacturers. Contracts were let for proposals which appeared to offer a substantial refund and program saving to the Department.

Prior to program implementation it was estimated that the combination of the RCLP and volume refund program would result in overall net drug program savings of approximately $7 million annually, $5 million from RCLP and the remainder from volume refunds.

Refunds generated by the combined program are not net savings to California. Title XIX of the Social Security Act federal financial participation (FFP) is provided through a 50/50 match in California. Consequently, the federal government participates with a 50 percent share of any savings realized against actual costs. Additionally, administrative costs - not available but estimated to be substantial - also consume a significant portion of the gross savings.