COMMENTS ON (45 CFR PART 19) MAXIMUM ALLOWABLE COSTS FOR DRUGS (FEDERAL REGISTER, VOL. 39, NO. 222 - FRIDAY, NOVEMBER 15, 1974)

The State of California agrees with and supports the establishment of federal limitations on reimbursement for drugs. We have been using a similar program of price ceilings in California's Medicaid program, in one form or another, since March 1, 1961. Our experience has shown that it is possible to accumulate savings in excess of four million dollars on purchases of drugs amounting to forty million dollars. This supports that savings of 5 to 8 percent of overall prescription drug expenditures, as stated in the Federal Register, Vol. 39, No. 222 - Friday, November 15, 1974, are realistic and attainable.

In contrast to our successful California program of price ceilings, is our ineffective attempt to reimburse drug providers at the actual acquisition cost.

Our actual acquisition cost program proved extremely difficult to control and administer. Most providers billed at the average wholesale price (AWP) as published in Drug Topics Red Book or American Druggist Blue Book. Auditing and certification of ingredient costs became a massive, cost ineffective procedure which required an excessive outlay of funds and manpower. Our actual acquisition cost program was in effect from 1960 to 1968. Our experiences proved that it was virtually impossible for a large state like California to effectively administer a program based on actual acquisition cost. Pharmacies purchase from multiple sources at different prices making it virtually impossible to determine actual acquisition cost.

There are, however, alternatives which we feel would allow the federal and state governments to achieve meaningful savings.

The establishment of maximum allowable costs (MACs) is, in our opinion, the most effective method to achieve savings. As MACs are established, we would encourage the appropriate federal agency to publish a detailed monograph covering:

1. the relative importance of bioavailability on the specific drug products; and,

2. the comparative therapeutic equivalence of all available brands of the specific generic drug.

This information could be used by the individual states in setting ceilings (lower than federal MAC in some instances) on generic drug products which are available with adequate distribution on an intrastate basis.